State Bank for Foreign Economic Affairs of Turkmenistan

Financial Statements
for the year ended 31 December 2013

Contents

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шектеулі серіктестік
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Independent Auditors' Report

To the 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 2013, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising 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.

Auditors' 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 about 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 considers 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 described in note 3(e)(ii) to the financial statements, in 2012, following the President of Turkmenistan Decree, the Bank conducted a one-off revaluation of certain property and equipment in accordance with coefficients developed by the Ministry of Finance of Turkmenistan.

International Financial Reporting Standard (IAS) 16 *Property, Plant and Equipment* does not allow one-off revaluations or revaluations applied to less than an entire class of property, plant and equipment. In addition, the revaluation was not performed in accordance with requirements of International Financial Reporting Standards.

Had this revaluation not been performed, the effect would have been to reduce property and equipment and total equity by TMT 25,159 thousand and TMT 25,979 thousand as at 31 December 2013 and 31 December 2012, respectively, and to reduce other comprehensive income by TMT 25,979 thousand for the year ended 31 December 2012.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of the Bank as at and for the year ended 31 December 2012 were audited by other auditors whose report dated 20 June 2013 expressed a qualified opinion in respect of the revaluation of property and equipment.

Ravshan Irmatov
Certified Auditor
of the Republic of Kazakhstan,
Auditor's Qualification Certificate
No МФ-0000053 of 6 January 2012

KPMG Audit LLC

State Licence to conduct audit # 0000021 dated 6 December 2006 issued by the Ministry of Finance of the Republic of Kazakhstan

Alla Nigay
General Director of KPMG Audit LLC
acting on the basis of the Charter

24 June 2014

	Note	2013 TMT'000	2012 TMT'000
Interest income		148,143	145,818
Interest expense		(88,817)	(96,889)
Net interest income	4	**59,326**	**48,929**
Fee and commission income	5	24,620	22,424
Fee and commission expense		(3,645)	(3,523)
Net fee and commission income		**20,975**	**18,901**
Net foreign exchange gain	6	12,224	11,895
Other operating expenses		(5,816)	(1,862)
Operating income		**86,709**	**77,863**
Reversal of impairment losses	7	17,821	95
Personnel expenses	8	(12,319)	(11,376)
Other general administrative expenses	8	(7,112)	(6,024)
Profit before income tax		**85,099**	**60,558**
Income tax expense	9	(19,115)	(20,118)
Profit for the year		**65,984**	**40,440**
Other comprehensive income, net of income tax			
Items that will not be reclassified to profit or loss:			
Revaluation of property and equipment		-	26,087
Total comprehensive income for the year		**65,984**	**66,527**

The financial statements as set out on pages 9 to 41 were approved by Management on 24 June 2014 and were signed on its behalf by:

Jepbarov R.J.
Chairman of the Board

Khangeldyev Zh.
Chief Accountant

The statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 41.

	Note	2013 TMT'000	2012 TMT'000
ASSETS:			
Cash and cash equivalents	10	7,987,570	5,905,113
Loans and advances to banks	11	260,725	240,637
Loans to customers	12	2,659,820	2,940,443
Investment in associate		16,825	15,983
Property, equipment and intangible assets	13	62,399	62,455
Investment property		13,066	12,272
Assets held for sale		15,836	32,737
Deferred tax assets		-	420
Other assets		11,724	16,104
Total assets		**11,027,965**	**9,226,164**
LIABILITIES			
Deposits and balances from banks	14	22,238	105,250
Current accounts and deposits from customers	15	8,290,911	6,179,260
Other borrowed funds	16	2,268,933	2,565,066
Current tax liability		6,607	2,692
Deferred tax liability		232	-
Other liabilities		6,778	7,614
Total liabilities		**10,595,699**	**8,859,882**
EQUITY			
Share capital	17	342,255	143,653
Property revaluation reserve		26,087	26,087
Retained earnings		63,924	196,542
Total equity		**432,266**	**366,282**
Total liabilities and equity		**11,027,965**	**9,226,164**

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 41.

	2013 TMT'000	2012 TMT'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before income tax	**85,099**	**60,558**
Adjustment for:		
Depreciation and amortisation	2,537	1,977
Reversal of impairment losses	(17,821)	(95)
Loss on disposal of property and equipment	7	71
Unrealised (gain)/loss on foreign exchange operations	(111)	396
Interest income	(148,143)	(145,818)
Interest expense	88,817	96,889
Cash from operating activities before changes in operating assets and liabilities, interest received and paid and income tax	**10,385**	**13,978**
(Increase)/decrease in operating assets		
Minimum reserve deposits with the Central Bank of Turkmenistan	(2,986)	(4,703)
Loans and advances to banks	(17,102)	(193,505)
Loans to customers	68,258	(429,021)
Assets held for sale	16,901	24,436
Other assets	4,425	(7,611)
Increase/(decrease) in operating liabilities		
Deposits and balances from banks	(82,901)	74,941
Current accounts and deposits from customers	2,111,651	2,726,357
Other liabilities	(836)	1,661
Net cash from operating activities before interest and income tax paid	**2,107,795**	**2,206,533**
Interest received	145,721	143,283
Interest paid	(91,695)	(95,640)
Income taxes paid	(14,548)	(14,989)
Cash flows from operations	**2,147,273**	**2,239,187**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(2,488)	(5,224)
Payments for investment property	(794)	(12,272)
Payments for investment in associate	(842)	(9,903)
Cash flows from used in investing activities	**(4,124)**	**(27,399)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of other borrowed funds	(253,487)	(183,882)
Receipt of other borrowed funds	192,795	540,924
Cash flows (used in)/from financing activities	**(60,692)**	**357,042**
Net increase in cash and cash equivalents	**2,082,457**	**2,568,830**
Cash and cash equivalents as at the beginning of the year	5,905,113	3,336,283
Cash and cash equivalents as at the end of the year (Note 10)	**7,987,570**	**5,905,113**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 41.

TMM'000	Share capital	Property revaluation reserve	Retained earnings	Total equity
As at 1 January 2012	119,978	-	179,777	299,755
Total comprehensive income				
Profit for the year	-	-	40,440	40,440
Other comprehensive income				
Revaluation of property	-	26,087	-	26,087
Total other comprehensive income	-	26,087	-	26,087
Total comprehensive income for the year	**-**	**26,087**	**40,440**	**66,527**
Transactions with owners, recorded directly in equity				
Increase in share capital (Note 17)	23,675	-	(23,675)	-
Total transactions with owners	**23,675**	**-**	**(23,675)**	**-**
Balance as at 31 December 2012	**143,653**	**26,087**	**196,542**	**366,282**
Total comprehensive income				
Profit for the year	-	-	65,984	65,984
Total comprehensive income for the year	**-**	**-**	**65,984**	**65,984**
Transactions with owners, recorded directly in equity				
Increase in share capital (Note 17)	198,602	-	(198,602)	-
Total transactions with owners	**198,602**	**-**	**(198,602)**	**-**
Balance as at 31 December 2013	**342,255**	**26,087**	**63,924**	**432,266**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 9 to 41.

1 Background

(a) Principal activities

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 attraction of foreign borrowings and placement of its own, as well as the Government's and clients' foreign currency resources, 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 32, Garashsyzlyk Street, Ashkhabad, Turkmenistan, 744000. As at 31 December 2013 and 2012, the Bank's personnel was 248 and 244 employees, respectively.

As at 31 December 2013 and 2012, the Bank has one branch.

The Bank is wholly owned by the Government of Turkmenistan.

(b) Turkmenistan business environment

The Bank's operations are primarily located in Turkmenistan. Consequently, the Bank is exposed to the economic and financial markets of Turkmenistan which display characteristics of highly regulated markets. The financial statements reflect management's assessment of the impact of the Turkmenistan business environment on the operations and the financial position of the Bank. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS).

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that certain property and equipment are stated at revalued amounts.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies is described in the following notes:

- loan impairment estimates - note 12
- property and equipment revaluation estimates - note 13.

2 Basis of preparation, continued

(d) Functional currency

The functional currency of the Bank is the Turkmen manat ("TMM") as, being the national currency of the Turkmenistan, it reflects the economic substance of the majority of underlying events and circumstances relevant to the Bank.

The TMM is also the presentation currency for the purposes of these financial statements.

Financial information presented in TMM is rounded to the nearest thousand.

The exchange rates used at year-end by the Bank in the preparation of financial statements calculated in accordance with the published exchange rates for TMM reported by the CBT, as follows:

	31 December 2013	**31 December 2012**
TMM/1 US Dollar	2.8500	2.8500
TMM/1 Euro	3.9162	3.7650
TMM/1 Japan Yen	0.0271	0.0330
TMM/1 Chinese Yuan	0.4696	0.4570

(e) Changes in accounting policies and presentation

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 13 *Fair Value Measurements* (see (i))
- *Presentation of Items of Other Comprehensive Income* (Amendments to IAS 1) (see (ii))
- *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* (Amendments to IFRS 7) (see (iii)).

The nature and the effect of the changes are explained below.

(i) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the prices at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.

As a result, the Bank adopted a new definition of fair value, as set out in note 3(c) (v). The change had no significant impact on the measurements of assets and liabilities.

(ii) Amendment to IAS 1 Presentation of items of other comprehensive income

The Amendment requires an entity to present separately items of other comprehensive income that could be reclassified in the future to profit or loss from those items that will never be reclassified to profit or loss. In addition, according to the Amendment the title of statement of comprehensive income was changed to statement of profit or loss and other comprehensive income.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities or comprehensive income.

2 Basis of preparation, continued

(e) Changes in accounting policies and presentation, continued

(iii) Financial instruments: Disclosures – Offsetting financial assets and financial liabilities

Amendments to *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* introduced new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements.
As the Bank is not setting off financial instruments in accordance with IAS 32 and does not have relevant offsetting arrangements, the amendment does not have any impact on the Bank.

3 Significant accounting policies

The accounting policies set out below are applied consistently to all periods presented in these financial statements, except as explained in the Note 2(e), which addresses changes in accounting policies.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value is determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances (nostro accounts) held with the CBT and other banks, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of short-term commitments. The mandatory reserve deposit with the CBT is not considered to be a cash equivalent due to restrictions on its withdrawability. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3 Significant accounting policies, continued

(c) Financial instruments

(i) Classification

Financial instruments at fair value through profit or loss are financial assets or liabilities that are:

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- derivative financial instruments (except for derivative that is a financial guarantee contract or designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

The Bank may designate financial assets and liabilities at fair value through profit or loss where either:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise or,
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Management determines the appropriate classification of financial instruments in this category at the time of the initial recognition. Financial instruments designated as at fair value through profit or loss upon initial recognition are not reclassified out of at fair value through profit or loss category. Financial assets that would have met the definition of loan and receivables may be reclassified out of the fair value through profit or loss or available-for-sale category if the entity has an intention and ability to hold it for the foreseeable future or until maturity. Other financial instruments may be reclassified out of at fair value through profit or loss category only in rare circumstances. Rare circumstances arise from a single event that is unusual and highly unlikely to recur in the near term.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank:

- intends to sell immediately or in the near term
- upon initial recognition designates as at fair value through profit or loss
- upon initial recognition designates as available-for-sale or
- may not recover substantially all of its initial investment, other than because of credit deterioration.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity, other than those that:

- the Bank upon initial recognition designates as at fair value through profit or loss
- the Bank designates as available-for-sale or,
- meet the definition of loans and receivables.

(ii) Recognition

Financial assets and liabilities are recognised in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchases of financial assets are accounted for at the settlement date.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(iii) Measurement

A financial asset or liability is initially measured at its fair value plus, in the case of a financial asset or liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

Subsequent to initial recognition, financial assets, including derivatives that are assets, are measured at their fair values, without any deduction for transaction costs that may be incurred on sale or other disposal, except for:

- loans and receivables which are measured at amortised cost using the effective interest method
- held-to-maturity investments that are measured at amortised cost using the effective interest method
- investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are measured at cost.

All financial liabilities, other than those designated at fair value through profit or loss and financial liabilities that arise when a transfer of a financial asset carried at fair value does not qualify for derecognition, are measured at amortised cost.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Financial assets or liabilities originated at interest rates different from market rates are re-measured at origination to their fair value, being future interest payments and principal repayments discounted at market interest rates for similar instruments. The difference is credited or charged to profit or loss as gains or losses on origination of financial instruments at rates different from market rates. Subsequently, the carrying amount of such assets or liabilities is adjusted for amortisation of the gains/losses on origination and the related income/expense is recorded in interest income/expense within profit or loss using the effective interest method.

(v) Fair value measurement principles

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 in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

Financial assets and liabilities are initially recognised 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.

3 Significant accounting policies, continued

(c) Financial instruments, continued

(vi) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability in the statement of financial position. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised.

In transactions where the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over the asset is lost.

In transfers where control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred assets.

(vii) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(d) 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.

(e) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost except for effect of a one-off revaluation described below.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

(ii) Revaluation

In 2012 certain property and equipment were subject to one-off revaluation based on the President’s Decree. The revaluation was performed in accordance with coefficients developed by the Ministry of Finance of Turkmenistan in respect of buildings acquired before 1 January 2009 and other property and equipment acquired before 1 January 2010.

3 Significant accounting policies, continued

(e) Property and equipment, continued

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight-line basis over the estimated useful lives of the individual assets. Depreciation commences on the date of acquisition. The estimated useful lives are as follows:

Buildings and constructions	20-50 years
Furniture and equipment	5-20 years
Vehicles	5-10 years

(f) Intangible assets

Acquired intangible assets are stated at cost less accumulated amortisation and impairment losses.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives range from 5 to 7 years.

(g) 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.

(h) 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.

(i) Impairment

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the Bank determines the amount of any impairment loss.

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that event (or events) has had an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, breach of loan covenants or conditions, restructuring of financial asset or group of financial assets that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, deterioration in the value of collateral, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers in the group, or economic conditions that correlate with defaults in the group.

3 Significant accounting policies, continued

(i) Impairment, continued

(i) Financial assets carried at amortised cost

Financial assets carried at amortised cost consist of loans and receivables. The Bank reviews its loans and receivables to assess impairment on a regular basis.

The Bank first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan or receivable, whether significant or not, it includes the loan or receivable in a group of loans and receivables with similar credit risk characteristics and collectively assesses them for impairment. Loans and receivables that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on a loan or receivable has been incurred, the amount of the loss is measured as the difference between the carrying amount of the loan or receivable and the present value of estimated future cash flows including amounts recoverable from guarantees and collateral discounted at the loan or receivable's original effective interest rate. Contractual cash flows and historical loss experience adjusted on the basis of relevant observable data that reflect current economic conditions provide the basis for estimating expected cash flows.

In some cases the observable data required to estimate the amount of an impairment loss on a loan or receivable may be limited or no longer fully relevant to current circumstances. This may be the case when a borrower is in financial difficulties and there is little available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognised in profit or loss and are only reversed if a subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) Non-financial assets

Non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in the profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3 Significant accounting policies, continued

(j) Share capital

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

(k) Taxation

Income tax comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognised directly in equity, in which case it is recognised within other comprehensive income or directly within equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences related to investments in subsidiaries where the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The measurement of deferred taxes reflects the tax consequences that would follow the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Provisions

A provision is recognised in the statement of financial position when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Credit related commitments

In the normal course of business, the Bank enters into credit related commitments, comprising undrawn loan commitments, letters of credit and guarantees, and provides other forms of credit insurance.

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee liability is recognised initially at fair value net of associated transaction costs, and is measured subsequently at the higher of the amount initially recognised less cumulative amortisation or the amount of provision for losses under the guarantee. Provisions for losses under financial guarantees and other credit related commitments are recognised when losses are considered probable and can be measured reliably.

3 Significant accounting policies, continued

(n) Income and expense recognition

Loan origination fees, loan servicing fees and other fees that are considered to be integral to the overall profitability of a loan, together with the related transaction costs, are deferred and amortised to interest income over the estimated life of the financial instrument using the effective interest method.

Other fees, commissions and other income and expense items are recognised in profit or loss when the corresponding service is provided.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(o) Comparative information

During the preparation of the Bank's financial statements for the year ended 31 December 2013, management made certain reclassifications affecting the corresponding figures to conform to the presentation of the financial statements for the year ended 31 December 2013.

Management believes that this presentation is more appropriate presentation in accordance with IFRS and provides a clearer view of the financial position and performance of the Bank. The effect of reclassifications on the corresponding figures can be summarised as follows:

	As previously reported 31 December 2012	**Reclassification**	**As reclassified 31 December 2012**
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Cash and cash equivalents	195,005	5,710,108	5,905,113
Due from banks	5,950,745	(5,950,745)	-
Loans and advances to banks	-	240,637	240,637
Investments available-for-sale	2,293	(2,293)	-
Investment in associate	-	15,983	15,983
Investment property	-	12,272	12,272
Assets held for sale	-	32,737	32,737
Premises built under a state program	62,547	(62,547)	-
Other assets	12,256	3,848	16,104
LIABILITIES AND EQUITY			
LIABILITIES			
Current tax liability	-	2,692	2,692
Other liabilities	10,306	(2,692)	7,614
STATEMENT OF CASH FLOWS			
Change in interest accruals, net	(1,286)	1,286	-
Interest income	-	(145,818)	(145,818)
Interest expenses	-	96,889	96,889
Cash inflow from operating activities before changes in operating assets and liabilities	**61,621**	**(47,643)**	**13,978**
Decrease in assets held for sale	-	24,436	24,436
Increase in other assets	(6,526)	(1,085)	(7,611)
Interest received	-	143,283	143,283
Interest paid	-	(95,640)	(95,640)
Cash flows from operations	2,215,836	23,351	2,239,187
Payments for investment property	-	(12,272)	(12,272)
Payments for investment in associate	-	(9,903)	(9,903)
Payments for premises built under a state program	(26,113)	26,113	-
Proceeds from disposal of premises built under a state program	27,551	(27,551)	-
Cash flows used in investing activities	**(4,048)**	**(23,351)**	**(27,399)**

3 Significant accounting policies, continued

(p) New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The Bank plans to adopt these pronouncements when they become effective. The Bank has not yet analysed the likely impact of the new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase of IFRS 9 was issued in November 2013 and relates general hedge accounting. The Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have significant impact on the financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Bank does not intend to adopt this standard early.

- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.

- Various *Improvements to IFRS* are dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 July 2014. The Bank has not yet analysed the likely impact of the improvements on its financial position or performance.

4 Net interest income

	2013 TMT'000	2012 TMT'000
Interest income		
Loans to customers	126,863	130,710
Loans and advances to banks	19,405	14,994
Cash and cash equivalents	1,875	114
	148,143	**145,818**
Interest expense		
Other borrowed funds	83,076	93,843
Current accounts and deposits from customers	3,964	3,044
Deposits and balances from banks	1,777	2
	88,817	**96,889**
	59,326	**48,929**

5 Fee and commission income

	2013 TMT'000	2012 TMT'000
Settlement	11,552	10,478
Cash operations	9,918	9,508
Payment cards operations	2,526	2,291
Guarantees	624	76
Other	-	71
	24,620	**22,424**

6 Net foreign exchange gain

	2013 TMT'000	2012 TMT'000
Gain on spot transactions	12,113	12,291
Gain/(loss) from revaluation of financial assets and liabilities	111	(396)
	12,224	**11,895**

7 Reversal of impairment losses

	2013 TMT'000	2012 TMT'000
Loans to customers	17,776	-
Other assets	45	95
	17,821	**95**

8 Personnel expenses and other general administrative expenses

	2013 TMT'000	2012 TMT'000
Employee compensation	11,081	10,102
Payroll related taxes	1,238	1,274
Personnel expenses	**12,319**	**11,376**
Depreciation and amortisation	2,537	1,977
Communication and information services	1,302	1,087
Taxes other than on income	693	770
Professional services	247	525
Security	479	438
Repairs and maintenance	372	349
Payments to deposit insurance fund	271	226
Stationery and office supplies	117	79
Other	1,094	573
	7,112	**6,024**

9 Income tax expense

	2013 TMT'000	2012 TMT'000
Current year	18,463	12,990
Deferred taxation movement due to origination and reversal of temporary differences	652	7,128
Total income tax expense	**19,115**	**20,118**

In 2013, the applicable tax rate for current and deferred tax is 24.5% (2012: 24.5%).

Reconciliation of effective tax rate for the year ended 31 December:

	2013 TMT'000	%	2012 TMT'000	%
Profit before income tax	**85,099**	**100.0**	**60,558**	**100.0**
Income tax at the applicable tax rate	20,849	24.5	14,837	24.5
Net non-deductible costs	5,659	6.7	6,207	10.2
Change in unrecognised deferred tax assets	(7,393)	(8.7)	(926)	(1.5)
	19,115	**22.5**	**20,118**	**33.2**

Deferred tax asset and liability

Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes give rise to a net deferred tax liability as at 31 December 2013 (2012: net deferred tax asset). This deferred tax liability has been recognised in these financial statements. The deductible temporary differences do not expire under current tax legislation.

Movements in temporary differences during the years ended 31 December 2013 and 2012 are presented as follows:

2013 **TMT'000**	**Balance 1 January 2013**	**Recognised in profit or loss**	**Balance 31 December 2013**
Loans to customers	12,966	(12,703)	263
Other assets	540	(540)	-
Other borrowed funds	(5,198)	5,198	-
Deferred tax asset not recognised	(7,888)	7,393	(495)
	420	**(652)**	**(232)**

2012 **TMT'000**	**Balance 1 January 2012**	**Recognised in profit or loss**	**Balance 31 December 2012**
Loans to customers	20,141	(7,175)	12,966
Property, plant and equipment	1,361	(1,361)	-
Other assets	2,517	(1,977)	540
Other borrowed funds	(7,657)	2,459	(5,198)
Deferred tax asset not recognised	(8,814)	926	(7,888)
	7,548	**(7,128)**	**420**

As at 31 December 2012 the Bank did not recognise deferred tax asset for deductible temporary differences on loans to customers due to uncertainty that they would be utilised.

10 Cash and cash equivalents

	2013 TMT'000	2012 TMT'000
Cash on hand	**23,134**	**14,147**
Nostro accounts with the CBT	**1,132,700**	**164,411**
Nostro accounts with other banks		
- rated AAA	-	585,052
- rated A- to A+	6,829,003	1,039,926
- rated BBB	2,625	694,371
- rated from BB- to BB+	68	88
- not rated	40	670
Total nostro accounts with other banks	**6,831,736**	**2,320,107**
Cash equivalents		
- Term deposits with other banks		
- rated A- to A+	-	3,406,448
Total term deposits with other banks	**-**	**3,406,448**
	7,987,570	**5,905,113**

No cash equivalents are impaired or past due.

As at 31 December 2013 the Bank has four banks (2012: nine banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 is TMT 7,943,571 thousand (2012: TMT 5,772,827 thousand).

11 Loans and advances to banks

	2013 TMT'000	2012 TMT'000
Mandatory reserve with the CBT	19,433	16,447
Loans and deposits		
- rated A- to A+	160,205	193,605
- not rated	81,087	30,585
Total loans and deposits	**260,725**	**240,637**

As at 31 December 2013 the Bank has three banks (2012: two banks), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 are TMT 210,205 thousand (2012: TMT 193,605 thousand).

12 Loans to customers

	2013 TMT'000	2012 TMT'000
Loans to corporate customers	**2,628,399**	**2,952,341**
Loans to retail customers		
Small business loans	24,980	440
Retail loans	6,441	5,438
Total loans to retail customers	**31,421**	**5,878**
Gross loans to customers	**2,659,820**	**2,958,219**
Impairment allowance	-	(17,776)
Net loans to customers	**2,659,820**	**2,940,443**

12 Loans to customers, continued

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2013 are as follows:

	Loans to corporate customers TMT'000	Loans to retail customers TMT'000	Total TMT'000
Balance at the beginning of the year	17,776	-	17,776
Recovery	(17,776)	-	(17,776)
Balance at the end of the year	**-**	**-**	**-**

Movements in the loan impairment allowance by classes of loans to customers for the year ended 31 December 2012 are as follows:

	Loans to corporate customers TMT'000	Loans to retail customers TMT'000	Total TMT'000
Balance at the beginning of the year	17,776	-	17,776
Net charge (recovery)	-	-	-
Balance at the end of the year	**17,776**	**-**	**17,776**

(a) Credit quality of loans to customers

As at 31 December 2013 the Bank has no overdue loans or impaired loans. As at 31 December 2012 the Bank had impaired loans to corporate customers in the amount of TMM 17,776 thousand overdue for more than one year which were 100% provisioned.

As at 31 December 2013 and 2012, the Bank has no renegotiated loans to corporate and retail customers that would otherwise be past due or impaired.

(b) 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.

(c) Analysis of collateral

(i) 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:

	2013 TMT'000	2012 TMT'000
Loans collaterised by government guarantees	2,623,647	2,947,219
Loans collaterised by real estate	4,752	5,122
	2,628,399	**2,952,341**
Impairment allowance	-	(17,776)
	2,628,399	**2,934,565**

12 Loans to customers, continued

(c) Analysis of collateral, continued

(i) Loans to corporate customers, continued

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.

(ii) Loans to retail customers

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

	2013 TMT'000	2012 TMT'000
Loans collateralised by guarantees	18,013	-
Loans collateralised by real estate	7,677	5,802
Loans collateralised by vehicles	3,688	-
Loans collateralised by money on current accounts	2,043	-
Other collateral	-	76
	31,421	**5,878**

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

(c) Repossessed collateral

During the years ended 31 December 2013 and 2012, the Bank did not obtain assets by taking possession of collateral for loans to customers.

(d) 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:

	2013 TMT'000	2012 TMT'000
Chemicals	984,931	1,319,162
Transport	653,802	542,699
Oil and gas	512,307	628,051
Communication	438,226	336,891
Textiles	34,295	62,053
Construction	17,965	-
Individuals	6,441	5,438
Healthcare	-	12,526
Other	11,853	51,399
	2,659,820	**2,958,219**
Impairment allowance	-	(17,776)
	2,659,820	**2,940,443**

(e) Significant credit exposures

As at 31 December 2013 the Bank has 9 borrowers (2012: 11 borrowers), whose loan balances exceed 10% of equity. The gross value of these loans as at 31 December 2012 is TMT 2,499,318 thousand (2012: TMT 2,904,504 thousand).

(f) Loan maturities

The maturity of the loan portfolio is presented in note 18(d), which shows the remaining period from the reporting date to the contractual maturity of the loans.

13 Property, equipment and intangible assets

TMT'000	Buildings and constructions	Furniture and equipment	Vehicles	Intangible assets	Total
Cost/revalued amount					
Balance at 1 January 2013	55,333	27,023	1,852	6,939	91,147
Additions	1,370	870	248	-	2,488
Disposals	-	(970)	-	-	(970)
At 31 December 2013	**56,703**	**26,923**	**2,100**	**6,939**	**92,665**
Depreciation and amortisation					
Balance at 1 January 2013	7,141	18,091	997	2,463	28,692
Depreciation and amortisation for the year	1,117	1,156	94	170	2,537
Disposals	-	(963)	-	-	(963)
At 31 December 2013	**8,258**	**18,284**	**1,091**	**2,633**	**30,266**
Carrying amount					
At 31 December 2013	**48,445**	**8,639**	**1,009**	**4,306**	**62,399**
Cost/revalued amount					
Balance at 1 January 2012	28,829	14,361	1,291	2,823	47,304
Additions	210	700	198	4,116	5,224
Disposals	(121)	(231)	(10)	-	(362)
Transferred to premises built under a state program	(66)	-	-	-	(66)
Revaluation	26,481	12,193	373	-	39,047
At 31 December 2012	**55,333**	**27,023**	**1,852**	**6,939**	**91,147**
Depreciation and amortisation					
Balance at 1 January 2012	2,127	8,953	578	2,305	13,963
Depreciation and amortisation for the year	573	1,179	67	158	1,977
Disposals	(121)	(160)	(10)	-	(291)
Transferred to premises built under a state program	(25)	-	-	-	(25)
Revaluation	4,587	8,119	362	-	13,068
At 31 December 2012	**7,141**	**18,091**	**997**	**2,463**	**28,692**
Carrying amounts					
At 31 December 2012	**48,192**	**8,932**	**855**	**4,476**	**62,455**
At 1 January 2012	26,702	5,408	713	518	33,341

There are no capitalised borrowing costs related to the acquisition or construction of property and equipment during 2013 (2012: nil).

Revalued assets

As at 31 December 2012 management conducted a revaluation of property and equipment in accordance with coefficients developed by the Ministry of Finance of Turkmenistan using Turkmenistan statistical data.

The carrying value of property and equipment as at 31 December 2013, if the property and equipment had not been revalued, would have been TMT 37,240 thousand (31 December 2012: TMT 36,476 thousand).

14 Deposits and balances from banks

	2013 TMT'000	2012 TMT'000
Vostro accounts	22,238	105,250
	22,238	**105,250**

As at 31 December 2013 the Bank has no banks (2012: one bank), whose balances exceed 10% of equity. The gross value of these balances as at 31 December 2013 are nil (2012: TMT 83,486 thousand).

15 Current accounts and deposits from customers

	2013 TMT'000	2012 TMT'000
Current accounts and demand deposits		
- Corporate	7,932,738	5,757,087
- Retail	45,080	43,297
Term deposits		
- Corporate	300,498	373,634
- Retail	12,595	5,242
	8,290,911	**6,179,260**

As at 31 December 2013, the Bank maintained customer deposit balances of TMT 177,816 thousand (2012: TMT 293,968 thousand) that serve as collateral for loans and unrecognised credit instruments granted by the Bank.

As at 31 December 2013, the Bank has 5 customers (2012: one customer), whose balances exceed 10% of equity. These balances as at 31 December 2013 are TMT 7,708,755 thousand (2012: TMT 5,248,365 thousand).

16 Other borrowed funds

	2013 TMT'000	2012 TMT'000
Loans from foreign financial institutions	2,124,400	2,565,066
Loans from the CBT	144,533	-
	2,268,933	**2,565,066**

Counterparty	Currency	Nominal interest rate	Issue date	Maturity	31 December 2013 TMT'000	31 December 2012 TMT'000
Japan Bank for Internaitonal Cooperation (JBIC)	JPY	3.91%	19 March 2010	15 May 2022	983,779	1,319,161
Exim Bank, China	CNY	2.5%-3%	17 December 2001	21 March 2032	912,483	943,210
The Central Bank of Turkmenistan	EUR	3%	29 January 2013	12 September 2024	143,333	-
The Central Bank of Turkmenistan	TMM	0.5%	29 January 2013	21 January 2014	1,200	-
Deutsche Bank AG	EUR	EURIBOR +1.2%	09 August 1996	15 September 2015	101,511	146,499
Japan International Cooperation Agency (JICA)	JPY	2.3%-2.7%	24 December 1997	20 December 2027	82,954	108,344
China Development Bank	CNY	0%	02 July 2002	31 December 2024	43,673	44,825
Other					-	3,027
					2,268,933	**2,565,066**

As at 31 December 2013 and 2012, the Bank was not subject to any financial covenant on other borrowed funds in accordance with the terms of loan agreements with the above mentioned financial institutions.

17 Share capital

As at 31 December 2013 and 2012, the Bank is wholly owned by the Government of Turkmenistan. Each year the Bank's share capital is increased by a distribution of profit for the current year based on the decisions of the Management Board of the Bank. Additionally, in 2013 the share capital of banks should be not less than TMM 342,000 thousand in accordance with the Decree of the President. As at 31 December 2013 and 2012, share capital amounts to TMM 342,255 thousand and TMM 143,653 thousand, respectively. The increase in share capital has been performed by distribution of 50% of the current year profit and part of retained earnings to share capital for TMM 198,602 thousand in 2013 and TMM 23,675 thousand in 2012.

Revaluation surplus for property and equipment

As at 31 December 2012 management conducted a revaluation of property and equipment in accordance with coefficients developed by the Ministry of Finance of Turkmenistan using Turkmenistan statistical data.

18 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The risk management policies aim to identify, analyse and manage the risks faced by the Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits.

The Management Board has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

Credit, market and liquidity risks both at the portfolio and transactional levels are managed and controlled through a system of Credit Committees and an Asset and Liability Management Committee (ALCO). In order to facilitate efficient and effective decision-making, the Bank established within the Lending Department a hierarchy of working groups depending on the type and limit of the loan and the amount of exposure.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

18 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major financial instruments is as follows:

TMT'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Non-interest bearing	Carrying amount
31 December 2013							
ASSETS							
Cash and cash equivalents	-	-	-	-	-	7,987,570	7,987,570
Loans and advances to banks	-	-	80,000	-	-	180,725	260,725
Loans to customers	221,258	125,793	223,519	971,615	1,117,635	-	2,659,820
	221,258	**125,793**	**303,519**	**971,615**	**1,117,635**	**8,168,295**	**10,908,115**
LIABILITIES							
Deposits and balances from banks	-	-	-	-	-	22,238	22,238
Current accounts and deposits from customers	45,180	59,994	51,990	155,294	635	7,977,818	8,290,911
Other borrowed funds	150,949	55,382	94,460	836,446	1,131,696	-	2,268,933
	196,129	**115,376**	**146,450**	**991,740**	**1,132,331**	**8,000,056**	**10,582,082**
	25,129	**10,417**	**157,069**	**(20,125)**	**(14,696)**	**168,239**	**326,033**
31 December 2012							
ASSETS							
Cash and cash equivalents	3,406,448	-	-	-	-	2,498,665	5,905,113
Loans and advances to banks	-	-	-	30,000	-	210,637	240,637
Loans to customers	187,134	66,001	377,170	1,015,283	1,294,855	-	2,940,443
	3,593,582	**66,001**	**377,170**	**1,045,283**	**1,294,855**	**2,709,302**	**9,086,193**
LIABILITIES							
Deposits and balances from banks	-	-	-	-	-	105,250	105,250
Current accounts and deposits from customers	137,047	6,748	158,489	76,592	-	5,800,384	6,179,260
Other borrowed funds	202,367	28,790	127,482	885,606	1,320,821	-	2,565,066
	339,414	**35,538**	**285,971**	**962,198**	**1,320,821**	**5,905,634**	**8,849,576**
	3,254,168	**30,463**	**91,199**	**83,085**	**(25,966)**	**(3,196,332)**	**236,617**

The variable rate financial assets and liabilities were presented in the above tables in the first column in accordance with their repricing dates which match the time period of less than 3 months.

18 Risk management, continued

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2013 and 2012. These interest rates are an approximation of the yields to maturity of these assets and liabilities.

	2013 Average effective interest rate, %				
	TMT	**USD**	**CNY**	**EUR**	**JPY**
Interest bearing assets					
Loans and advances to banks	4.8	-	-	-	-
Loans to customers	7.8	5.0	3.6	4.0	4.3
Interest bearing liabilities					
Current accounts and deposits from customers					
- Term deposits	8.8	0.4	-	-	0.4
Other borrowed funds	3.0	-	2.8	1.9	3.8

	2012 Average effective interest rate, %					
	TMT	**USD**	**CNY**	**EUR**	**JPY**	**Other currencies**
Interest bearing assets						
Cash and cash equivalents	-	0.2	-	-	-	-
Loans and advances to banks	4.5	-	-	-	-	-
Loans to customers	7.4	5.0	3.6	4.1	4.4	-
Interest bearing liabilities						
Current accounts and deposits from customers						
- Term deposits	13.7	0.4	-	-	0.4	-
Other borrowed funds	-	-	2.9	1.3	3.8	7.5

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity (net of taxes) to changes in interest rate (repricing risk) based on a simplified scenario of a 100 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2013 and 2012 is as follows:

	2013		2012	
	Profit or loss TMT'000	**Equity TMT'000**	**Profit or loss TMT'000**	**Equity TMT'000**
100 bp parallel fall	(774)	(774)	(18,886)	(18,886)
100 bp parallel rise	774	774	18,886	18,886

18 Risk management, continued

(b) Market risk, continued

(ii) Currency risk

The Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2013:

	TMT	USD	CNY	EUR	JPY	Other currencies	Total
	TMT'000	TMT'000	TMT'000	TMT'000	TMT'000	TMT'000	TMT'000
ASSETS							
Cash and cash equivalents	148,520	7,818,054	-	14,683	11	6,302	7,987,570
Loans and advances to banks	99,433	105,429	-	54,776	-	1,087	260,725
Loans to customers	324,577	65,633	956,692	244,840	1,068,078	-	2,659,820
Other financial assets	6,247	-	-	-	-	-	6,247
Total assets	**578,777**	**7,989,116**	**956,692**	**314,299**	**1,068,089**	**7,389**	**10,914,362**
LIABILITIES							
Deposits and balances from banks	713	19,146	-	2,152	-	227	22,238
Current accounts and deposits from customers	300,893	7,932,906	-	54,211	-	2,901	8,290,911
Other borrowed funds	1,200	-	956,156	244,844	1,066,733	-	2,268,933
Other financial liabilities	673	-	-	-	-	-	673
Total liabilities	**303,479**	**7,952,052**	**956,156**	**301,207**	**1,066,733**	**3,128**	**10,582,755**
Net position as at 31 December 2013	**275,298**	**37,064**	**536**	**13,092**	**1,356**	**4,261**	**331,607**

18 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

The following table shows the foreign currency exposure structure of financial assets and liabilities as at 31 December 2012:

	TMT	USD	CNY	EUR	JPY	Other currencies	Total
	TMT'000	TMT'000	TMT'000	TMT'000	TMT'000	TMT'000	TMT'000
ASSETS							
Cash and cash equivalents	129,981	5,748,897	76	22,667	72	3,420	5,905,113
Loans and advances to banks	46,447	120,692	-	73,498	-	-	240,637
Loans to customers	301,014	85,876	979,596	146,425	1,427,532	-	2,940,443
Other financial assets	2,293	4,120	80	-	18	-	6,511
Total assets	**479,735**	**5,959,585**	**979,752**	**242,590**	**1,427,622**	**3,420**	**9,092,704**
LIABILITIES							
Deposits and balances from banks	1,521	101,769	-	1,902	-	58	105,250
Current accounts and deposits from customers	276,843	5,754,442	1	90,437	-	57,537	6,179,260
Other borrowed funds	-	-	988,036	146,499	1,427,524	3,007	2,565,066
Other financial liabilities	3,462	17	-	2	-	5	3,486
Total liabilities	**281,826**	**5,856,228**	**988,037**	**238,840**	**1,427,524**	**60,607**	**8,853,062**
Net position as at 31 December 2013	**197,909**	**103,357**	**(8,285)**	**3,750**	**98**	**(57,187)**	**239,642**

A weakening of the TMT, as indicated below, against the following currencies at 31 December 2013 and 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is on net of tax basis and is based on foreign currency exchange rate variances that the Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

18 Risk management, continued

(b) Market risk, continued

(ii) Currency risk, continued

	2013		2012	
	Profit or loss TMT'000	Equity TMT'000	Profit or loss TMT'000	Equity TMT'000
5% appreciation of USD against TMT	1,399	1,399	3,902	3,902
5% appreciation of CNY against TMT	20	20	(313)	(313)
5% appreciation of EUR against TMT	494	494	142	142
25% appreciation of JPY against TMT	256	256	18	18
5% appreciation of other currencies against TMT	161	161	(2,159)	(2,159)

(c) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Bank has policies and procedures for the management of credit exposures (both for recognised financial assets and unrecognised contractual commitments), including guidelines to limit portfolio concentration and the establishment of a Credit Committee, which actively monitors credit risk. The credit policy is reviewed and approved by the Management Board.

The credit policy establishes:

- procedures for review and approval of loan credit applications
- methodology for the credit assessment of borrowers (corporate and retail)
- methodology for the evaluation of collateral
- credit documentation requirements
- procedures for the ongoing monitoring of loans and other credit exposures.

Corporate loan credit applications are originated by the relevant client managers and are then passed on to the Loan Department, which is responsible for the corporate loan portfolio. Analysis reports are based on a structured analysis focusing on the customer's business and financial performance. The Credit Committee reviews the loan credit application on the basis of submissions by the Loan Department and the Risk Department. Individual transactions are also reviewed by the Legal, Collateral and Economic security departments depending on the specific risks and pending final approval of the Credit Committee.

The Bank continuously monitors the performance of individual credit exposures and regularly reassesses the creditworthiness of its customers. The review is based on the customer's most recent financial statements and other information submitted by the borrower, or otherwise obtained by the Bank.

The maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the statement of financial position and unrecognised contractual commitment amounts. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

18 Risk management, continued

(c) Credit risk, continued

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2013 TMT'000	2012 TMT'000
ASSETS		
Cash and cash equivalents	7,964,436	5,890,966
Loans and advances to banks	260,725	240,637
Loans to customers	2,659,820	2,940,443
Other financial assets	6,247	6,511
Total maximum exposure	**10,891,228**	**9,078,557**

As at 31 December 2013 the Bank has 2 debtors (2012: 2), credit risk exposure to whom exceeds 10% of maximum credit risk exposure. The credit risk exposure for these customers as at 31 December 2013 is TMT 7,330,602 thousand (2012: TMT 3,409,469 thousand).

(d) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honour all cash flow obligations as they become due. The liquidity policy is reviewed and approved by the Management Board.

The Bank seeks to actively support a diversified and stable funding base comprising long-term and short-term loans from other banks, core corporate and retail customer deposits, accompanied by diversified portfolios of highly liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto
- maintaining a diverse range of funding sources
- maintaining debt financing plans
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow
- maintaining liquidity and funding contingency plans
- monitoring liquidity ratios against regulatory requirements.

The daily liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the Asset and Liability Management Committee. Under the normal market conditions, liquidity reports covering the liquidity position of the Bank are presented to the Management Board on a monthly basis. The Bank also calculates mandatory liquidity ratios on a monthly basis in accordance with the requirement of the CBT.

18 Risk management, continued

(d) Liquidity risk, continued

The following tables show the undiscounted cash flows on financial liabilities and credit related commitments on the basis of their earliest possible contractual maturity. The total gross inflow and outflow disclosed in the table is the contractual, undiscounted cash flow on the financial liability or credit related commitment. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee can be called.

The maturity analysis for financial assets and liabilities as at 31 December 2013 is as follows:

TMT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	22,238	-	-	-	-	22,238	22,238
Current accounts and deposits from customers	7,989,033	34,269	59,994	51,990	155,929	8,291,215	8,290,911
Other borrowed funds	16,934	74,357	78,683	159,154	2,606,324	2,935,452	2,268,933
Other financial liabilities	673	-	-	-	-	673	673
Total liabilities	**8,028,878**	**108,626**	**138,677**	**211,144**	**2,762,253**	**11,249,578**	**10,582,755**
Credit related commitments	**831,315**	**-**	**-**	**-**	**-**	**831,315**	**831,315**

The maturity analysis for financial assets and liabilities as at 31 December 2012 is as follows:

TMT'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow	Carrying amount
Non-derivative liabilities							
Deposits and balances from banks	105,250	-	-	-	-	105,250	105,250
Current accounts and deposits from customers	5,937,431	1,023	6,748	158,848	77,184	6,181,234	6,179,260
Other borrowed funds	8,646	61,986	73,507	193,070	2,716,139	3,053,348	2,565,066
Other financial liabilities	3,486	-	-	-	-	3,486	3,486
Total liabilities	**6,054,813**	**63,009**	**80,255**	**351,918**	**2,793,323**	**9,343,318**	**8,853,062**
Credit related commitments	**652,614**	**-**	**-**	**-**	**-**	**652,614**	**652,614**

The tables above show the undiscounted cash flows of non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognised loan commitments on the basis of their earliest possible contractual maturity. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

18 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2013:

TMT'000	Demand and less than 1 month	1 to 3 months	3 months to 12 months	1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	7,987,570	-	-	-	-	-	-	7,987,570
Loans and advances to banks	104,619		80,000	76,106	-	-	-	260,725
Loans to customers	24,152	95,599	349,312	1,073,122	1,117,635	-	-	2,659,820
Investment in associate	-	-	-	-	-	16,825	-	16,825
Property, equipment and intangible assets	-	-	-	-	-	62,399	-	62,399
Investment property	-	-	-	-	-	13,066	-	13,066
Assets held for sale	-	-	-	-	-	15,836	-	15,836
Other assets	1,133	7,267	-	-	-	3,324	-	11,724
Total assets	**8,117,474**	**102,866**	**429,312**	**1,149,228**	**1,117,635**	**111,450**	**-**	**11,027,965**
LIABILITIES								
Deposits and balances from banks	22,238	-	-	-	-	-	-	22,238
Current accounts and deposits from customers	7,988,729	34,269	111,984	155,294	635	-	-	8,290,911
Other borrowed funds	16,790	58,373	175,104	886,970	1,131,696	-	-	2,268,933
Current tax liability	-	6,607	-	-	-	-	-	6,607
Deferred tax liability	-	-	-	232	-	-	-	232
Other liabilities	673	-	-	6,105	-	-	-	6,778
Total liabilities	**8,028,430**	**99,249**	**287,088**	**1,048,601**	**1,132,331**	**-**	**-**	**10,595,699**
Net position	**89,044**	**3,617**	**142,224**	**100,627**	**(14,696)**	**111,450**	**-**	**432,266**

18 Risk management, continued

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

TMT'000	Demand and less than 1 month	1 to 3 months	3 months to 12 months	1 to 5 years	More than 5 years	No maturity	Overdue	Total
ASSETS								
Cash and cash equivalents	5,905,113	-	-	-	-	-	-	5,905,113
Loans and advances to banks	140,189	-	-	100,448	-	-	-	240,637
Loans to customers	17,806	169,328	443,171	1,015,283	1,236,761	-	58,094	2,940,443
Investment in associate	-	-	-	-	-	15,983	-	15,983
Property, equipment and intangible assets	-	-	-	-	-	62,455	-	62,455
Investment property	-	-	-	-	-	12,272	-	12,272
Assets held for sale	-	-	-	-	-	32,737	-	32,737
Deferred tax asset	-	-	-	420	-	-	-	420
Other assets	2,886	9,370	-	-	-	3,848	-	16,104
Total assets	**6,065,994**	**178,698**	**443,171**	**1,116,151**	**1,236,761**	**127,295**	**58,094**	**9,226,164**
LIABILITIES								
Deposits and balances from banks	105,250	-	-	-	-	-	-	105,250
Current accounts and deposits from customers	5,936,546	885	165,237	76,592	-	-	-	6,179,260
Other borrowed funds	5,617	50,250	205,635	982,743	1,320,821	-	-	2,565,066
Current tax liability	-	2,692	-	-	-	-	-	2,692
Other liabilities	794	-	-	6,820	-	-	-	7,614
Total liabilities	**6,048,207**	**53,827**	**370,872**	**1,066,155**	**1,320,821**	**-**	**-**	**8,859,882**
Net position	**17,787**	**124,871**	**72,299**	**49,996**	**(84,060)**	**127,295**	**58,094**	**366,282**

18 Risk management, continued

(d) Liquidity risk, continued

In accordance with Turkmenistan legislation, depositors can withdraw their term deposits at any time, forfeiting in most of the cases the half of accrued interest. These deposits are classified in the tables above in accordance with their stated maturity dates. The amount of such deposits, by each time band, is as follows:

	2013 TMT'000	2012 TMT'000
Demand and less than 1 month	10,672	2,862
From 1 to 3 months	586	885
From 3 to 12 months	29,277	15,916
From 1 to 5 years	94,106	65,245
More than 5 years	635	-
	135,276	**84,908**

19 Capital management

The CBT sets and monitors capital requirements for the Bank.

The Bank defines as capital those items defined by statutory regulation as capital for credit institutions. Under the current capital requirements set by the CBT, banks have to maintain a ratio of capital to risk weighted assets (statutory capital ratio) above the prescribed minimum level. As at 31 December 2013, this minimum level is 10%. The Bank was in compliance with the statutory capital ratio as at 31 December 2013 and 2012.

The statutory capital ratio based on requirements set by the CBT as at 31 December 2013 and 2012 was 21.2% and 18.5% respectively:

	2013 TMT'000	2012 TMT'000
Primary capital	342,255	143,653
Additional capital	90,011	222,629
Total capital	**432,266**	**366,282**
Risk-weighted assets, unaudited	**2,036,975**	**1,982,937**
Capital adequacy ratio (%), unaudited	**21.2**	**18.5**

20 Credit related commitments

The Bank has outstanding credit related commitments to extend loans. These credit related commitments take the form of approved loans and credit card limits and overdraft facilities.

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year.

The Bank applies the same credit risk management policies and procedures when granting credit commitments, financial guarantees and letters of credit as it does for granting loans to customers.

The contractual amounts of credit related commitments are set out in the following table by category. The amounts reflected in the table for credit related commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

20 Credit related commitments, continued

	2013 TMT'000	2012 TMT'000
Contracted amount		
Unused credit lines	619,712	295,906
Letters of credit	204,669	356,708
Guarantees issued	6,934	-
	831,315	**652,614**

21 Contingencies

(a) Litigation

Management is not aware of any significant actual, pending or threatened claims against the Bank.

(b) Taxation contingencies

Provisions of tax legislation of Turkmenistan leave room for varying interpretations by taxpayers and tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the five subsequent calendar years; however, under certain circumstances a tax year may remain open longer.

Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Turkmenistan tax legislation and official pronouncements. According to management, the interpretations of tax legislation by the relevant authorities could differ from those of the Bank management, however the effect of possible differences in assessment of tax liabilities, if they arise, on the financial position of the Bank would not be significant.

22 Related party transactions

(a) Control relationships

The Bank's ultimate controlling party is the Government of Turkmenistan.

(b) Transactions with the members of the Board of Directors and the Management Board

Total remuneration included in personnel expenses for the years ended 31 December 2013 and 2012 is as follows:

	2013 TMT'000	2012 TMT'000
Members of the Board of Directors	457	440
	457	**440**

The outstanding balances and average interest rates as at 31 December 2013 and 2012 for transactions with the members of the Board of Directors are as follows:

	2013 TMT'000	Average interest rate, %	2012 TMT'000	Average interest rate, %
Statement of financial position				
ASSETS				
Loans to customers	120	4.6	103	4.19
LIABILITIES				
Current accounts and deposits from customers	545	10.0	591	15.0

22 Related party transactions, continued

(b) Transactions with the members of the Board of Directors and the Management Board, continued

Amounts included in profit or loss in relation to other transactions with the members of the Board of Directors for the year ended 31 December are as follows:

	2013 TMT'000	2012 TMT'000
Profit or loss		
Interest income	7	9
Interest expense	(65)	(33)

(c) Transactions with other related parties

Other related parties include ministries of Turkmenistan, the CBT and entities controlled by the Government of Turkmenistan. The outstanding balances and the related average interest rates as at 31 December with other related parties are as follows.

	31 December 2013 TMT'000	Average interest rate, %	31 December 2012 TMT'000	Average interest rate, %
Statement of financial position				
ASSETS				
Cash equivalents				
- in TMT	1,132,700	-	164,411	-
Loans and advances to banks				
- in TMT	99,433	5.0	46,447	5.0
Loans to customers				
- in TMT	281,153	7.1	289,397	7.4
- in USD	65,633	5.0	85,876	5.0
- in CNY	956,692	3.6	979,596	3.6
- in JPY	1,068,078	4.3	1,427,532	4.3
- in EUR	244,840	3.8	146,425	3.4
Other assets				
- in TMT	2,540	-	2,265	-
LIABILITIES				
Deposits and balances from banks				
- in USD	18,854	-	90,234	3.0
- other currencies	201	-	161	-
Current accounts and deposits from customers				
- in TMT	46,444	-	276,843	-
- in USD	7,790,458	-	5,754,442	-
- in EUR	51,112	-	90,437	-
- in other currencies	2,607	-	46,447	-
Loans from the CBT				
- in TMT	1,200	0.5	-	-
- in EUR	143,333	3.0	-	-
Contingent liabilities and credit commitments				
- in TMT	-	-	88,859	-
- in USD	200,131	-	2	-
- in EUR	48,022	-	-	-
- in CNY	-	-	91,956	-
- in JPY	-	-	63,390	-
- in other currencies	989	-	-	-

22 Related party transactions, continued

(c) Transactions with other related parties, continued

Amounts included in profit and loss in relation to transactions with the other related parties are as follows:

	31 December 2013 TMT'000	31 December 2012 TMT'000
Profit or loss		
Interest income	121,534	145,690
Interest expense	(1,861)	(85)
Fee and commission income	7,258	8,057

During the preparation of the related party disclosures in the Bank's financial statements for the year ended 31 December 2013, management made certain changes affecting the corresponding figures. As at 31 December 2012, the balances with related parties disclosed in 2012 financial statements omitted loans and advances to banks in the amount of TMT 30,000 thousand, loans to customers in the amount of TMT 30,572 thousand, deposits and balances from banks in the amount of TMT 61,599 thousand, current accounts and deposits in the amount of TMT 1,826,923 thousand, related to the companies under controlled by the Government of Turkmenistan. Also interest income in the amount of TMT 21,849 thousand on transactions with related parties was omitted. The comparative information has been restated accordingly.

23 Fair value of financial instruments

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

TMT'000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	7,987,570	-	7,987,570	7,987,570
Loans and advances to banks	260,725	-	260,725	260,725
Loans to customers	2,659,820	-	2,659,820	2,655,522
Other financial assets	6,247	-	6,247	6,247
	10,914,362	**-**	**10,914,362**	**10,910,064**
Deposits and balances from banks	-	22,238	22,238	22,238
Current accounts and deposits from customers	-	8,290,911	8,290,911	8,290,911
Other borrowed funds	-	2,268,933	2,268,933	2,274,494
Other financial liabilities	-	673	673	673
	-	**10,582,755**	**10,582,755**	**10,588,316**

23 Fair value of financial instruments, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

TMT'000	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
Cash and cash equivalents	5,905,113	-	5,905,113	5,905,113
Loans and advances to banks	240,637	-	240,637	240,637
Loans to customers	2,940,443	-	2,940,443	2,935,078
Other financial assets	6,511	-	6,511	6,511
	9,092,704	**-**	**9,092,704**	**9,087,339**
Deposits and balances from banks	-	105,250	105,250	105,250
Current accounts and deposits from customers	-	6,179,260	6,179,260	6,179,260
Other borrowed funds	-	2,565,066	2,565,066	2,571,737
Other financial liabilities	-	3,486	3,486	3,486
	-	**8,853,062**	**8,853,062**	**8,859,733**

The estimates of fair value are intended to approximate 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. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

Fair value hierarchy

The Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Bank's valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Management categorises the fair value of the Bank's financial assets and liabilities in level 2 of the fair value hierarchy.