STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

ANNUAL REPORT 2011

CONTENTS

BRIEF INFORMATION ABOUT THE BANK

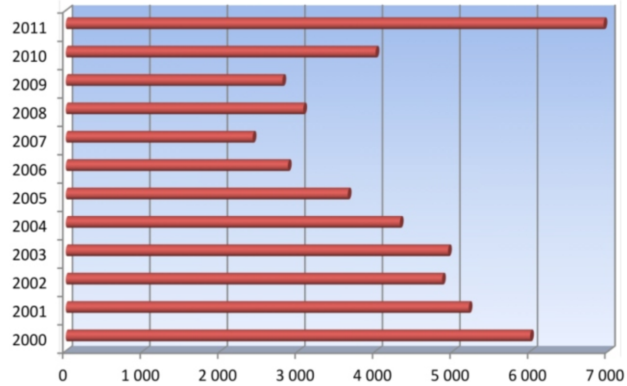
· The State Bank for Foreign Economic Affairs of Turkmenistan (SBFEA) was founded in 1992 by the Decree of the President of Turkmenistan № UP-278 dated 27.01.1992.
· The main activities include the settlement on the export-import operations, utilization of foreign loans and loan investments in economy of Turkmenistan.
· SBFEA has License № 97 of the Central Bank of Turkmenistan dated 20.02.2003 for the execution of the credit-settlement and other means of transactions in Turkmenistan.
· SBFEA has General license № 32 dated 20.03.2003 of the Central Bank of Turkmenistan for the execution of the foreign currency transactions
· Member of the online trading system REUTERS DEALING since 1993
· Full active member of the international system VISA International since 1994.
· The issuer of the national credit card MILLIKART since 1996.
· Full active member of the international SWIFT system since 1997.
· Member of the Chamber of Commerce and Industry of Turkmenistan since 1997.
· An independent auditor - Deloitte.
· Member of the Interbank Currency Exchange of Turkmenistan.
· Office of the Governing Islamic Development Bank from Turkmenistan since 1994.

OPERATIONAL HIGLIGHTS 2011

The activity of the State Bank for Foreign Economic Affairs of Turkmenistan has evolved successfully as a result of a favorable economic situation in the country. The obtained results serve as good indicators of the prosperous work of the Bank;
· According to the received results against the national standard, summed up to 31.3million manats, thereby surpassing the 2010 level by 60.6%
· The charter capital, including reserve, increased by 13.2% and exceeded 252,69 million manats.
· Total equity of the bank grew by 9.9% to 339.9 million manats.
· An asset balance sheet of the Bank by the end of 2011 amounted to almost 7 billion manats, while the share of the productive assets in the total assets balance made up 84.5%
· The number of the clients being served increased by 14%

As per yearly results of 2011 the SBFEA held a leading position in the banking system of Turkmenistan in the following positions:
· The size of the charter capital and equity capital;
· The size of assets;
· The number of investments in the economy of Turkmenistan;
· The volume of the foreign trade operations;
· The number of foreign currency transfers;
· The volume of transactions on the currency and foreign exchange markets;
· The issue and service of the plastic card in foreign as well as local currency;
· Development of the network of correspondent banks;
· The facilities borrowed from foreign banks

Assets dynamics *(in million manats)*



MESSAGE OF THE CHAIRMAN OF THE BOARD

Dear clients ! Dear partners!

Please, allow me to introduce and present to your attention a report on major results of the activity of the State Bank for Foreign Economic Affairs in 2011.

The past year became another stage for a further sustainable and progressive development of the Bank. Considerable growth has been reached for key financial indicators as well as the expansion for services rendered to our partners. During the past year the assets of the Иank increased by 73%, which exceeded 6.9 billion manats; net income amounted to 50.2 million manats according to the national reporting standards; the authorized capital was formed at a rate of 50 million U.S. dollars after which the Bank emphasized a new benchmark of $ 100 million U.S. dollars.

Sustainable growth of the Bank has always been elapsed due to its solid clientele, the core of which are the major state-owned enterprises serving strategic branches of economy of Turkmenistan as well as private companies. The customer base in 2011 increased by more than 14%.

During the past year, the Bank adopted and introduced a Bank Development Program up to 2030 providing particular steps towards the development of new types of banking transactions, improvement of management structure, enhancement of cooperation with major financial institutions for the purpose of implementation of the National Programs of the President of Turkmenistan.

Throughout the past year the Bank has actively represented the Government of Turkmenistan as an agent for due management of foreign debt and attraction of the foreign loans. Due to enhancement of strategic cooperation with large international banks and financial institutions in 2011, the Bank managed to attract significant volumes of foreign loans and investments into the economy of Turkmenistan.

Striving to become an active partner for large companies and corporations, the Bank has provided a wide range of consulting services for conducting settlements and financing export-import operations, cash management services, holding consultations on various financial issues pursuing optimization of financial operations and prevention of possible failures.

In the past year the Bank emphasized on improving the quality of customer service -recruitment and training of personnel, improving the basic processes in the Bank as well as controlling the quality and motivation of employees. Restructuring its organizational pattern allowed the Bank to introduce particular subdivisions responsible for risk management and planning, thus providing the Bank thorough approach to conducting analysis and planning of its activities.

The successful position of the Bank is inseparable of the welfare of Turkmenistan. The effective and dynamic social-economic and political reforms of Mr. Gurbanguly Berdimukhamedov, the President of Turkmenistan secured successful and consistent economic transformations in the economy of the country and based foundation for a long-term stability and harmony within society. Basic regulatory inceptions governing banking activities were adopted in Turkmenistan in 2011, namely: Law "On the Central Bank of Turkmenistan", Law "On Credit Institutions and Banking Activities", Law "On Currency Regulation and Currency Control over Foreign Economic Activities" and Law "On Anti-Money Laundering and Financing of Terrorism".

Being fully aware of its social responsibility towards the society the Bank provides support to cultural and sport organizations.

The Bank will spare no effort to increase the volume and improve the quality of its assets, to fully comply with overall regulatory standards reflecting the Bank's activity as well as to increase the Bank's retained earnings and profitability. The Bank's major activity will be associated with providing qualitative banking services to its clients and partners as well as satisfying the demand for banking services and promoting enhancement.

I would like to express my thankings to the entire staff of the Bank for the diligence and tenacity in solving our common tasks, and also express my special appreciation to our customers and gratitude to our partners while assuring in that the Bank will do its utmost to ensure our relationship grow stronger and wider, satisfy to all stakeholder and bring benefit to the status of Turkmenistan.

Sincerely,

Chairman of the Board **R. Jepbarov**

A BRIEF OVERVIEW OF THE ECONOMY OF TURKMENISTAN

According to the 2011 results the economy of Turkmenistan is characterized by highly grown rates.
According to the State Committee of Statistics of Turkmenistan* 2011 results the growth rate of the gross domestic product (GDP) at comparable prices amounted to 114.7% in comparance to 2010. The nominal volume of GDP reached 79976,1 rnln. manats.

Gross domestic product growth for the year was achieved by the positive growth dynamics of the added gross value in goods-producing industries as well as in industry service providers.

Goods-producing industries in 2011 produced a goal of 42212.9 mln. manats gross value added, accounting for 17,3% of GDP. In the structure of industries producing goods, a high proportion was occupied by the industry – 72,9%, while agriculture accounted for 17.0% and construction - 24.9%. The main contribution to GDP growth in 2011 made goods producing industries, gross value added at constant prices, which rose from the previous year by 17.3%, while the share in GDP reached 72.9% of Turkmenistan.
In 2011 foreign trade turnover amounted to 28111,8 million U.S. dollars. At the same time
foreign trade deficit amounted to 5390,2 million U.S. dollars, which is 57,2% times higher than in 2010. During the reporting year import-export ratio was 1,47%

In 2011 the volume of capital investments aimed at developing the country's economy at the expense of all sources of financing, amounted to 35080,7 million manats, increasing by 23,2% compared to 2010. The main sources were as follows: internal funds of enterprises, foreign direct investment, centralized and local budgets, funds from the public.The volume of investments by borrowing increased by 2.7 times.
High levels of investment were mastered in the production sphere, as well as in the construction of non-productive projects. Ministries and departments of Turkmenistan completed 871 projects of industrial and social-cultural purposes.

State budget revenues for 2011 amounted to 15078,8 mln. manats, or 137,2% of the set task. At the same time as compared to the year 2010 there was a reduction of tax revenues and fees by 48.3%. Over the past year in the total amount of taxes and duties the largest share belonged to the value added tax (28.0%).
Expenditures of the State budget for the year were financed in the amount of AZN 12 179.9 million, an increase compared with 2010 by 37.2%. The state budget is focused mainly on social programs. In their structure, the bulk was spent on financing social services (67.1%).

State budget expenditures for the year amounted to 12179.9 million manats. In their structure, the bulk was spent on the financing of public and social services (67.0%), out of which 35.8% is directed at education, 24.3% at in the public social security, 23.3% on the financing of housing and communal services, healthcare -11.3%, culture - 5.3.

In era of new Revival and reforms, Turkmenistan has made a significant progress in the field of socio-economic development. At the present stage of social development of Turkmenistan the priorities lie in the creation of multi-system protection against social risks, definition of forms and types of social protection, social insurance and social security.

In order to further improve the welfare there has been changes and additions made to the regulations concerning the procedure for appointment and conversion of pensions and state benefits.

In 2011, a continued growth has been seen in the consumer activity, as evidenced by the growth of retail trade turnover of Turkmenistan by 15.3% compared with 2010. Growth in consumer activity of the population, the active construction of buildings with improved design and enhanced comfort stimulated the demand for consumer and mortgage loans.

A favorable economic situation positively affected the indicators characterizing the state of the Turkmen banking sector as a whole, represented by 12 commercial banks. The number of branches totaled to 133 units, 187 points for the exchange of foreign currency in cash, of which 11 exchange offices working around the clock. **

As of January 1, 2012 condensed consolidated assets of banks amounted to 21721.5 million manats, increased by 36.2% compared to the corresponding period of the previous year.The balance of correspondent accounts in the CBT in national currency amounted to 2109.9 mln.manats and compared with the corresponding period last year increased by 74%. The total amount of loans extended by the banking system to enterprises, organizations and the public on January 1, 2012. amounted to 21141.2 mln.manats that 22.9% compared with the corresponding date of 2011.
The bulk of the assets was represented by loans to enterprises, organizations and population, the share was 77.7%.

The balance of loans in national currency amounted to 2109.9 million manats. increased by 74% in comparison to the same period last year.

On January 1, 2012 borrowings of commercial banks in national currency amounted to 8729.5 mln.manats, thereby increasing by 85.3% times compared with the previous year. At the same time, the population deposits was rapidly growing. which brought an increase by 21.9% compared with the corresponding period of the previous year.

Banks own funds amounted to 781.2 million manats, including the authorized capital of banks which increased by 437.3 million manats or 56% from own amount funds. Significant growth of bank's own funds and, particularly, the authorized capital, enhances the sustainahility of the entire banking system of Turkmenistan and, accordingly, the protection of the interests of depositors and creditors.

* Data taken from the statistical bulletins: Socio-economic status of Turkmenistan for 2011 and Socio-economic situation in Turkmenistan in January 2012.
** Bank bulletin on January 1, 2012. Published by the Central Bank of Turkmenistan.

BANK'S PARTICIPATION IN PUBLIC INVESTMENT PROGRAMS

The development strategy of the Bank is focused primarily on the work aimed at the attraction of foreign capital and placement in the priority sectors of the economy in order to achieve the goals of the National Program of President of Turkmenistan "Socio-economic development of Turkmenistan for the period 2010-2030 years." Throughout the implementation of this program, the Bank focuses on the strategic partners of oil and gas industry, agriculture, industrial and social spheres.

· The main content of the Bank's investment policy is to:
· Involvement as an agent of the Government of Turkmenistan the medium and long term foreign capital to invest in the highest priority both in economic and social aspects of projects.
· Timely and quality service in the attraction of foreign loans;
Carrying out office functions of the Governing Islamic Development Bank of Turkmenistan.

In the past year the Bank continued financing the projects in the fields:
· Oil: diesel fuel project;
· Transport: the modernization of the railway station;
· as well as the implementation of projects financed by loans provided by the Export-Import Bank of China:
· The supply of oil and gas equipment and tubular goods on the amount of 400.00 million yuans for the State Concern "Turkmenneft";
· The supply of telecommunications equipment in the amount of 450.00 million yuans for the Ministry of Communication;
· Delivery of 113 coaches on the amount of 328.45 million yuans for the Ministry of Railway Transport of Turkmenistan.

Japan Bank for International Cooperation:
- Engineering and provision of necessary equipment and services for technical advice for the plant to produce ammonia and urea in the town of Mary in the amount of 45.034 billion yen for the State Concern "Turmenhimiya."

During the year 512.36 million U.S. dollars of borrowed funds was utilized.

In order to attract investment in the developing industries of the country by the Bank during the year there have been organized and conducted the mission of Export-Import bank of China and IDB. A natural result of these events was the signing of the Export-Import bank of China Loan Agreement in the amount of 200 billion yuans to finance for purchase oil-gaz equipment and pipe filling for the State Concern “Turkmengaz”
In order to fund a project to develop gas field in «Galkynysh» the Bank, in cooperation with the state concern «Turkmengaz» conducted active negotiations with Deutsche Bank, the Export-Import Bank of Korea.

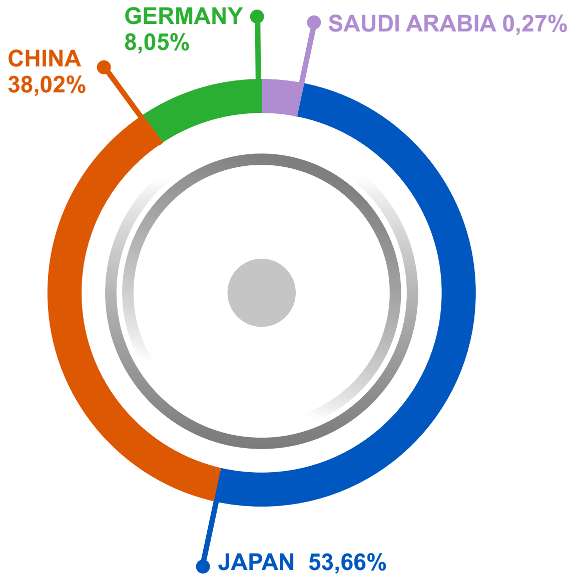
In addition, work has been done to implement the Framework Agreements between the Government of Turkmenistan and the Government of the People's Republic of China for providing the grants to the Government of Turkmenistan, the government grants grants. In order to fulfill intergovernmental framework agreement with China Development Bank signed the Agreement on the relevant interbank settlement procedures totaling 280 million yuan. The funds provided grants for projects aimed at building a service center for maintenance and repair of locomotives, passenger carriages and railway equipment of the Ministry of Railway Transport of Turkmenistan, as well as construction of new buildings in the hospital Farap etrap and construction health in the village Samandepe and equipping them with modern medical equipment manufactured People's Republic of China for the Ministry of Health and Medical Industry of Turkmenistan, as well as the supply of computers for the institutions of the Ministry of Education of Turkmenistan.

In addition, efforts were made to raise funding for the project of modernization of the seaport in Turkmenbashi town with the Japan International Cooperation Agency, Commerzbank (Germany), Korean banks.

In addition, in 2011 an application was fitted for the grant «Development of biotechnological methods for producing biomass from the perspective of medicinal plants of Turkmenistan» for the Institute of Medicinal Plants of the Academy of Sciences of Turkmenistan.

In 2011, fulfilling the obligation for timely servicing of external debt, the Bank had made payments to foreign creditors amounting to 124.54 million U.S. dollars and closed down 5 credits. Last year the State Bank for Foreign Economic Affairs of Turkmenistan participated actively in the development and negotiation of terms and schemes of repayment of foreign loans that reduce the cost of benefits, as the principal and interest.

As a result of the work done for the year the amount of foreign loans outstanding at the balance sheet amounted to 829.08 million U.S. dollars, and a breakdown by country and by the end of 2011 is as follows:



In 2011, together with the maintenance and use of earlier loans borrowed by the Bank the possibility of funding new projects in various sectors of the country was studied and investigated thoroughly, among which can be distinguished projects such as electrification, construction of production facilities in the chemical industry, construction of health centers.

Cooperation with Islamic Development Bank. According to the 3 year program of Islamic
Development Bank for Turkmenistan for the period of 2011-2013 an active work on the attraction of financing of the following projects took place:

- Draft powers of Balkan province on water Balkan region;
- GNS project "Turkmenhovayollary" artificial construction of the runway at the airport in Dashoguz;
- GNS project "Turkmenhovayollary" artificial construction of the runway at the airport in Turkmenabat;
- A project ofthe State Concern "Turkmenavtoyollary" Reconstruction of the road-Turkmenbashi-Garabogaz border of Kazakhstan (the Customs office Bekdash).

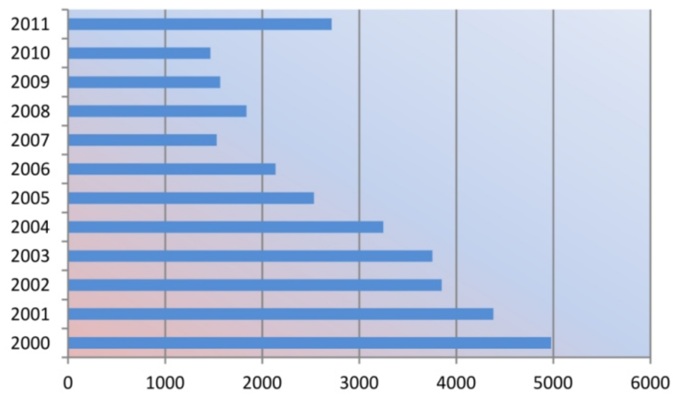
Obtaining funding for these projects are planned in the second half of 2011

CREDIT ACTIVITY OF THE BANK

Lending has been one of the priorities of the Bank in 2010. Credit policy was based on the financial needs of a growing economy, efficiency and profitability of investment projects, and in strict accordance with the National Program of President of Turkmenistan - Socio-economic development of Turkmenistan for the period 2010-2030 years.

The important directions of Bank's credit policy in 2011 were:
- Crediting of foreign trade operations;
- Part of the Bank's investment lending;
- Improving the quality of credit portfolio and minimizing the associated risks.

DINAMICS OF THE LOAN PORTFOLIO (milion manat)



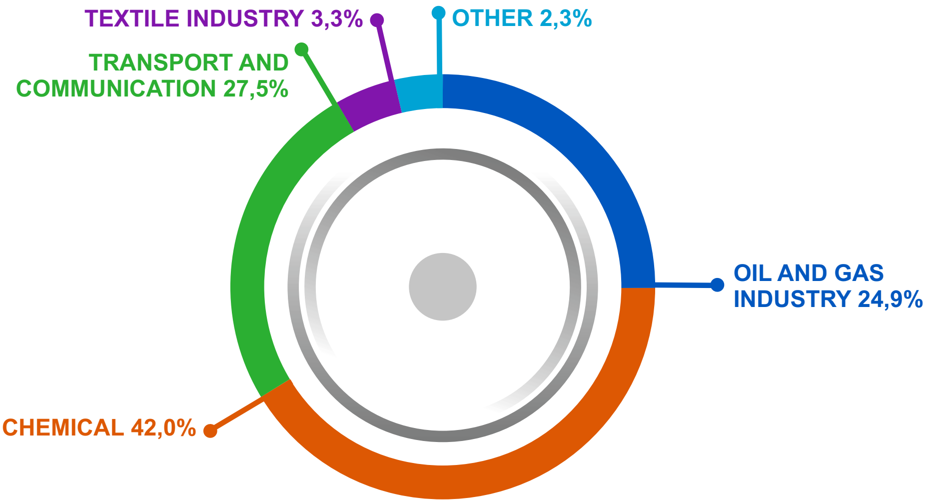
During the year the Bank continued to carry out financing of investment projects contributing to the growth of the industrial potential of the country. At the expense of attraction of foreign credits the projects for the State Concern "Turkmenneft" State Concern "Turkmenhimiya" Production association "Maryazot", Ministry of Communication of Turkmenistan and Ministry of Railway Transport of Turkmenistan have been executed.

Using its own funds the Bank has funded:
- A contract to buy part of well ejector pumps and process equipment for the State Concern "Turkmenneft" (credit for 82.00 million);
- A contract to supply 300 cars and taxi-class spare parts for them for the Ministry of Motor Transport (credit to 3.94 million U.S. dollars);
- A contract to purchase a tanker for transportation of petroleum and petrochemical products to the State Service of Maritime and River Transport of Turkmenistan (the loan of 10.8 million U.S. dollars);
- A contract to build houses and Superior Suites for the State Committee for Tourism and Sport of Turkmenistan (credits to 62.37 million manat).

Last year an agreement was signed with the state concern "Turkmengaz" on loan servicing, received at the China Development Bank totaling U.S. $4.1 billion to finance development projects and development of one of the world's largest gas fields in "Galkynysh"

In the framework of contracts for service credits, implemention of such projects as the construction of a hydrotherapy center and am Archman Yyly Suv, funded by loans from the Islamic Development Bank and the OPEC Fund took place, as well as there has been work done towards signing an agreement on the construction of the railway station at Bereket-Etrek Turkmen-Iranian border railway line Gyzylkaya-Bereket-Etrek.

At the end of 2011 the credit portfolio, formed at the expense of funding for projects in the public sector, small and medium-sized businesses, as well as the private sector amounted to 1.430,00 million manats, of which 92.12% - loans granted in foreign currency and 7.88% - in national currency. The structure of the Bank's portfolio in the context of economic sectors as of January 1, 2012 is as follows:



During the year the Bank pursued its targeted efforts to improve the quality of the generated loan portfolio, in particular, periodic financial analysis of enterprises borrowers, pursuant to which customers were given recommendations on the improvement of the efficiency of their businesses, as well as further possible sources of repayment have been analized. As a result of this work, overdue loans and interest for the year amounted to less than 0.1%.

CORPORATE BUSINESS

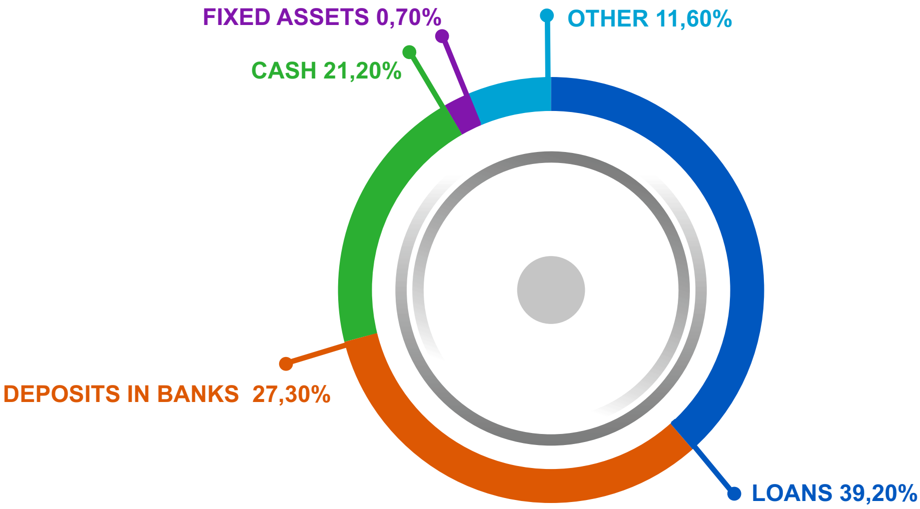
In implementing its goals and objectives the Bank relies on the mutually beneficial strategic alliances with corporate clients, which are based on partners of oil and gas industry, agroindustries. energy sector, transport and communications, industrial and social infrastructure. In addition, the Bank serves businesses and firms of different ownership forms, representing large and mediumsized businesses, joint ventures and foreign companies. The development of corporate business can not only increase the overall volume of business of the Bank. but also diversify the credit risk of the different segments of the economy.

The Bank's corporate business development was under construction in the interests of clients and was directed to complete and high quality to meet their needs, which is achieved through:

- High level of professionalism of staff working directly with clients;
- The individual approach and flexibility in providing services;
- Offering customers a wide range of banking services:
- Offering clients a set of special banking products tailored to their needs;
- Flexible and competitive pricing policy at offering banking products;
- The application of modern information technologies;
- A careful study of legal issues;
- Extensive network of correspondent banks.

Striving to become an active partner of large companies and corporations, the Bank has provided a wide range of consulting services for the settlement of the planned export-import operations, the profitable use of free cash to other financial matters in order to optimize financial transactions, and caution them against possible failures. The latter is especially important for customers engaged in the foreign trade activities, as it requires consideration of many factors and regulatory documents.

ASSET STRUCTURE



RETAIL BUSINESS

In 2011 the Bank continued its activity in the market for private clients on a full range of modem banking products and the organization of sales. Distinctive features in this category of customer service are the flexible price and interest rate policy, full confidentiality, special offers to the long and positive co-operation history customers, and reliability of the Bank.

During the period the Bank has provided its customers a wide range of retail banking products and services:

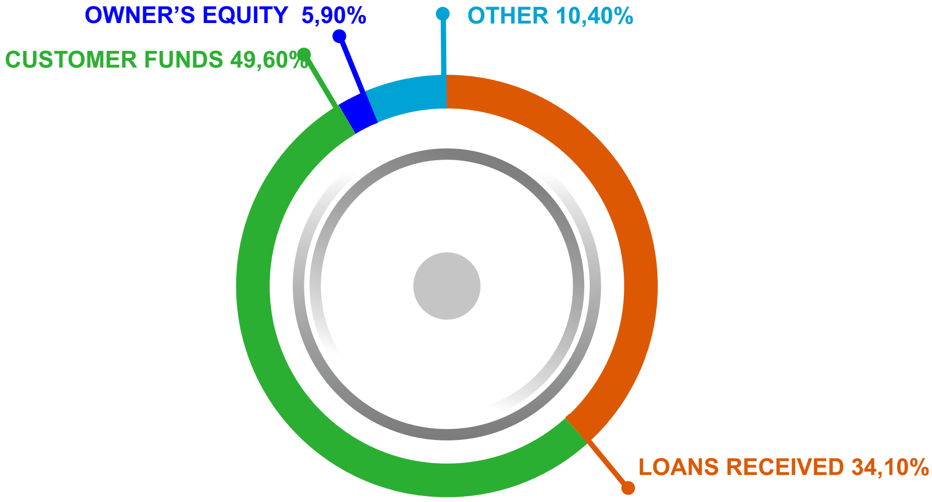
- Cash management services;
- Different types of transfers and payments;
- Foreign exchange operations;
- Operations on deposits, time deposits;
- Loans for consumer purposes;
- Issue of international service cards and VISA;
- Issuing and servicing your own maps MILLIKART, ALTYN and KUMUSH KART;
- Reception for collection of traveler's checks;
- Sale of precious metal coins;
- Transactions with banknotes (exchange of old notes, exchange notes);
- Leasing bank of cells for storing documents and valuables.

One of the priorities in the development of retail services is the maintenance operations with plastic cards. Being a member of the international payment system VISA, Bank of successfully leading the production and service of plastic cards VISA Business and VISA Classic, VISA Electron, own cards «MILLICART». In addition, after the resumption of membership in the international payment system MasterCard Worldwide the Bank is working on the implementation of this system, issuing of cards and performing the service of the system.

In 2011 the Bank has provided its customers the ability to have anytime access to cash via ATMs, conduct non-cash payments using plastic cards, provide information about the card account, receiving monthly interest income on the balance of the card account.

As of 01.01.2012 the number of serviced cards amounted to 12759 an increase of 4266 compared to 2011, and the number of users of VISA card was 6774 people, and Card MILLICART – 5985 people.

LIABILITIES STRUCTURE



DOCUMENTARY TRANSACTIONS AND INTERNATIONAL PAYMENTS

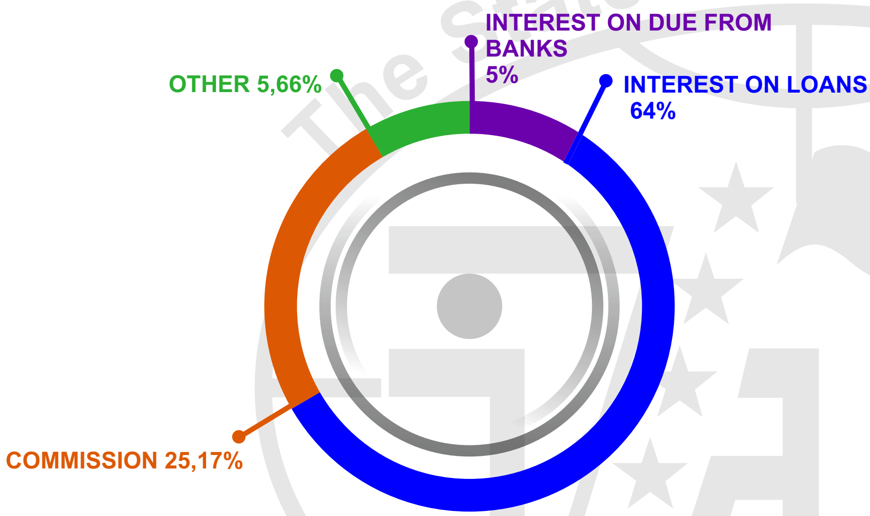
Being one of the largest universal banks, the Bank has consistently focused on the expanding the range of services and quality of services in the field of documentary operations (letters of credit, guarantees, collections). The Bank focuses on working with a wide range of clients: stateowned enterprises, foreign companies, private sector and entrepreneurs are linked with production and sales cycle.

In 2011, the volume of import letters of credit amounted to 572.39 million U.S. dollars and compared to 2011 the volume increased by million U.S. dollars. The main part of import letters of credit was opened in the Bank's credit lines and foreign banks. The volume of export letters of credit amounted to 16.70 million U.S. dollars.

This year, the amount of guarantee operations amounted to 1.87 milliard U.S. dollars. Most of the guarantees has been issued by foreign banks for import transactions and to advise the Bank to a preliminary terms and conditions of guarantees.

However, having a well-developed network of correspondent banks, the Bank offers quick,quality and service at the lowest cost international of client and interbank transfers, which enables the Bank to remain a leader among banks in the implementation of Turkmenistan's international payments. In 2011 the volume of international payments was 50.04 billion U.S. dollars.

INCOMES STRUCTURE



FINANCIAL MARKETS OPERATIONS

During the 2011 the bank has actively performed operations on both internal and external financial markets.

As a member of the Interbank Currency Exchange of Turkmenistan since its inception, the Bank has been acting as a buyer of foreign currency on behalf of their clients for settlement of foreign trade contracts and loans obtained in foreign currency. The outcome of the 2011 volume of foreign currency purchased by the Bank in the domestic market amounted to 90.11 million U.S. dollars.

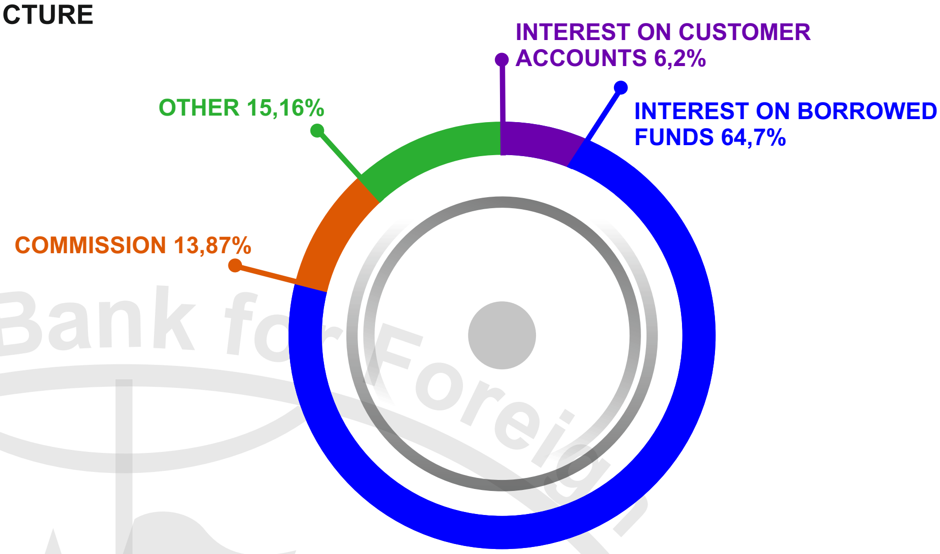
At the conclusion of transactions in the foreign exchange market, the Bank uses the information and trading system Reuters-Dealing-3000. which allows a rapid response to changes in market conditions. Limits set for the Bank of foreign contractors, allow it to be a full participant in the international currency market, allowing acting on its own behalf and on behalf of their corporate clients.

In 2011 the volume of foreign exchange transactions made on behalf of clients as well as for its own account in the foreign exchange market amounted to 320.9 million U.S. dollars, an increase of almost U.S. $ 17.6 million, compared to 2010 with net income offorex transactions amounted to 159.3 thousand. Most operations were carried out with such currencies as the euro, U.S. dollar, British pound, and Japanese yen.

In 2011, the Bank has actively carried out operations to place funds in foreign currency on the international money market. The aim of these operations was to control excess liquidity in foreign currency and receive higher returns compared with the yield on balances on correspondent accounts of the "Nostro" Bank. By controlling the free exchange of assets, the Bank placed short-term deposits in major foreign banks. As of 01.01.12 the amount of deposits placed was 650 million U.S. dollars, revenue was 1.9 million.

In order to meet the domestic demand for foreign currency, the Bank remained the largest among banks, a provider of foreign banknotes to the domestic market. At the end of last year the Bank was acquired in the international market foreign currency amounting to 24.500 million U.S. dollars, 4.000 million euro, 660 thousand British pounds and 1.300 thousand Chinese yuans and 50 thousand Swedish franks.

EXPENSES STRUCTURE



COOPERATION WITH FINANCIAL INSTITUTIONS

Organization and development of business with financial institutions related to the traditional areas of banking. In 2011, the Bank continued to develop cooperation with international financial institutions to further consolidate its position in the financial markets, the expansion of international business and provide customers with services of international level. The correspondent network of the Bank was and remains among the most developed banks of Turkmenistan.

In the past year the Bank has undertaken several activities to improve the working network of correspondents:

· Optimization of the system of correspondent accounts in leading U.S. banks, Europe and the CIS;

· Optimization of the operation of correspondent accounts and reducing transaction costs in the calculations through Nostro accounts at banks of CIS countries, Europe, North America and Asia. Strengthening of mutually beneficial partnerships with the largest and most reliable banks to require the clean limit and the establishment of the Bank credit lines for forex and trading.

In addition, at the end of 2011 the Bank has 10 active agreements with commercial banks of Turkmenistan and the opening of the general conditions of correspondent accounts in foreign currency. In the field of cooperation with national export-import and export insurance agencies Bank has established business, partnership relations with the Japan Bank for International Cooperation,the Export-Import Bank of China, the Czech Republic, USA, Turkey, Malaysia, with export insurance companies «Hermes» in Germany, COFACE in France and OND in Belgium, which allowed to preserve its leading position in the market of foreign borrowing, which is one of the main sources of funding of active operations, in particular the financing of projects in strategic sectors of the economy of Turkmenistan.

In the sphere of cooperation with international development banks and funds the Bank paid special attention to developing relations with the European Bank for Reconstruction and Development, Asian Development Bank. It should be noted a separate line - performance of the functions of the Office Manager of the 1DB in Turkmenistan, under which is active engagement with the Islamic Development Bank and Arab Coordination Group of Funds. The year of 2011 is characterized by a marked intensification in the implementation of projects with these international financial institutions.

In addition, 2011 was marked by the Bank's participation in the following events:

· 36th Annual Meeting of the Board of Governors of the 1DB;

· EXPO-2011;

· Third International Investment Forum of Turkmenistan.

In order to minimize risks in the conduct of operations in financial markets the Bank as demand in choosing their bank counterparties.

INFORMATION TECHNOLOGY

During the year the Bank in its activities has been using an advanced technology based on modem software tools and hardware.

The software provided an automated banking system (ABS), based on client-server technology and uses a database management system ORACLE and allows to automate virtually all areas of the Bank: the account settlement, credit, cash, international, trade and dilling operations, analysis of the bank, administrative costs and budgets, record keeping, payroll, and others. For the operation of the system installed by IBM servers with processors to RISC-technology.

In 2011, the revision of the ABS modules for the automation of new features was carried out. Taking into account the wishes of users, the few parameters in the system has been modified, supplemented by reporting framework, work has been done on the correct pairing with the banking card system.

For the branch "Avaza", the ABS have been created and set up operations and routing the payment documents. To connect the branch to a central database, located at the main unit, was organized by the digital data channel.

The Bank operates a local area network solution with automatic backup of key switches, network monitoring, data flow rate 1 G bit / sec., organized communication with external systems – the electronic system of interbank settlements of Turkmenistan, SWIFT, a system of plastic cards, the information system agency REUTER. Getting the services of the Bank Reuter - Dilling and electronic information service extras, allows you to actively conduct operations in the foreign exchange market.

The introduction of payment by plastic cards has allowed itself to produce and maintain a national system of plastic cards MILLIKART. The Bank has installed special equipment to arrange a direct connection with the authorization and settlement system MILLIKART.

The Bank is a full member of the international system VISA. Log VISA card is made by IPprotocol over a satellite communication system.

The Bank has installed several units of ATMs and terminals that extend the existing network of ATMs and terminals for the reception of cards, national - MILLIKART, and international - VISA.

The Bank has organized electronic document management system based on software product companies IBM Lotus Notes and allows automated recording of correspondence of the bank.

The bank has its own internal telephone system, which is based on modern telecommunications equipment SIEMENS. External communications based on fiber optic cable, providing a high level of security.

In order to solve the problems of physical and electronic security the Bank established a centralized computer system, comprising: a system of restricting access of personnel in a special room, as well as the building of the Bank, a system of telemetry monitoring system of fire safety.

The Bank has implemented multi-autonomous power system, which includes the powerful UPS and diesel generator. During the year, the maintenance and update of the offical Banks website has been carried out.

RISK MANAGEMENT AND INTERNAL CONTROL

Internal control is designed to provide such conditions and algorithms for conducting banking operations, which make it impossible or difficult to implement abuse and errors.
The Bank has organized a system of internal control, which aims to provide:
- Effectiveness and efficiency of financial and economic activity, the effectiveness of asset and liability management, bank risk management;
- The accuracy, completeness, objectivity and timeliness of preparation and submission of financial, accounting, statistical and other reporting;
- Information Security;
- Compliance with the Bank and its employees are the laws of Turkmenistan, local regulations of the Bank;
- Exclude the involvement ofthe Bank's financial transactions with illegal, including the prevention and suppression of acts related to the legalization of illegal proceeds and terrorist financing, as well as a modem representation in accordance with the laws of Turkmenistan the information to the authorities.

Under the current system of internal controls in the reporting year the Bank began to develop Risk Management Policy, which sets basic principles:
- The general direction ofthe Bank to mitigate banking risks, which could result in losses:

Description of banking risk;
- Measures to exercise control over operations of a risk, as well as data management risks.

According to policy, the Bank is managed in the process of ongoing identification, evaluation and monitoring, as well as through the establishment of risk limits and other internal controls. The risk management process is critical to the continuing profitability of the Bank, and each individual employee is responsible for the risks connected with his duties.

The risk management system monitors the credit risk, liquidity risk and market risk and operational risk.

To optimize the risk management process and the performance, the Bank has set up and operates the Credit Committee, the Committee on Asset and Liability Management, responsible for strategy development and implementation of risk management principles, concepts, and risk limits that are responsible for the significant issues of risk management and monitoring compliance with relevant decisions about the risks.

The risk management system is controlled by the internal audit on a regular basis.

HR MANAGEMENT

The main purpose of the system of personnel management is the timely provision of divisions of the qualified bank, the formation of like-minded team that can respond flexibly to any changes in the environment and solve the problem posed by the Bank.

In order to achieve this, the following tasks should be performed:

- Analyze the needs of the Bank's experts and to plan their involvement on the part of. or training of their employees;
- Hold the selection and adaptation of new employees;
- To certify staff;
- Organize systematic training, and in particular, the results of certification;
- To form the reserve for executive positions and organize it in training;
- Develop and maintain a corporate culture.

Working at the Bank it is a type of work carried out in a professional manner, and therefore the availability of higher education in the employee profile is a basic requirement. The bank held a firm policy towards recruitment, paying attention to the educational and professional level employees. As of January 1,2012 the number of employees in the system of the State Bank for Foreign Economic Affairs of Turkmenistan was 244 people, including those with higher education-160, incomplete higher education - 5, secondary vocational education - 39 persons, secondary education - 40 persons.

Of the total number of employees 2 people are candidates of economic sciences, and one - candidate of technical sciences. In 2011, a graduate student received two employees: the Civil Law and in Economics.

In the interest of targeted recruitment of graduates from relevant institutions in the Bank regularly conducted training of students of the Turkmen Institute of Economics and Management, Turkmen State University named after Makhtumkuli. Institute of International Relations at the Ministry of Foreign Affairs of Turkmenistan, the Turkmen-Turkish University, Finance and Economics College "Hero of Turkmenistan Niyazov". During the year, 41 students have attended the production practices.

This year, the number of students who have previously done internships at the Bank, were recruited 4 graduates of the Institute of International Relations, and 2 graduates from the Institute of Management and Economics and a graduate from the College of Banking.

Paying great attention to staff' development, in collaboration with leading universities in thecountry, correspondent banks and other financial institutions, the Bank conducts seminars for it’s employees, training courses and internships, both inside and outside Turkmenistan. In 2011, 49 Bank staff workers have improved their skills, including 14 heads of divisions and departments .

During the year, experienced teachers from the Central Bank of Turkmenistan and other banks of Turkmenistan conducted training for the International Financial Reporting Standards. Classes are held at the wellness center "Gokdere" and in Turkmenbashi.

In addition, two employees were trained on the Bank's 5 and 6-month training courses conducted by the State Academy of government officials under President of Turkmenistan. Two employees of the Bank have been trained abroad.

The Bank regularly hosts classes in English and economic studies conducted by leading the Bank staff with experience of banking work.

For Professionals branch in the Turkmenbashi held internships in the workplace and in the offices of the Head of the bank.

Significant role in implementing the concept of staff development is validation of Bank staff, which is usually held once in 3 years, workers for cash - twice a year and additionally appointed after the probation period, or transfer to another position. The purpose of the event - staffing skilled workers, increase productivity, increase material and moral interest in solving the problems of determining the effectiveness of the Bank's operations, identification of appropriate training of employees.

As part of the HR strategy of the Bank, the work on improvement and development of interbank relations, quality of working conditions, establishment of the Bank's advantage by raising the level of responsibility and professional competence of employees. Particular attention is attached to the development of the Bank's corporate culture that allows all units to focus on common goals, encourage initiative, to ensure the loyalty of employees.

During the year the Bank has consistently carried out activities to improve the system of motivations and expanding social programs for employees, contributing to increased productivity.

The encouragement of the staff included the promotion, provision of social benefits and compensation, financial assistance for a number of significant events in the lives of workers, the organization of a full-fledged recreation for workers and their families during summer vacations and spa treatments. In providing its employees own well-furnished apartments, the Bank continued to build houses and luxury Suites.

SOCIAL RESPONSIBILITY

The successful operation of the Bank enables it to support a range of projects in the areas of culture, sports, spiritual and social aspects of life, which is a common leitmotif of concern for the future of Turkmenistan, for the younger generation and intellectual potential of the country.

In sport it should be noted the bank's sponsorship of the national tournament tennis, team organization and financing of the banking system of Turkmenistan for mini football, which took two years won a place in the National Games of Turkmenistan.
In culture, the bank since 1998, provides funds for the maintenance of one of the leading creative teams in Turkmenistan - children's dance ensemble "Nyazli." In 2011, on the basis of the bank created an ensemble of creative center "Nyazli", which contributed to the organizational efforts of the ensemble, to organize social support for its soloists and strengthen its material and technical base. Also, the bank more than ten years of international sponsors of the Turkmen music center for children and youth.

The Bank's activities in the field of social development is characterized by the participation of Turkmenistan in the implementation of the National Programme for the architectural and urban landscape of the city of Ashgabat. Since the allocated funds by the Bank was built several luxury apartment buildings in which concessional received housing employees of the Bank. With the involvement of the bank were built desk garden, park construction and implemented health center in the national tourist zone "Avaza".

In order to improve the ecological situation in the city of Ashgabat and the surrounding areas, the Government of Turkmenistan has developed a program, "Green Belt" in the implementation of the Bank is actively involved: the area 528 acres in the foothills of the Kopet-Dag had planted 341,000 ornamental and fruit trees, for which by constant care.
In accordance with tradition Bank provides periodic free assistance to disabled children, day-care centers.

Sponsorship and charity define an entirely new position of the Bank, characterized by the awareness of civil responsibility to the country and the people and patriotic approach to every aspect of their business.

PROSPECTS FOR THE DEVELOPMENT OF THE BANK IN 2012

The main objective ofthe Bank in the short term is to provide all possible assistance to national economic development through active participation in implemention ofthe National Program of President ofTurkmenistan, "Socio-economic development of Turkmenistan for the period 2010-2030 years."

To successfully achieve this goal the Bank's management signaled the following major tasks that will in 2012:

- The active development of its customer base;
- The formation of high-quality and high yield loan portfolio based on the minimization and diversification of credit risks. The Bank will continue lending to major groups of clients - corporate clients, small and medium-sized businesses and loans to individuals;
- Increase the quantity and quality of banking products, new technologies work with clients, implementation of banking technologies, modernization ofthe automated banking system;
- Borrowed funds in foreign financial markets with a view to investing in the economic de-velopment of Turkmenistan;
- Further development of service exporters and importers through the optimization of the technology of

documentary operations, which will more actively use them as a tool to re-duce the risks of foreign trade customers;

· Increase the Bank's capital in order to improve its financial sustainability and best meet the needs of clients in banking. This will be done mainly by profit capitalization as well as includes the possibilities of recourse to other sources;

· Improving risk management policy, the introduction of modern methods and approaches for risk assessment, the use of Russian and foreign models of risk analysis. Keeping the principle of collective decision-making on risk operations, the Bank will strengthen the personal responsibility of managers and office staff who perform active operations;

· Improving the effectiveness of internal controls, ensuring the adequacy of its scope of operations of the Bank.

· Improving corporate governance by the Bank, the possible restructuring ofthe organizational structure of the Bank in accordance with the new stages of development and the tasks set.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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

Management of the Bank is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2011, 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 financial statements, management is responsible for:

- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed; and
- Preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards 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 2011 were authorized for issue on 30 May 2012 by the Management Board.

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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 2011, and the statement of comprehensive income, the statement of changes in equity and cash flow 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.

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 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 audit opinion.

Opinion

In our 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 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP

Deloitte, LLP

30 May 2012
Almaty, Kazakhstan

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
(in thousands Turkmen manat)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
Interest income	4, 21	74,819	62,437
Interest expense	4, 21	(55,140)	(37,924)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		19,679	24,513
Recovery/(provision) of provision for impairment losses on interest bearing assets	5	10,193	(2,684)
NET INTEREST INCOME		29,872	21,829
Net gain on foreign exchange operations	6	14,262	5,055
Fee and commission income	7, 21	25,788	20,013
Fee and commission expense	7	(10,019)	(8,239)
Recovery of provision/(provision) for impairment losses on other operations	5	1,968	(901)
Other expense, net		(4,856)	(1,657)
NET NON-INTEREST INCOME		27,143	14,271
OPERATING INCOME		57,015	36,100
OPERATING EXPENSES	8	(18,336)	(15,292)
PROFIT BEFORE INCOME TAX		38,679	20,808
Income tax expense	9	(2,918)	(1,503)
NET PROFIT		35,761	19,305
TOTAL COMPREHENSIVE INCOME		35,761	19,305

The notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011
(in thousands Turkmen manat)

	Notes	31 December 2011	31 December 2010
ASSETS:			
Cash and balances with the Central Bank of Turkmenistan	10	251,873	139,596
Due from banks	11	3,126,839	1,634,956
Loans to customers	12, 21	2,680,697	1,424,069
Investments available-for-sale		2,051	2,054
Property, equipment and intangible assets	13	33,341	33,160
Deferred tax assets	9	7,548	2,887
Other assets	14	114,296	122,271
TOTAL ASSETS		6,216,645	3,358,993
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	15, 21	30,309	60,872
Customer accounts	16, 21	3,452,904	1,810,170
Other borrowed funds	17	2,379,911	1,177,509
Other liabilities	18	53,766	46,448
Total liabilities		5,916,890	3,094,999
EQUITY:			
Share capital	19	119,978	98,980
Retained earnings		179,777	165,014
Total equity		299,755	263,994
TOTAL LIABILITIES AND EQUITY		6,216,645	3,358,993

The notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(in thousands Turkmen manat)

	Share capital	Retained earnings	Total equity
As at 31 December 2009	84,235	160,454	244,689
Issue of ordinary share capital	14,745	(14,745)	-
Total comprehensive income	-	19,305	19,305
As at 31 December 2010	98,980	165,014	263,994
Issue of ordinary share capital	20,998	(20,998)	-
Total comprehensive income	-	35,761	35,761
As at 31 December 2011	119,978	179,777	299,755

The notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(in thousands Turkmen manat)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		38,679	20,808
Adjustment for:			
Depreciation and amortization	8, 13	1,744	1,811
(Recovery of provision)/provision for impairment losses on interest bearing assets	5	(10,193)	2,684
(Recovery of provision)/provision for impairment losses on other operations	5	(1,968)	901
Loss on disposal of property and equipment		2	
Gain on foreign exchange operations	6	(1,286)	1,183
Change in interest accruals, net		11,947	(5,199)
Other adjustments		-	9,060
Cash inflow from operating activity before changes in operating assets and liabilities		38,925	31,248
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposit		7,948	(4,668)
Due from banks		132,234	(42,535)
Loans to customers		(1,251,816)	96,529
Other assets		11,228	(98,773)
Increase/(decrease) in operating liabilities:			
Due to banks		(30,563)	24,774
Customer accounts		1,642,906	1,188,394
Other liabilities		7,318	45,727
Cash inflow from operating activities before taxation		558,180	1,240,696
Income taxes paid		(7,579)	(1,788)
Net cash inflow from operating activities		550,601	1,238,908
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets	13	(1,927)	(1,070)
Redemption of investments held-to-maturity on maturity		-	26,510
Net cash (outflow)/inflow from investing activities		(1,927)	25,440

The notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011 (CONTINUED)
(in thousands Turkmen manat)

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of other borrowed funds		(858,464)	(913,571)
Receipt of other borrowed funds		2,054,123	694,047
Net cash inflow/(outflow) from financing activities		1,195,659	(219,524)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,744,333	1,044,824
Effect of changes in exchange rates on cash and cash equivalents		17	2,731
CASH AND CASH EQUIVALENTS, beginning of year	10	1,591,933	544,378
CASH AND CASH EQUIVALENTS, end of year	10	3,336,283	1,591,933

Interest paid and received by the Bank during the year ended 31 December 2011 amounted to TMM 61,711 thousand and TMM 69,443 thousand, respectively.

Interest paid and received by the Bank during the year ended 31 December 2010 amounted to TMM 28,891 thousand and TMM 58,603 thousand, respectively.

The notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1.PRINCIPAL ACTIVITIES

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. 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.

As at 31 December 2011 and 2010, the Bank has one branch.

The Bank is wholly owned by the Government of Turkmenistan.

These financial statements were authorized for issue on 30 May 2012 by the Management Board of the Bank.

The average number of employees of the Bank for the year ended 31 December 2011 was 206 persons (31 December 2010: 193 persons).

2.BASIS OF PRESENTATION

Accounting basis

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 from 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 entity ("the functional currency"). The functional currency of these financial statements is the Turkmen manat ("TMM").

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 90 days 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 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 advances

Loans and advances 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 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.

Property, equipment and intangible assets

Property, equipment and intangible assets are carried at historical cost less accumulated depreciation. 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.

Taxation

In accordance with the Presidential Decree dated 1 November 1995, the Bank is exempted from income tax until its paid-in capital reaches up to USD 50 million and TMM 200 thousand. Starting from the third quarter of 2011 the Bank has reached its share capital with USD 50 million and is a subject to income tax per local requirement. The Bank is 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 other comprehensive income, in which case the deferred tax is also dealt with in 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 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 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. The expense relating to any provision is presented in the statement of comprehensive income net of any recoveries.

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 currency 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:

TMM/1 US Dollar	2.85	2.85
TMM/1 Euro	3.69	3.77
TMM/1 Japan Yen	0.04	0.03
TMM/1 Chinese Yuan	0.45	0.43

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 (IFRS)

The Bank has adopted the following new or revised standards and interpretations issued by International Accounting Standards Board and the International Financial Reporting Interpretations Committee (the IFRIC) which became effective for the Bank's financial statement for the year ended 31 December 2011:

· IFRS 7 "Financial Instruments: Disclosures" — amendments resulting from May 2010 Annual Improvements to IFRSs: clarification of disclosures and release of requirement for disclosure regarding restructured loans;
· IAS 24 "Related Party Disclosures" — (as revised in 2010) modifies the definition of a related party and simplifies disclosures for government-related entities.

The adoption of the new or revised standards did not have any effect on the financial position or performance of the Bank, and all have been retrospectively applied in compliance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", unless otherwise noted below.

New and revised IFRSs in issue but not yet effective

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

· IFRS 7 "Financial Instruments: Disclosures" — amendments enhancing disclosures about transfers of financial assets 1;
· IFRS 9 "Financial Instruments" 6;
· IFRS 13 "Fair Value Measurement" 2;
· IAS 1 "Presentation of Financial Statements" — amendments to revise the way other comprehensive income is presented 4;
· IAS 12 "Income Taxes" — Limited scope amendment (recovery of underlying assets) 5;
· IAS 32 "Financial Instruments: Presentation" and IFRS 7 – amendments which provide clarifications on the application of the offsetting rules and disclosure requirements3.

Amendments to IFRS 7

The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

Retrospective application is required in accordance with IAS 8 with the exception that in the first year of application, an entity need not provide comparative information for the disclosures required by the amendments for periods beginning before July 1, 2011. The Bank does not expect this amendment to have a material effect on its financial position or results of operations.

IFRS 9

Was issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

· IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a 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 at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

1 Effective for annual periods beginning on or after 1 July 2011, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.
3 Amendments to IAS 32 effective for annual periods beginning on or after 1 January 2014. Respective amendments to IFRS 7 regarding disclosure requirements – for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012, with earlier application permitted.
6 Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

· The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 recognised 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. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

The Bank's management anticipate that IFRS 9 that will be adopted in the Bank's financial statements for the annual period beginning 1 January 2015 and that the application of the new Standard will have a significant impact on amounts reported in respect of the Banks' financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 13 Fair Value Measurement

Aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements to use across IFRSs. The Standard:

· defines fair value;
· sets out in a single IFRS a framework for measuring fair value;
· requires disclosures about fair value measurements.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for share-based payment transactions within the scope of IFRS 2 “Share-based Payment”, leasing transactions within the scope of IAS 17 “Leases”, and measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 “Inventories” or value in use in IAS 36 “Impairment of Assets”.

Amendments to IAS 1 Presentation of Financial Statements

Revise the way other comprehensive income is presented.

The amendments to IAS 1:

· Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
· Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified;
· Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

4. NET INTEREST INCOME

	Year ended 31 December 2011	Year ended 31 December 2010
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
Interest income on unimpaired financial assets	73,780	58,035
Interest income on impaired financial assets	1,039	4,402
Total interest income	74,819	62,437
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	63,540	57,350
Interest income on due from banks	11,279	4,983
Interest income on investments held-to-maturity	-	104
Total interest income on financial assets recorded at amortized cost	74,819	62,437
Total interest income	74,819	62,437
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	55,140	37,924
Total interest expense	55,140	37,924
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest expense on other borrowed funds	51,330	34,244
Interest expense on customer accounts	3,733	3,672
Interest expense on due to banks	77	8
Total interest expense on financial liabilities recorded at amortized cost	55,140	37,924
Net interest income before provision for impairment losses on interest bearing assets	19,679	24,513

5. 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
As at 31 December 2009	14,681	1,174
Additional provisions recognized	2,684	901
As at 31 December 2010	17,365	2,075
Recovery of provisions	(10,193)	(1,968)
Recovery of early written-off loans	10,604	-
As at 31 December 2011	17,776	107

6. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2011	Year ended 31 December 2010
Dealing, net	12,976	6,238
Translation differences, net	1,286	(1,183)
Total net gain on foreign exchange operations	14,262	5,055

7. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2011	Year ended 31 December 2010
Fee and commission income:		
Settlements	15,292	11,875
Cash operations	8,452	6,627
Plastic cards operations	2,002	1,182
Guarantees	3	77
Encashment operations	5	8
Other	34	244
Total fee and commission income	25,788	20,013
Fee and commission expense:		
Plastic cards services	8,725	6,769
Settlements	1,281	1,394
Other	13	76
Total fee and commission expense	10,019	8,239

8. OPERATING EXPENSES

	Year ended 31 December 2011	Year ended 31 December 2010
Staff costs	11,782	8,968
Depreciation and amortization	1,744	1,811
Communication expenses	860	998
Taxes	759	87
Unified social tax	690	589
Security expenses	381	409
Property and equipment maintenance	352	379
Professional services	266	459
Payments to deposit insurance fund	194	158
Stationery	85	107
Conference expenses	80	127
Charity and sponsorship expenses	-	340
Other	1,143	860
Total operating expenses	18,336	15,292

9. INCOME TAXES

The Bank provides for taxes based on the tax accounts maintained and prepared in accordance with the tax regulations of the Republic 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 2011 and 2010 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 2011 and 2010 comprise:

	Year ended 31 December 2011	Year ended 31 December 2010
Deductible temporary differences:		
Loans to customers	35,764	52,864
Property, equipment and intangible assets	5,555	2,394
Other assets	56,720	3,277
Other borrowed funds	15,193	7,707
Total deductible temporary differences	113,232	66,242
Taxable temporary differences:		
Due from banks	-	(9)
Other liabilities	(46,447)	(2,068)
Total taxable temporary differences	(46,447)	(2,077)
Net deferred taxable temporary differences	66,785	64,165
Net deferred tax liability at the statutory tax rate (24.5% - 2011; 4.5% - 2010)	16,362	2,887
Deferred tax asset not recognized	(8,814)	-
Net deferred income tax asset	7,548	2,887

Relationships between tax expenses and accounting profit for the years ended 31 December 2011 and 2010 are explained as follows:

	Year ended 31 December 2011	Year ended 31 December 2010
Profit before income tax	38,679	20,808
Tax at the statutory tax rate (2011 – 24.5%; 2010 - 4.5%)	9,476	936
Change in unrecognized deferred tax asset	8,814	-
Tax effect of permanent differences:		
Income tax exempt for first half of the year	(5,677)	-
Other tax exempt income	(2,654)	(110)
Other non-deductible expenses	(7,041)	677
Income tax benefit	2,918	1,503
Current income tax expense	7,579	1,788
Deferred tax benefit related to the origination and reversal of temporary differences	(4,661)	(285)
Income tax benefit	2,918	1,503
Deferred income tax asset	**2011**	**2010**
Beginning of the year	2,887	2,602
Increase in deferred tax asset for the year charged to profit/(loss)	4,661	285
End of the year	7,548	2,887

10.CASH AND BALANCES WITH THE CENTRAL BANK OF TURKMENISTAN

	31 December 2011	31 December 2010
Cash	11,497	16,770
Balances with the CBT	240,376	122,826
Total cash and balances with the CBT	251,873	139,596

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

	31 December 2011	31 December 2010
Cash and balances with CBT	251,873	139,596
Due from banks with original maturity of up to 90 days	3,096,154	1,472,029
	3,348,027	1,611,625
Less: Minimum reserve deposits with the CBT	(11,744)	(19,692)
Total cash and cash equivalents	3,336,283	1,591,933

11. DUE FROM BANKS

	31 December 2011	31 December 2010
Time deposits with other banks	1,907,713	1,198,721
Correspondent accounts with other banks	1,219,126	436,235
Total due from banks	3,126,839	1,634,956

As at 31 December 2011 and 2010, accrued interest included in due from banks amounte to TMM nil thousand and TMM 8 thousand, respectively.

As at 31 December 2011 and 2010 the Bank had amounts due from 10 and 9 banks which individually exceeded 10% of the Bank's equity, respectively. Those banks has the highest ratings of AA and A.

12. LOANS TO CUSTOMERS

	31 December 2011	31 December 2010
Loans to customers	2,698,473	1,441,434
Less: Allowance for impairment losses	(17,776)	(17,365)
Total loans to customers	2,680,697	1,424,069

Movements in allowances for impairment losses for the years ended 31 December 2011 and 2010 are disclosed in Note 5.

Accrued interest included in loans to customers as at 31 December 2011 and 2010 amounts to TMM 17,986 thousand and TMM 12,605 thousand, respectively.

The table below summarizes the amount of loans secured by type of collateral, rather than the fail valueof the collateral itself:

	31 December 2011	31 December 2010
Loans collateralized by government guarantees	2,436,778	1,261,128
Loans collateralized by corporate guarantees	230,016	177,923
Loans collateralized by pledge of real estate	828	2,090
Loans collateralized by money on current accounts	84	214
Unsecured loans	938	7
Other loans	29,829	72
	2,698,473	1,441,434
Less: Allowance for impairment losses	(17,776)	(17,365)
Total loans to customers	2,680,697	1,424,069

	31 December 2011	31 December 2010
Analysis by sector:		
Chemicals	1,149,159	406
Oil and gas	646,294	721,873
Transport	470,294	332,416
Communication	281,679	188,203
Textiles	91,054	114,573
Tourism and sport	16,427	69,590
Individuals	3,150	2,176
Other	40,416	12,197
	2,698,473	1,441,434
Less: Allowance for impairment losses	(17,776)	(17,365)
Total loans to customers	2,680,697	1,424,069

As at 31 December 2011 and 2010, the Bank granted loans to 8 customers, totaling TMM 2,567, 979 thousand and TMM 1,353,178 thousand, respectively, which individually exceeded 10% of the Bank's equity. These loans were granted in accordance with decisions of the Government of Turkmenistan.

As at 31 December 2011 and 2010, all loans are granted to companies operating in Turkmenistan, which represents a geographical concentration in one region.

As at 31 December 2011 and 2010, the maximum credit risk exposure on loans to customers amounted to TMM 2,680,697 thousand and TMM 1,424,069 thousand, respectively.

As at 31 December 2011 and 2010, loans to customers included no loans whose terms have been renegotiated.

13. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate	Furniture and equipment	Vehicles	Intangible Assets	Total
At historical cost					
31 December 2009	29,995	11,100	654	2,642	44,391
Additions	-	962	-	108	1,070
Disposals	-	(7)	-	-	(7)
Transfer	(1,166)	1,247	(81)	-	-
31 December 2010	28,829	13,302	573	2,750	45,454
Additions	-	1,061	793	73	1,927
Disposals	-	(2)	(75)	-	(77)
Transfer	-	-	-	-	-
31 December 2011	28,829	14,361	1,291	2,823	47,304
Accumulated depreciation					
31 December 2009	(1,607)	(6,518)	(430)	(1,935)	(10,490)
Charge for the year	(311)	(1,218)	(34)	(248)	(1,811)
Eliminated on disposals	-	7	-	-	7
Transfer	102	(165)	63	-	-
31 December 2010	(1,816)	(7,894)	(401)	(2,183)	(12,294)
Charge for the year	(311)	(1,060)	(251)	(122)	(1,744)
Eliminated on disposals	-	1	74	-	75
Transfer	-	-	-	-	-
31 December 2011	(2,127)	(8,953)	(578)	(2,305)	(13,963)
Net book value					
As at 31 December 2011	26,702	5,408	713	518	33,341
As at 31 December 2010	27,013	5,408	172	567	33,160

Intangible assets mainly consist of software.

14. OTHER ASSETS

	31 December 2011	31 December 2010
Other financial assets:		
Accrued commission	-	2,092
Less: Provision for impairment losses on other operations	-	(1,968)
Total other financial assets	-	124
Other non-financial assets:		
Premises built under a state program	63,898	73,367
Prepaid expenses	46,448	45,957
Inventory	1,621	348
Other	2,436	2,582
Less: Provision for impairment losses on other operations	(107)	(107)
Total other non-financial assets	114,296	122,147
Total other assets	114,296	122,271

As at 31 December 2011 and 2010, premises built under the state program included a trade centre and residential buildings. As a state organisation the Bank is obliged to undertake construction of social objects under the general plan of architectural development of Ashkhabad, approved by the President of Turkmenistan.

15. DUE TO BANKS

	31 December 2011	31 December 2010
Correspondent accounts of other banks	30,309	60,872
Total due to banks	30,309	60,872

16. CUSTOMER ACCOUNTS

	31 December 2011	31 December 2010
Demand deposits	3,402,837	1,572,115
Term deposits	50,067	238,055
Total customer accounts	3,452,904	1,810,170

As at 31 December 2011 and 2010, customer accounts amounting to TMM 12,256 thousand and TMM 33,961 thousand, respectively, were held as security against letters of credit issued and other transactions related to contingent obligations.

As at 31 December 2011 and 2010, customer accounts amounting to TMM 16,206 thousand and TMM 561 thousand, respectively, were held as security against guarantees issued.

	31 December 2011	31 December 2010
Oil and gas	3,032,714	1,375,969
Transport and communication	68,269	204,814
Construction	65,949	56,751
Individuals	64,960	43,265
Finance	54,246	51,851
Retail business	39,659	19,196
Insurance	27,813	14,083
Manufacturing	27,210	11,578
Government	20,192	5,338
Hotel business	9,882	3,662
Health care	5,943	3,121
Tourism and sport	5,867	2,776
Art	485	501
Agriculture	203	275
Energy	3	187
Other	29,509	16,803
Total customer accounts	**3,452,904**	**1,810,170**

As at 31 December 2011 and 2010, accrued interest expense included in customer accounts amounted to TMM 19 thousand and TMM 191 thousand, respectively.

As at 31 December 2011 and 2010, customer accounts totaling TMM 2,825,518 thousand and TMM 1,118,115 thousand (82 % and 62 % of total customer accounts), respectively, were due to 1 and 2 companies, respectively, which represents a significant concentration.

17.OTHER BORROWED FUNDS

	Origination-Maturity date	Interest rate	31 December 2011	31 December 2010
Japan Bank for International Cooperation	30/09/1998 15/05/2022	2.1%-3.9%	1,147,413	166,906
Exim Bank, China	16/08/2001 21/03/2030	2.5%-4%	862,389	554,854
Deutsche Bank AG	19/08/1996 15/09/2015	2.3%-2.8%	192,136	274,179
Japan International Cooperation Agency	24/12/1997 20/12/2027	2.1%-2.8%	128,561	129,959
Other			49,412	51,611
Total borrowed funds			**2,379,911**	**1,177,509**

As at 31 December 2011 and 2010, 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.

18.OTHER LIABILITIES

Other financial liabilities:	31 December 2011	31 December 2010
Other financial liabilities	8,645	1,817
Total other financial liabilities	8,645	1,817
Other non-financial liabilities:		
Prepaid income	45,121	44,631
Total other non-financial liabilities	45,121	44,631
Total other liabilities	53,766	46,448

19.SHARE CAPITAL

As at 31 December 2011 and 2010, 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 2011 and 2010, share capital amounts to TMM 119,978 thousand and TMM 98,980 thousand, respectively, and the distribution of profit to share capital is TMM 20,998 thousand and TMM 14,745 thousand, respectively.

In accordance with IAS 29 “Financial Reporting in Hyperinflationary Economies” (“IAS 29”) the economy of the Turkmenistan was considered to be hyperinflationary during 2008 and prior years. Starting from 1 January 2009, the Turkmenistan economy is no longer considered to be hyperinflationary and the values of non-monetary assets, liabilities and equity as stated in measuring units as at 31 December 2008 have formed the basis for the amounts carried forward to 1 January 2009.

20.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 2011 and 2010, contingent liabilities comprise:

Contingent liabilities and credit commitments	31 December 2011	31 December 2010
Letters of credit	557,372	1,663,455
Unused credit lines	641,732	1,996,303
Guarantees issued	532	560
Total contingent liabilities and credit commitments	**1,199,636**	**3,660,318**

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 2011 and 2010, the Bank had no significant capital commitments.

As at 31 December 2011 and 2010, 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.

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. Lately, Turkmenistan has experienced positive political and economic changes affecting the business environment in Turkmenistan. As a result, 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.

21.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 2011		31 December 2010	
	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	240,376	251,873	-	139,596
Loans to customers	2,661,341	2,698,473	1,425,336	1,441,434
- other related party	2,661,206		1,425,281	
- key management personnel	135		55	
Allowance for impairment losses	(17,776)	(17,776)	(17,365)	(17,365)
- other related party	(17,776)		(17,365)	
Liabilities				
Customer accounts	3,079,288	3,452,904	1,254,525	1,810,170
- other related party	3,079,080		1,254,398	
- key management personnel	208		127	
Due to Banks	11,509	30,309	14,360	60,872
- other related party	11,509		14,360	
Off balance sheet items				
Undrawn loan commitment	625,684	1,199,636	421,495	3,660,318

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

	Year ended 31 December 2011		Year ended 31 December 2010	
	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	363	11,782	256	8,968

Included in the statement of comprehensive income for the years ended 31 December 2011 and 2010 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	62,034	74,819	58,819	62,437
- other related party	62,029		58,815	
- key management personnel	5		4	
Interest expense	27	55,140	19	37,924
- key management personnel	27		19	
Fee and commission income	5,966	25,788	1,556	20,013
\ - other related party	5,966		1,555	
- key management personnel	-		1	

22.FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in forced or liquidation sale. The estimates presented herein are not necessarily indicative of the amounts the Bank could realize in a market exchange from the sale of its full holdings of a particular instrument.

The fair value of financial assets and liabilities compared approximates the carrying amount in the balance sheet of the Bank due to the short-term nature of the financial assets and liabilities with the exception of loans to customers.

As at 31 December 2011 and 2010, the fair value of loans to customers with a carrying value of TMM 2,680,697 thousand and TMM 1,424,069 thousand, respectively, customer accounts with carrying value of TMM 3,452,904 thousand and TMM 1,810,170 thousand, respectively, other borrowed funds with carrying value of TMM 2,379,911 thousand and TMM 1,177,509 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 active secondary market. The Bank does not carry any investments at fair value and as such does not disclose an IFRS 7 Fair Value Hierarchy.

23.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 2011 and 2010, the Bank was in compliance with all the requirements, set by the Central bank of Turkmenistan.

24.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 credit risk 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 2011:	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Cash and balances with the CBT	251,873	-	251,873	-	251,873
Due from banks	3,126,839	-	3,126,839	-	3,126,839
Loans to customers	2,680,697	-	2,680,697	2,679,759	938
Investments available-for-sale	2,051	-	2,051	-	2,051

As at 31 December 2010:

	Maximum exposure	Offset	Net exposure after offset	Collateral Pledged	Net exposure after offset and collateral
Cash and balances with the CBT	139,596	-	139,596	-	139,596
Due from banks	1,634,956	-	1,634,956	-	1,634,956
Loans to customers	1,424,069	-	1,424,069	1,424,062	7
Investments available-for-sale	2,054	-	2,054	-	2,054
Other financial assets	124	-	124	-	124

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.

	AA-	A	BBB	<BBB	Not Rated	Total at 31 December 2011
Cash and balances with the CBT	-	-	-	-	251,873	251,873
Due from banks	869,250	1,493,922	749,429	32	14,206	3,126,839
Loans to customers	-	-	-	-	2,680,697	2,680,697
Investments available-for-sale	-	-	-	-	2,051	2,051

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 2011:

Cash and balances with the CBT	251,873	-	251,873	-	251,873
Due from banks	3,126,839	-	3,126,839	-	3,126,839
Loans to customers	2,680,697	-	2,680,697	2,679,759	938
Investments available-for-sale	2,051	-	2,051	-	2,051

As at 31 December 2010:

Cash and balances with the CBT	139,596	-	139,596	-	139,596
Due from banks	1,634,956	-	1,634,956	-	1,634,956
Loans to customers	1,424,069	-	1,424,069	1,424,062	7
Investments available-for-sale	2,054	-	2,054	-	2,054
Other financial assets	124	-	124	-	124

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.

	AA-	A	BBB	<BBB	Not Rated	Total at 31 December 2011
Cash and balances with the CBT	-	-	-	-	139,596	139,596
Due from banks	191,909	1,180,265	-	-	262,782	1,634,956
Loans to customers	-	-	-	-	1,424,069	1,424,069
Investments available-for-sale	-	-	-	-	2,054	2,054
Other financial assets	-	-	-	-	124	124

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, such as Credit Bureau reports. 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 Banks of 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:

	Neither past due nor impaired	Financial assets past due but not impaired				Financial assets that have been impaired	Total as at 31 December 2011
		0-3 months	3-6 months	6 months to 1 year	Greater than one year		
Cash and balances with the CBT	251,873	-	-	-	-	-	251,873
Due from banks	3,126,839	-	-	-	-	-	3,126,839
Loans to customers	2,603,926	-	-	-	-	76,771	2,680,697
Investments available-for-sale	2,051	-	-	-	-	-	2,051

	Neither past due nor impaired	Financial assets past due but not impaired				Financial assets that have been impaired	Total as at 31 December 2010
		0-3 months	3-6 months	6 months to 1 year	Greater than one year		
Cash and balances with the CBT	139,596	-	-	-	-	-	139,596
Due from banks	1,634,956	-	-	-	-	-	1,634,956
Loans to customers	1,311,266	-	-	-	-	112,803	1,424,069
Investments available-for-sale	2,054	-	-	-	-	-	2,054
Other financial assets	124	-	-	-	-	-	124

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 2011 Total
FINANCIAL ASSETS				
Cash and balances with the CBT	251,873	-	-	251,873
Due from banks	651	14,159	3,112,029	3,126,839
Loans to customers	2,680,697	-	-	2,680,697
Investments available-for-sale	2,051	-	-	2,051
TOTAL FINANCIAL ASSETS	2,935,272	14,159	3,112,029	6,061,460
FINANCIAL LIABILITIES				
Due to banks	15,604	14,705	-	30,309
Customer accounts	3,452,904	-	-	3,452,904
Other borrowed funds	-	911,801	1,468,110	2,379,911
Other financial liabilities	8,645	-	-	8,645
TOTAL FINANCIAL LIABILITIES	3,477,153	926,506	1,468,110	5,871,769
NET POSITION	(541,881)	(912,347)	1,643,919	

	Turkmenistan	Other non -OECD countries	OECD countries	31 December 2010 Total
FINANCIAL ASSETS				
Cash and balances with the CBT	139,596	-	-	139,596
Due from banks	133,558	1,798	1,499,600	1,634,956
Loans to customers	1,424,069	-	-	1,424,069
Investments available-for-sale	2,054	-	-	2,054
Other financial assets	124	-	-	124
TOTAL FINANCIAL ASSETS	1,699,401	1,798	1,499,600	3,200,799
FINANCIAL LIABILITIES				
Due to banks	60,872	-	-	60,872
Customer accounts	1,810,170	-	-	1,810,170
Other borrowed funds	-	606,466	571,043	1,177,509
Other financial liabilities	1,817	-	-	1,817
TOTAL FINANCIAL LIABILITIES	1,872,859	606,466	571,043	3,050,368
NET POSITION	(173,458)	(604,668)	928,557	

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:

	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	Maturity undefined	31 December 2011 Total
FINANCIAL ASSETS								
Due from banks	0.36%	1,700,282	1,395,872	-	30,685	-	-	3,126,839
Loans to customers	4.22%	932	1,727	182,338	371,159	2,124,541	-	2,680,697
Total interest bearing financial assets		1,701,214	1,397,599	182,338	401,844	2,124,541	-	5,807,536
Cash and balances with the CBT		251,873	-	-	-	-	-	251,873
Investments available-for-sale		-	-	-	-	-	2,051	2,051
Total financial assets		1,953,087	1,397,599	182,338	401,844	2,124,541	2,051	6,061,460
FINANCIAL LIABILITIES								
Customer accounts	0.79%	3,404,653	1,470	17,988	28,793	-	-	3,452,904
Other borrowed funds	3.35%	1,619	51,228	177,258	897,387	1,252,419	-	2,379,911
Total interest bearing financial liabilities		3,406,272	52,698	195,246	926,180	1,252,419	-	5,832,815
Due tobanks		30,309	-	-	-	-	-	30,309
Other financial liabilities		7,136	466	1,041	3	-	-	8,645
Total financial liabilities		3,443,717	53,164	196,287	926,183	1,252,419	-	5,871,769
Liquidity gap		(1,490,630)	1,344,435	(13,949)	(524,339)	872,122		
Interest sensitivity gap		(1,705,058)	1,344,901	(12,908)	(524,336)	872,122		
Cumulative interest sensitivity gap		(1,705,058)	(360,157)	(373,065)	(897,401)	(25,279)		
Cumulative interest sensitivity gap as a percentage of total financial assets		(28.13%)	(5.94%)	(6.15%)	(14.81%)	(0.42%)		

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.

	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	Maturity undefined	31 December 2010 Total
FINANCIAL ASSETS								
Due from banks	0.75%	965,100	506,929	130,553	32,374	-	-	1,634,956
Loans to customers	3.5%	133	29,056	244,892	433,286	716,702	-	1,424,069
Total interest bearing financial assets		965,233	535,985	375,445	465,660	716,702	-	3,059,025
Cash and balances with the CBT		139,596	-	-	-	-	-	139,596
Investments available-for-sale		-	-	-	-	-	2,054	2,054
Other financial assets		124	-	-	-	-	-	124
Total financial assets		1,104,953	535,985	375,445	465,660	716,702	2,054	3,200,799
FINANCIAL LIABILITIES								
Customer accounts	0.9%	1,610,285	48,827	92,550	58,508	-	-	1,810,170
Other borrowed funds	3.0%	-	32,753	166,500	303,273	674,983	-	1,177,509
Total interest bearing financial liabilities		1,671,157	81,580	259,050	361,781	674,983	-	3,048,551
Due to banks		60,872	-	-	-	-	-	60,872
Other financial liabilities		1,812	-	2	3	-	-	1,817
Total financial liabilities		1,672,969	81,580	259,052	361,784	674,983	-	3,050,368
Liquidity gap		(568,016)	454,405	116,393	103,876	41,719		
Interest sensitivity gap		(645,052)	454,405	116,395	103,879	41,719		
Cumulative interest sensitivity gap		(645,052)	(190,647)	(74,252)	29,627	71,346		
Cumulative interest sensitivity gap as a percentage of total financial assets		(20.15%)	(5.96%)	(2.32%)	(0.93%)	(2.23%)		

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

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2011 Total
FINANCIAL LIABILITIES						
Due to banks	30,309	-	-	-	-	30,309
Customer accounts	3,404,686	1,533	18,266	29,703	-	3,454,188
Other borrowed funds	8,646	63,099	225,183	1,214,189	1,501,592	3,012,709
Other financial liabilities	7,136	466	1,041	3	-	8,645
Total financial liabilities	3,450,777	65,098	244,490	1,243,895	1,501,592	6,505,851

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	31 December 2010 Total
FINANCIAL LIABILITIES						
Due to banks	60,872	-	-	-	-	60,872
Customer accounts	1,802,656	20,877	1,609	-	-	1,825,142
Other borrowed funds	918	81,335	252,216	569,981	511,848	1,416,298
Other financial liabilities	1,812	-	2	3	-	1,817
Total financial liabilities	1,866,258	102,212	253,827	569,984	511,848	3,304,129

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:

	TMM	USD USD 1= TMM 2.85	EUR EUR 1= TMM 3.69	JPY JPY 1= TMM 0.04	CHY CHY 1= TMM 0.45	Other currency	31 December 2011 Total
Financial assets							
Cash and balances with the CBT	130,301	114,161	5,985	61	98	1,267	251,873
Due from banks	-	3,065,911	46,266	64	3	14,595	3,126,839
Loans to customers	89,082	95,244	192,136	1,277,752	908,529	117,954	2,680,697
Investments available-for-sale	2,025	-	-	-	-	26	2,051
Total financial assets	221,408	3,275,316	244,387	1,277,877	908,630	133,842	6,061,460
Financial liabilities							
Due to banks	713	15,703	411	-	-	13,482	30,309
Customer accounts	248,080	3,155,480	47,056	-	20	2,268	3,452,904
Other borrowed funds	-	-	192,136	1,275,974	907,619	4,182	2,379,911
Other financial liabilities	8,008	582	19	2	2	32	8,645
Total financial liabilities	256,801	3,171,765	239,622	1,275,976	907,641	19,964	5,871,769
OPEN BALANCE SHEET POSITION	(35,393)	103,551	4,765	1,901	989	113,878	

	TMM	USD USD 1= TMM 2.85	EUR EUR 1= TMM 3.77	JPY JPY 1= TMM 0.03	CHY CHY 1= TMM 0.43	Other currency	31 December 2010 Total
Financial assets							
Cash and balances with the CBT	90,026	38,822	9,943	57	45	703	139,596
Due from banks	133,558	1,366,133	133,217	72	-	1,976	1,634,956
Loans to customers	114,007	131,925	274,263	296,909	598,543	8,422	1,424,069
Investments available-for-sale	2,025	-	-	-	-	29	2,054
Other financial assets	124	-	-	-	-	-	124
Total financial assets	339,740	1,536,880	417,423	297,038	598,588	11,130	3,200,799
Financial liabilities							
Due to banks	713	37,642	22,399	-	-	118	60,872
Customer accounts	245,419	1,444,605	118,690	66	2	1,388	1,810,170
Other borrowed funds	-	-	274,179	296,865	598,034	8,431	1,177,509
Other financial liabilities	1,180	635	-	-	-	2	1,817
Total financial liabilities	247,312	1,482,882	415,268	296,931	598,036	9,939	3,050,368
OPEN BALANCE SHEET POSITION	92,428	53,998	2,155	107	552	1,191	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 5% increase and 5% decrease (2011 and 2010: 5% increase and decrease) in USD against TMM. 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 5% increase and 5% decrease (2011 and 2010: 5% 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 2011 and 2010:

	31 December 2011		31 December 2010	
	TMM/USD +5%	**TMM/USD -5%**	**TMM/USD +5%**	**TMM/USD -5%**
Impact on net profit before tax and equity	5, 178	(5, 178)	2,700	(2,700)

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.