

**STATE BANK FOR FOREIGN
ECONOMIC AFFAIRS OF
TURKMENISTAN**

Financial Statements
For the Year Ended 31 December 2012

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

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STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Management of State Bank for Foreign Economic Affairs of Turkmenistan ("the Bank") is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at 31 December 2012, 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 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 2012 were authorized for issue on 20 June 2013 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 2012, and the statement of comprehensive income, statement of changes in equity and cash flows statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 auditors' 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

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

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the section Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of State Bank for Foreign Economic Affairs of Turkmenistan as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte, LLP

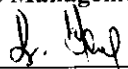
20 June 2013
Almaty, Kazakhstan

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012 (in Turkmen manat and in thousands)


	Notes	Year ended 31 December 2012	Year ended 31 December 2011
Interest income	5, 23	145,818	79,267
Interest expense	5, 23	(96,889)	(59,588)
NET INTEREST INCOME BEFORE RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		48,929	19,679
Recovery of provision for impairment losses on interest bearing assets	6	-	10,193
NET INTEREST INCOME		48,929	29,872
Net gain on foreign exchange operations	7	11,895	14,262
Fee and commission income	8, 23	22,424	21,340
Fee and commission expense	8	(3,523)	(5,571)
Recovery of provision for impairment losses on other operations	6	95	1,968
Other expense, net		(1,862)	(4,856)
NET NON-INTEREST INCOME		29,029	27,143
OPERATING INCOME		77,958	57,015
OPERATING EXPENSES	9	(17,400)	(18,336)
PROFIT BEFORE INCOME TAX		60,558	38,679
Income tax expense	10	(20,118)	(2,918)
NET PROFIT		40,440	35,761
OTHER COMPREHENSIVE INCOME			
Net gain resulting on revaluation of property		26,087	-
TOTAL COMPREHENSIVE INCOME		66,527	35,761

On behalf of the Management Board:



Jepbarov R.J.
Chairman of the Board

20 June 2013
Ashkhabad, Turkmenistan



Khangeldyev Z.
Chief Accountant

20 June 2013
Ashkhabad, Turkmenistan

The notes on pages 9-42 form an integral part of these financial statements.

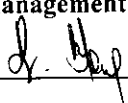
STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

(in Turkmen manat and in thousands)


	Notes	31 December 2012	31 December 2011
ASSETS:			
Cash and balances with the Central Bank of Turkmenistan	11, 23	195,005	251,873
Due from banks	12	5,950,745	3,126,839
Loans to customers	13, 23	2,940,443	2,635,576
Investments available-for-sale		2,293	2,051
Property, equipment and intangible assets	14	62,455	33,341
Premises built under a state program	15	62,547	63,898
Deferred tax assets	10	420	7,548
Other assets	16	12,256	3,950
TOTAL ASSETS		9,226,164	6,125,076
LIABILITIES AND EQUITY			
LIABILITIES:			
Due to banks	17, 23	105,250	30,309
Customer accounts	18, 23	6,179,260	3,452,904
Other borrowed funds	19	2,565,066	2,333,463
Other liabilities	20	10,306	8,645
Total liabilities		8,859,882	5,825,321
EQUITY:			
Share capital	21	143,653	119,978
Property revaluation reserve		26,087	-
Retained earnings		196,542	179,777
Total equity		366,282	299,755
TOTAL LIABILITIES AND EQUITY		9,226,164	6,125,076

On behalf of the Management Board:



Jepbarov R.J.
Chairman of the Board

20 June 2013
Ashkhabad, Turkmenistan



Khangeldyev Zh.
Chief Accountant

20 June 2013
Ashkhabad, Turkmenistan

The notes on pages 9-42 form an integral part of these financial statements.

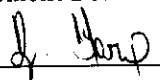
STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

(in Turkmen manat and in thousands)

	Share capital	Property revaluation reserve	Retained earnings	Total equity
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
Issue of ordinary share capital	23,675	-	(23,675)	-
Total comprehensive income	-	26,087	40,440	66,527
As at 31 December 2012	143,653	26,087	196,542	366,282

On behalf of the Management Board:


Jepbarov R.J.
Chairman of the Board

20 June 2013
Ashkhabad, Turkmenistan


Khangeldyev Zh.
Chief Accountant

20 June 2013
Ashkhabad, Turkmenistan

The notes on pages 9-42 form an integral part of these financial statements.

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012 (in Turkmen manat and in thousands)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		60,558	38,679
Adjustment for:			
Depreciation and amortization	9	1,977	1,744
Recovery of provision for impairment losses on interest bearing assets	6	-	(10,193)
Recovery of provision for impairment losses on other operations	6	(95)	(1,968)
Loss on disposal of property and equipment		71	2
Loss/(gain) on foreign exchange operations	7	396	(1,286)
Change in interest accruals, net		(1,286)	11,947
		<hr/>	<hr/>
Cash inflow from operating activity before changes in operating assets and liabilities		61,621	38,925
Changes in operating assets and liabilities			
(Increase)/decrease in operating assets:			
Minimum reserve deposits with the CBT		(4,703)	7,948
Due from banks		(193,505)	132,234
Loans to customers		(429,021)	(1,251,816)
Other assets		(6,526)	1,759
Increase/(decrease) in operating liabilities:			
Due to banks		74,941	(30,563)
Customer accounts		2,726,357	1,642,906
Other liabilities		1,661	7,318
		<hr/>	<hr/>
Cash inflow from operating activities before taxation		2,230,825	548,711
Income taxes paid		(14,989)	(7,579)
		<hr/>	<hr/>
Net cash inflow from operating activities		2,215,836	541,132
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, equipment and intangible assets	14	(5,224)	(1,927)
Payments for premises built under a state program	15	(26,133)	(39,184)
Proceeds on disposal of premises built under a state program	15	27,551	48,653
Payments for investments available-for-sale		(242)	-
		<hr/>	<hr/>
Net cash (outflow)/inflow from investing activities		(4,048)	7,542

STATE BANK FOR FOREIGN ECONOMIC ACITIVITY OF TURKMENISTAN

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012 (CONTINUED)

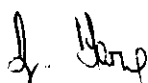
(in Turkmen manat and in thousands)

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of other borrowed funds		(183,882)	(858,464)
Receipt of other borrowed funds		540,924	2,054,123
Net cash inflow from financing activities		357,042	1,195,659
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,568,830	1,744,333
<i>Effect of changes in exchange rates on cash and cash equivalents</i>		-	17
CASH AND CASH EQUIVALENTS, beginning of year	11	3,336,283	1,591,933
CASH AND CASH EQUIVALENTS, end of year	11	5,905,113	3,336,283

Interest paid and received by the Bank during the year ended 31 December 2012 amounted to TMM 95,640 thousand and TMM 145,781 thousand, respectively.

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.

On behalf of the Management Board:



Jepbarov R.J.
Chairman of the Board

20 June 2013
Ashkhabad, Turkmenistan



Khangeldyev Zh.
Chief Accountant

20 June 2013
Ashkhabad, Turkmenistan

The notes on pages 9-41 form an integral part of these financial statements.

STATE BANK FOR FOREIGN ECONOMIC AFFAIRS OF TURKMENISTAN

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. ORGANIZATION

State Bank for Foreign Economic Affairs of Turkmenistan (“the Bank”) was established on 27 January 1992 in Turkmenistan as a state commercial bank by the Decree of the President of Turkmenistan. The Bank operates under general banking licence #97 and licence #32 for operations in foreign currencies. The principal activities of the Bank include operations on deposit taking and the maintenance of customer accounts, lending and issuing guarantees, cash and settlement operations and operations with securities and foreign exchange, and other commercial banking activities. The activities of the Bank are regulated by the Central Bank of Turkmenistan (“the CBT”).

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

As at 31 December 2012 and 2011, the Bank has one branch.

The Bank is wholly owned by the Government of Turkmenistan.

These financial statements were authorized for issue on 20 June 2013 by the Management Board of the Bank.

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 Bank (“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 it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

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

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

Cash and balances with the Central Bank of Turkmenistan

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

Due from banks

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

Loans to customers

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

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

Write off of loans and receivables

Loans and receivables are written off against the allowance for impairment losses when deemed uncollectible. Loans and advances are written off after management has exercised all possibilities available to collect amounts due to the Bank and after the Bank has sold all available collateral. Subsequent recoveries of amounts previously written off are reflected as an offset to the charge for impairment of financial assets in the statement of 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. Management conducted a revaluation of property, plant and equipment in 2012 in accordance with coefficients developed by the Ministry of Finance of Turkmenistan using Turkmenistan statistical data. Further details of property revaluation reserve are disclosed in Note 14. Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

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

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

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

Premises built under a state program

Premises built under a state program are properties held to earn rentals and/or to be transferred to the Government (including property under construction for such purposes). Premises built under state program are measured initially at cost, including transaction costs. Subsequent to initial recognition, premises built under state program is carried at historical cost net of accumulated depreciation and recognized impairment loss. Depreciation is calculated on a straight line basis over the useful life of the assets, which varies from 20 to 50 years. Management conducted a revaluation of property, plant and equipment in 2012 in accordance with coefficients developed by the Ministry of Finance of Turkmenistan using Turkmenistan statistical data. Further details of property revaluation reserve are disclosed in Note 15.

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

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

Taxation

In accordance with the Presidential Decree dated 1 November 1995, the Bank is exempted from income tax until its paid-in capital reaches USD 50 million or TMM 200 thousand. Starting from the third quarter of 2011 the Bank has reached its share capital with USD 50 million or TMM 200 thousand and is subject to income tax per local requirements. 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.

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:

	31 December 2012	31 December 2011
TMM/1 US Dollar	2.85	2.85
TMM/1 Euro	3.76	3.69
TMM/1 Japan Yen	0.03	0.04
TMM/1 Chinese Yuan	0.46	0.45

Offset of financial assets and liabilities

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

Areas of significant management judgment and sources of estimation uncertainty

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

Allowance for impairment of loans

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

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

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

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

The Bank has adopted the following new or revised standards and interpretations issued by IASB and the IFRIC which became effective for the Bank's annual financial statement for the year ended 31 December 2012:

- IFRS 7 "Financial Instruments: Disclosures" – amendments enhancing disclosures about transfers of financial assets effective from annual periods beginning on or after 1 January 2013. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred. An application of the amendments to IFRS 7 did not have an effect on the Bank's financial statements.
- IAS 12 "Income Taxes" – limited scope amendment (recovery of underlying assets); effective for annual periods beginning on or after 1 January 2012. The Bank has applied the amendments to IAS 12 in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 "Investment Property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes unless the presumption is rebutted. An application of the amendments to IAS 12 did not have an effect on the Bank's financial statements.

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

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 9 "Financial Instruments"³;
- IFRS 13 "Fair Value Measurement"¹;
- Amendments to IFRS 7 "Financial Instruments: Disclosures" – amendments enhancing disclosures about offsetting financial assets and financial liabilities¹;
- Amendments to IFRS 9 "Financial Instruments and IFRS 7 Financial Instruments: Disclosures" – "Mandatory Effective Date of IFRS 9 and Transition Disclosures"³;
- IAS 19 "Employee Benefits" — improvements to the accounting for post-employment benefits¹ (as revised in 2011);
- Amendments to IAS 32 "Financial Instruments: Presentation" – amendments which provide clarifications on the application of the offsetting rules and disclosure requirements⁴.

¹ Effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

⁴ Effective for annual periods beginning on or after 1 January 2014. The new offsetting disclosure requirements are effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments, 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.

Key requirements of IFRS 9:

- 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. In addition, under IFRS 9 Financial Instruments, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 Financial Instruments requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39 Financial Instruments: Recognition and Measurement, 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 anticipates that IFRS 9 Financial Instruments in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 Financial Instruments 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".

The Bank's management anticipates that the application of the new Standard may affect certain amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IAS 19 Employee Benefits

Introduce significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to the disclosures for all employee benefits. The amended standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) re-measurements in other comprehensive income.

The amendments to IAS 19 Employee Benefits require retrospective application. The Bank's management does not anticipate that the revision of IAS 19 Employee Benefits will have a significant effect on the Bank's financial statements as the Bank has no defined benefit plans.

Amendments to IAS 32 Financial Instruments: Presentation

Provide clarifications on the application of the offsetting rules, and focus on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

The respective amendments to the disclosure requirements in IFRS 7 "Financial Instruments: Disclosure" require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the Bank's financial position.

The Bank's management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regards to offsetting financial assets and financial liabilities in the future.

4. RECLASSIFICATION

Certain reclassifications have been made to the financial statements as at 31 December 2011 and for the year then ended to conform to the presentation as at 31 December 2012 and for the year then ended as current year presentation provides a better view of the financial position of the Bank.

For the purpose of better presentation the Management has decided to present Premises built under a state program into a separate financial statement line.

For the purpose of better presentation the Management has decided to reclassify prepaid commission on other borrowed funds from Other assets to Other borrowed funds. Commission expense from amortisation of this commission was accordingly reclassified to Interest expense.

For the purpose of better presentation the Management has decided to reclassify prepaid commission received on loans to customers from Other liabilities to Loans to customers. Commission income from amortisation of this commission was accordingly reclassified to Interest income.

	As previously reported 31 December 2011	Reclassification	As reclassified 31 December 2011
STATEMENT OF COMPREHENSIVE INCOME			
Interest income	74,819	4,448	79,267
Interest expense	(55,140)	(4,448)	(59,588)
Fee and commission income	25,788	(4,448)	21,340
Fee and commission expense	(10,019)	4,448	(5,571)
STATEMENT OF FINANCIAL POSITION			
ASSETS:			
Loans to customers	2,680,697	(45,121)	2,635,576
Premises built under a state program	-	63,898	63,898
Other assets	114,296	(110,346)	3,950
TOTAL ASSETS	6,216,645	(91,569)	6,125,076
LIABILITIES AND EQUITY			
LIABILITIES:			
Other borrowed funds	2,379,911	(46,448)	2,333,463
Other liabilities	53,766	(45,121)	8,645
Total liabilities	5,916,890	(91,569)	5,825,321
TOTAL LIABILITIES AND EQUITY	6,216,645	(91,569)	6,125,076

5. NET INTEREST INCOME

	Year ended 31 December 2012	Year ended 31 December 2011
Interest income comprises:		
Interest income on financial assets recorded at amortized cost:		
Interest income on unimpaired financial assets	145,818	78,228
Interest income on impaired financial assets	-	1,039
	<u>145,818</u>	<u>79,267</u>
Total interest income		
Interest income on financial assets recorded at amortized cost comprises:		
Interest income on loans to customers	130,710	67,988
Interest income on due from banks	14,994	11,279
Interest income on correspondent accounts	114	-
	<u>145,818</u>	<u>79,267</u>
Total interest income on financial assets recorded at amortized cost	<u>145,818</u>	<u>79,267</u>
Total interest income	<u><u>145,818</u></u>	<u><u>79,267</u></u>
Interest expense comprises:		
Interest expense on financial liabilities recorded at amortized cost	<u>(96,889)</u>	<u>(59,588)</u>
Total interest expense	<u>(96,889)</u>	<u>(59,588)</u>
Interest expense on financial liabilities recorded at amortized cost comprises:		
Interest expense on other borrowed funds	(93,843)	(55,778)
Interest expense on customer accounts	(3,044)	(3,733)
Interest expense on due to banks	(2)	(77)
	<u>(96,889)</u>	<u>(59,588)</u>
Total interest expense on financial liabilities recorded at amortized cost	<u>(96,889)</u>	<u>(59,588)</u>
Net interest income before recovery of provision for impairment losses on interest bearing assets	<u><u>48,929</u></u>	<u><u>19,679</u></u>

6. ALLOWANCE FOR IMPAIRMENT LOSSES

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

	Loans to customers	Other assets
As at 31 December 2010	17,365	2,075
Recovery of provisions	(10,193)	(1,968)
Recovery of assets previously written off	<u>10,604</u>	<u>-</u>
As at 31 December 2011	17,776	107
Recovery of provisions	-	(95)
Recovery of assets previously written off	<u>-</u>	<u>95</u>
As at 31 December 2012	<u><u>17,776</u></u>	<u><u>107</u></u>

7. NET GAIN ON FOREIGN EXCHANGE OPERATIONS

	Year ended 31 December 2012	Year ended 31 December 2011
Dealing, net	12,291	12,976
Translation differences, net	<u>(396)</u>	<u>1,286</u>
Total net gain on foreign exchange operations	<u>11,895</u>	<u>14,262</u>

8. FEE AND COMMISSION INCOME AND EXPENSE

	Year ended 31 December 2012	Year ended 31 December 2011
Fee and commission income:		
Settlements	10,478	10,844
Cash operations	9,319	8,452
Plastic cards operations	2,291	2,002
Encashment operations	189	5
Guarantees	76	3
Other	<u>71</u>	<u>34</u>
Total fee and commission income	<u>22,424</u>	<u>21,340</u>
Fee and commission expense:		
Plastic cards services	2,060	1,281
Settlements	1,042	4,277
Other	<u>421</u>	<u>13</u>
Total fee and commission expense	<u>3,523</u>	<u>5,571</u>

9. OPERATING EXPENSES

	Year ended 31 December 2012	Year ended 31 December 2011
Staff costs	10,102	11,782
Depreciation and amortization	1,977	1,744
Unified social tax	1,274	690
Communication expenses	1,086	860
Taxes	770	759
Professional services	525	266
Security expenses	438	381
Property and equipment maintenance	349	352
Payments to deposit insurance fund	226	194
Stationery	78	85
Conference expenses	-	80
Other	<u>575</u>	<u>1,143</u>
Total operating expenses	<u>17,400</u>	<u>18,336</u>

10. INCOME TAXES

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

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

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as at 31 December 2012 and 2011 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 2012 and 2011 comprise:

	31 December 2012	31 December 2011
Deductible temporary differences:		
Loans to customers	52,925	82,211
Other assets	2,204	10,273
Property, equipment and intangible assets	<u>-</u>	<u>5,555</u>
Total deductible temporary differences	<u>55,129</u>	<u>98,039</u>
Taxable temporary differences:		
Other borrowed funds	<u>(21,218)</u>	<u>(31,254)</u>
Total taxable temporary differences	<u>(21,218)</u>	<u>(31,254)</u>
Net deferred deductible temporary differences	<u>33,911</u>	<u>66,785</u>
Net deferred tax asset at the statutory tax rate (24.5%)	8,308	16,362
Deferred tax asset not recognized	<u>(7,888)</u>	<u>(8,814)</u>
Net deferred income tax asset	<u>420</u>	<u>7,548</u>

Relationships between tax expenses and accounting profit for the years ended 31 December 2012 and 2011 are explained as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	<u>60,558</u>	<u>38,679</u>
Tax at the statutory tax rate (24.5%)	14,837	9,476
Change in unrecognized deferred tax asset	(926)	8,814
Tax effect of permanent differences:		
Income tax exempt for first half of the year (Note 3)	-	(5,677)
Other tax exempt income	(56)	(9,695)
Other non-deductible expenses	<u>6,263</u>	<u>-</u>
Income tax expense	<u>20,118</u>	<u>2,918</u>
Current income tax expense	12,990	7,579
Deferred tax expense/(benefit) related to the origination and reversal of temporary differences	<u>7,128</u>	<u>(4,661)</u>
Income tax expense	<u>20,118</u>	<u>2,918</u>

Deferred income tax assets	2012	2011
Beginning of the year	7,548	2,887
Change in deferred tax asset recognised in profit or loss	<u>(7,128)</u>	<u>4,661</u>
End of the year	<u><u>420</u></u>	<u><u>7,548</u></u>

11. CASH AND BALANCES WITH THE CENTRAL BANK OF TURKMENISTAN

	31 December 2012	31 December 2011
Cash	14,147	11,497
Balances with the CBT	<u>180,858</u>	<u>240,376</u>
Total cash and balances with the CBT	<u><u>195,005</u></u>	<u><u>251,873</u></u>

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

	31 December 2012	31 December 2011
Cash and balances with CBT	195,005	251,873
Unrestricted due from banks with original maturity of up to 90 days	<u>5,726,555</u>	<u>3,096,154</u>
	5,921,560	3,348,027
Less: Minimum reserve deposits with the CBT	<u>(16,447)</u>	<u>(11,744)</u>
Total cash and cash equivalents	<u><u>5,905,113</u></u>	<u><u>3,336,283</u></u>

12. DUE FROM BANKS

	31 December 2012	31 December 2011
Time deposits with other banks	3,406,448	1,907,713
Correspondent accounts with other banks	<u>2,544,297</u>	<u>1,219,126</u>
Total due from banks	<u><u>5,950,745</u></u>	<u><u>3,126,839</u></u>

As at 31 December 2012 and 2011, the restricted balances in time deposits with other banks amounted to TMM 194,190 thousand and TMM 30,056 thousand, respectively.

As at 31 December 2012 and 2011, the Bank had amounts due from 7 and 10 banks which individually exceeded 10% of the Bank's equity, respectively. Those banks have high ratings.

13. LOANS TO CUSTOMERS

	31 December 2012	31 December 2011
Loans to customers	2,958,219	2,653,352
Less: Allowance for impairment losses (Note 6)	<u>(17,776)</u>	<u>(17,776)</u>
Total loans to customers	<u><u>2,940,443</u></u>	<u><u>2,635,576</u></u>

Movements in allowances for impairment losses for the years ended 31 December 2012 and 2011 are disclosed in Note 6.

Accrued interest included in loans to customers as at 31 December 2012 and 2011 amounts to TMM 18,023 thousand and TMM 17,986 thousand, respectively.

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

	31 December 2012	31 December 2011
Loans collateralized by government guarantees	2,590,060	2,391,657
Loans collateralized by corporate guarantees	357,159	230,016
Loans collateralized by pledge of real estate	10,924	828
Loans collateralized by money on current accounts	-	84
Unsecured loans	-	938
Other loans	76	29,829
	<u>2,958,219</u>	<u>2,653,352</u>
Less: Allowance for impairment losses (Note 6)	<u>(17,776)</u>	<u>(17,776)</u>
Total loans to customers	<u><u>2,940,443</u></u>	<u><u>2,635,576</u></u>
	31 December 2012	31 December 2011
Analysis by sector:		
Chemicals	1,319,162	1,104,038
Oil and gas	628,051	646,294
Transport	542,699	470,294
Communication	336,891	281,679
Textiles	62,053	91,054
Healthcare	12,526	-
Individuals	5,438	3,150
Tourism and sport	-	16,427
Other	51,399	40,416
	<u>2,958,219</u>	<u>2,653,352</u>
Less: Allowance for impairment losses (Note 6)	<u>(17,776)</u>	<u>(17,776)</u>
Total loans to customers	<u><u>2,940,443</u></u>	<u><u>2,635,576</u></u>

As at 31 December 2012 and 2011, all loans are granted to companies operating in Turkmenistan, which represents a significant geographical concentration in one region.

As at 31 December 2012 and 2011, loans to customers included no loans whose terms have been renegotiated.

14. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and other real estate	Furniture and equipment	Vehicles	Intangible assets	Intangible assets under development	Total
At initial/revalued cost						
31 December 2010	28,829	13,302	573	2,750	-	45,454
Additions	-	1,061	793	73	-	1,927
Disposals	-	(2)	(75)	-	-	(77)
31 December 2011	28,829	14,361	1,291	2,823	-	47,304
Additions	210	700	198	576	3,540	5,224
Disposals	(121)	(231)	(10)	-	-	(362)
Transferred to premises built under a state program	(66)	-	-	-	-	(66)
Revaluation	26,481	12,193	373	-	-	39,047
31 December 2012	55,333	27,023	1,852	3,399	3,540	91,147
Accumulated depreciation						
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
31 December 2011	(2,127)	(8,953)	(578)	(2,305)	-	(13,963)
Charge for the year	(573)	(1,179)	(67)	(158)	-	(1,977)
Eliminated on disposals	121	160	10	-	-	291
Transferred to premises built under a state program	25	-	-	-	-	25
Revaluation	(4,587)	(8,119)	(362)	-	-	(13,068)
31 December 2012	(7,141)	(18,091)	(997)	(2,463)	-	(28,692)
Net book value						
As at 31 December 2012	48,192	8,932	855	936	3,540	62,455
As at 31 December 2011	26,702	5,408	713	518	-	33,341

Intangible assets and intangible assets under construction mainly consist of software.

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

15. PREMISES BUILT UNDER A STATE PROGRAM

Premises built under a state program comprise:

	2012	2011
Cost		
As at 1 January	63,898	73,367
Additions	26,133	39,184
Disposals	(27,551)	(48,653)
Transferred from property and equipment	66	-
Revaluation	176	-
As at 31 December	<u>62,722</u>	<u>63,898</u>
Accumulated depreciation		
As at 1 January	-	-
Depreciation charge through expense	(41)	-
Depreciation compensated by leaseholder	(41)	-
Transferred from property and equipment	(25)	-
Revaluation	(68)	-
As at 31 December	<u>(175)</u>	<u>-</u>
Net book value	<u>62,547</u>	<u>63,898</u>

As at 31 December 2012 and 2011, premises built under a state program included a trade centre and residential buildings. As a state organisation the Bank undertakes construction of social objects under the general plan of architectural development of Ashkhabad, approved by the President of Turkmenistan. Premises built under state program are properties held to earn rentals and/or to be transferred to the Government (including property under construction for such purposes).

As at 31 December 2012 and 2011, fair value of premises built under a state program approximates their carrying amount, as it is mostly represented by incomplete construction carried out at cost of construction. As at 31 December 2012 and 2011, there were no impairment indicators identified.

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

16. OTHER ASSETS

	31 December 2012	31 December 2011
Other financial assets:		
Accrued commission	<u>4,218</u>	<u>-</u>
Total other financial assets	<u>4,218</u>	<u>-</u>
Other non-financial assets:		
Advances paid and taxes prepaid	4,442	718
Inventory	2,886	1,621
Other	817	1,718
Less: Provision for impairment losses on other operations (Note 6)	<u>(107)</u>	<u>(107)</u>
Total other non-financial assets	<u>8,038</u>	<u>3,950</u>
Total other assets	<u>12,256</u>	<u>3,950</u>

17. DUE TO BANKS

	31 December 2012	31 December 2011
Correspondent accounts of other banks	104,442	30,309
Term deposits of banks and other financial institutions	808	-
Total due to banks	<u>105,250</u>	<u>30,309</u>

18. CUSTOMER ACCOUNTS

	31 December 2012	31 December 2011
Demand deposits	5,800,384	3,402,837
Term deposits	378,876	50,067
Total customer accounts	<u>6,179,260</u>	<u>3,452,904</u>

As at 31 December 2012 and 2011, customer accounts amounting to TMM 293,968 thousand and TMM 12,256 thousand, respectively, were held as security against letters of credit issued and other transactions related to contingent obligations.

As at 31 December 2012 and 2011, customer accounts amounting to TMM nil thousand and TMM 16,206 thousand, respectively, were held as security against guarantees issued.

	31 December 2012	31 December 2011
Oil and gas	5,709,894	3,032,714
Transport and communication	196,290	68,269
Insurance	64,545	27,813
Individuals	50,070	64,960
Construction	44,211	65,949
Retail business	40,009	39,659
Health care	13,439	5,943
Hotel business	11,829	9,882
Finance	5,304	54,246
Manufacturing	4,873	27,210
Government	3,850	20,192
Art	226	485
Agriculture	92	203
Tourism and sport	74	5,867
Energy	-	3
Other	34,554	29,509
Total customer accounts	<u>6,179,260</u>	<u>3,452,904</u>

As at 31 December 2012 and 2011, accrued interest expense included in customer accounts amounted to TMM 20 thousand and TMM 19 thousand, respectively.

As at 31 December 2012 and 2011, customer accounts totaling TMM 5,248,365 thousand and TMM 2,825,518 thousand (89% and 82% of total customer accounts), respectively, were due to 1 customer, which represents a significant concentration. This customer account is cumulative in its nature.

19. OTHER BORROWED FUNDS

	Origination- maturity date	Interest rate	31 December 2012	31 December 2011
Japan Bank for International Cooperation	19/03/2010- 15/05/2022	3.91%	1,319,161	1,100,965
Exim Bank, China	17/12/2001- 21/03/2030	2.50%-3.00%	943,210	862,389
Deutsche Bank AG	01/11/2002- 15/09/2015	EURIBOR -1.20%	146,499	192,136
Japan International Cooperation Agency	24/12/1997- 20/12/2027	2.30%-2.70%	108,344	128,561
Other			<u>47,852</u>	<u>49,412</u>
Total other borrowed funds			<u><u>2,565,066</u></u>	<u><u>2,333,463</u></u>

As at 31 December 2012 and 2011, the Bank did not have to comply with any financial covenants on other borrowed funds in terms of loan agreements with the above mentioned financial institutions.

20. OTHER LIABILITIES

	31 December 2012	31 December 2011
Other financial liabilities:		
Other financial liabilities	<u>3,486</u>	<u>8,645</u>
Total other financial liabilities	<u>3,486</u>	<u>8,645</u>
Other non-financial liabilities:		
Deferred income	<u>6,820</u>	<u>-</u>
Total other non-financial liabilities	<u>6,820</u>	<u>-</u>
Total other liabilities	<u><u>10,306</u></u>	<u><u>8,645</u></u>

21. SHARE CAPITAL

As at 31 December 2012 and 2011, 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 2012 and 2011, share capital amounts to TMM 143,653 thousand and TMM 119,978 thousand, respectively, and the distribution of profit to share capital is TMM 23,675 thousand and TMM 20,998 thousand, respectively.

22. COMMITMENTS AND CONTINGENCIES

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

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

As at 31 December 2012 and 2011, contingent liabilities comprise:

	31 December 2012	31 December 2011
Contingent liabilities and credit commitments		
Unused credit lines	295,906	641,732
Letters of credit	356,708	557,372
Guarantees issued	-	532
	<hr/>	<hr/>
Total contingent liabilities and credit commitments	<u>652,614</u>	<u>1,199,636</u>

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 2012 and 2011, the Bank had no significant capital commitments.

As at 31 December 2012 and 2011, the Bank had no operating lease commitments.

Legal proceedings

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

Taxation

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

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

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

Operating environment

The Bank's principal business activities are within Turkmenistan. 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.

23. TRANSACTIONS WITH RELATED PARTIES

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

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

	31 December 2012		31 December 2011	
	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	180,858	195,005	240,376	251,873
Loans to customers before allowance for impairment losses	2,985,096	2,958,219	2,616,220	2,653,352
- <i>other related party</i>	2,984,993		2,616,085	
- <i>key management personnel</i>	103		135	
Allowance for impairment losses	(17,776)	(17,776)	(17,776)	(17,776)
- <i>other related party</i>	(17,776)		(17,776)	
Liabilities				
Due to banks	27,827	105,250	11,509	30,309
- <i>other related party</i>	27,827		11,509	
Customer accounts	5,151,097	6,179,260	3,079,288	3,452,904
- <i>other related party</i>	5,150,506		3,079,080	
- <i>key management personnel</i>	591		208	
Contingent liabilities and credit commitments	244,206	652,614	625,684	1,199,636
- <i>other related party</i>	244,206		625,684	

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

	Year ended 31 December 2012		Year ended 31 December 2011	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Key management personnel compensation:				
- <i>short-term employee benefits</i>	440	10,102	363	11,782

Included in the statement of comprehensive income for the years ended 31 December 2012 and 2011 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2012		Year ended 31 December 2011	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income	123,850	145,818	66,482	79,267
- other related party	123,841		66,477	
- key management personnel	9		5	
Interest expense	(33)	(96,889)	(27)	(59,588)
- key management personnel	(33)		(27)	
Fee and commission income	8,057	22,424	1,518	21,340
- other related party	8,057		1,518	

24. 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 statement of financial position 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 2012 and 2011, the fair value of loans to customers with a carrying value of TMM 2,940,443 thousand and TMM 2,635,576 thousand, respectively, customer accounts with carrying value of TMM 6,179,260 thousand and TMM 3,452,904 thousand, respectively, and other borrowed funds with carrying value of TMM 2,565,066 thousand and TMM 2,333,463 thousand, respectively, cannot be reliably measured. Fair value information of these financial instruments has not been disclosed, as the market is not active in Turkmenistan and it is not practicable to estimate their fair value.

Investments available-for-sale are recorded at cost due to the absence of an active secondary market. The Bank does not carry any investments at fair value and as such does not disclose financial instruments by Levels of hierarchy of fair value in accordance with IFRS 7.

25. REGULATORY MATTERS

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

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

As at 31 December 2012 and 2011, the Bank was in compliance with all the requirements, set by the Central bank of Turkmenistan.

26. RISK MANAGEMENT POLICIES

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

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

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

Credit risk

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

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

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

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

Maximum exposure

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

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

As at 31 December 2012:

	Maximum exposure	Offset	Net exposure after offset	Collateral pledged	Net exposure after offset and collateral
Cash and balances with the CBT	195,005	-	195,005	-	195,005
Due from banks	5,950,745	-	5,950,745	-	5,950,745
Loans to customers	2,940,443	-	2,940,443	2,940,443	-
Investments available-for-sale	2,293	-	2,293	-	2,293
Other financial assets	4,218	-	4,218	-	4,218

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	2,635,576	-	2,635,576	2,634,638	938
Investments available-for-sale	2,051	-	2,051	-	2,051

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 as at 31 December 2012
Cash and balances with the CBT	-	-	-	-	195,005	195,005
Due from banks	684,720	1,134,448	4,100,819	88	30,670	5,950,745
Loans to customers	-	-	-	-	2,940,443	2,940,443
Investments available-for-sale	-	-	-	-	2,293	2,293
Other financial assets	-	-	-	-	4,218	4,218
	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	-	-	-	-	2,635,576	2,635,576
Investments available-for-sale	-	-	-	-	2,051	2,051

Rating model

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

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

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

Scoring models

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

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

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

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

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

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

	Financial assets past due but not impaired					Financial assets that have been impaired	Total as at 31 December 2012
	Neither past due nor impaired	0-3 months	3-6 months	6 months to 1 year	Greater than one year		
Cash and balances with the CBT	195,005	-	-	-	-	-	195,005
Due from banks	5,950,745	-	-	-	-	-	5,950,745
Loans to customers	2,882,349	-	-	-	-	58,094	2,940,443
Investments available-for-sale	2,293	-	-	-	-	-	2,293
Other financial assets	4,218	-	-	-	-	-	4,218

	Financial assets past due but not impaired					Financial assets that have been impaired	Total as at 31 December 2011
	Neither past due nor impaired	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	2,558,805	-	-	-	-	76,771	2,635,576
Investments available-for-sale	2,051	-	-	-	-	-	2,051

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 2012 Total
FINANCIAL ASSETS				
Cash and balances with the CBT	195,005	-	-	195,005
Due from banks	30,652	1,325	5,918,768	5,950,745
Loans to customers	2,940,443	-	-	2,940,443
Investments available-for-sale	2,293	-	-	2,293
Other financial assets	4,158	-	60	4,218
TOTAL FINANCIAL ASSETS	3,172,551	1,325	5,918,828	9,092,704
FINANCIAL LIABILITIES				
Due to banks	102,083	3,167	-	105,250
Customer accounts	6,179,260	-	-	6,179,260
Other borrowed funds	-	991,043	1,574,023	2,565,066
Other financial liabilities	3,486	-	-	3,486
TOTAL FINANCIAL LIABILITIES	6,284,829	994,210	1,574,023	8,853,062
NET POSITION	(3,112,278)	(992,885)	4,344,805	
	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	2,635,576	-	-	2,635,576
Investments available-for-sale	2,051	-	-	2,051
TOTAL FINANCIAL ASSETS	2,890,151	14,159	3,112,029	6,016,339
FINANCIAL LIABILITIES				
Due to banks	15,604	14,705	-	30,309
Customer accounts	3,452,904	-	-	3,452,904
Other borrowed funds	-	911,801	1,421,662	2,333,463
Other financial liabilities	8,645	-	-	8,645
TOTAL FINANCIAL LIABILITIES	3,477,153	926,506	1,421,662	5,825,321
NET POSITION	(587,002)	(912,347)	1,690,367	

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 2012 Total
FINANCIAL ASSETS								
Due from banks	0.12%	3,641,547	2,208,750	30,000	-	70,448	-	5,950,745
Loans to customers	4.40%	35	40,674	164,614	348,494	2,386,626	-	2,940,443
Total interest bearing financial assets		3,641,582	2,249,424	194,614	348,494	2,457,074	-	8,891,188
Cash and balances with the CBT		195,005	-	-	-	-	-	195,005
Investments available-for-sale		-	-	-	-	-	2,293	2,293
Other financial assets		-	4,218	-	-	-	-	4,218
Total financial assets		<u>3,836,587</u>	<u>2,253,642</u>	<u>194,614</u>	<u>348,494</u>	<u>2,457,074</u>	<u>2,293</u>	<u>9,092,704</u>
FINANCIAL LIABILITIES								
Customer accounts	0.42%	5,936,546	885	165,237	76,592	-	-	6,179,260
Other borrowed funds	3.31%	5,617	50,250	205,635	982,743	1,320,821	-	2,565,066
Total interest bearing financial liabilities		5,942,163	51,135	370,872	1,059,335	1,320,821	-	8,744,326
Due to banks		105,250	-	-	-	-	-	105,250
Other financial liabilities		3,486	-	-	-	-	-	3,486
Total financial liabilities		<u>6,050,899</u>	<u>51,135</u>	<u>370,872</u>	<u>1,059,335</u>	<u>1,320,821</u>	<u>-</u>	<u>8,853,062</u>
Liquidity gap		<u>(2,214,312)</u>	<u>2,202,507</u>	<u>(176,258)</u>	<u>(710,841)</u>	<u>1,136,253</u>		
Interest sensitivity		<u>(2,300,581)</u>	<u>2,198,289</u>	<u>(176,258)</u>	<u>(710,841)</u>	<u>1,136,253</u>		
Cumulative interest sensitivity gap		<u>(2,300,581)</u>	<u>(102,292)</u>	<u>(278,550)</u>	<u>(989,391)</u>	<u>146,862</u>		
Cumulative interest sensitivity gap as a percentage of total financial assets		<u>(25.30%)</u>	<u>(1.12%)</u>	<u>(3.06%)</u>	<u>(10.88%)</u>	<u>1.62%</u>		

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 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	614	178,998	353,345	2,101,687	-	2,635,576
Total interest bearing financial assets		1,701,214	1,396,486	178,998	384,030	2,101,687	-	5,762,415
Cash and balances with the CBT		251,873	-	-	-	-	-	251,873
Investments available-for-sale		-	-	-	-	-	2,051	2,051
Total financial assets		<u>1,953,087</u>	<u>1,396,486</u>	<u>178,998</u>	<u>384,030</u>	<u>2,101,687</u>	<u>2,051</u>	<u>6,016,339</u>
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	50,115	173,918	879,573	1,228,238	-	2,333,463
Total interest bearing financial liabilities		3,406,272	51,585	191,906	908,366	1,228,238	-	5,786,367
Due to banks		30,309	-	-	-	-	-	30,309
Other financial liabilities		7,135	466	1,041	3	-	-	8,645
Total financial liabilities		<u>3,443,716</u>	<u>52,051</u>	<u>192,947</u>	<u>908,369</u>	<u>1,228,238</u>	<u>-</u>	<u>5,825,321</u>
Liquidity gap		<u>(1,490,629)</u>	<u>1,344,435</u>	<u>(13,949)</u>	<u>(524,339)</u>	<u>873,449</u>		
Interest sensitivity		<u>(1,705,058)</u>	<u>1,344,901</u>	<u>(12,908)</u>	<u>(524,336)</u>	<u>873,449</u>		
Cumulative interest sensitivity gap		<u>(1,705,058)</u>	<u>(360,157)</u>	<u>(373,065)</u>	<u>(897,401)</u>	<u>(23,952)</u>		
Cumulative interest sensitivity gap as a percentage of total financial assets		<u>(28.34%)</u>	<u>(5.99%)</u>	<u>(6.20%)</u>	<u>(14.92%)</u>	<u>(0.40%)</u>		

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

	Up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	31 December 2012 Total
FINANCIAL LIABILITIES						
Due to banks	105,250	-	-	-	-	105,250
Customer accounts	5,936,646	1,023	165,596	77,184	-	6,180,449
Other borrowed funds	12,791	64,484	266,577	1,227,379	1,488,760	3,059,991
Other financial liabilities	3,486	-	-	-	-	3,486
Total financial liabilities	6,058,173	65,507	432,173	1,304,563	1,488,760	9,349,176
	Up to 1 month	1 month to 3 months	3 months 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	61,986	221,843	1,196,375	1,477,411	2,966,261
Other financial liabilities	7,135	466	1,041	3	-	8,645
Total financial liabilities	3,450,776	63,985	241,150	1,226,081	1,477,411	6,459,403

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 3.76	JPY JPY 1= TMM 0.03	CHY CHY 1= TMM 0.46	Other currency	31 December 2012 Total
FINANCIAL ASSETS							
Cash and balances with the CBT	146,428	38,758	7,848	27	76	1,868	195,005
Due from banks	30,000	5,830,831	88,317	45	-	1,552	5,950,745
Loans to customers	301,014	85,876	146,425	1,427,532	979,596	-	2,940,443
Investments available-for-sale	2,293	-	-	-	-	-	2,293
Other financial assets	-	4,120	-	18	80	-	4,218
Total financial assets	479,735	5,959,585	242,590	1,427,622	979,752	3,420	9,092,704
FINANCIAL LIABILITIES							
Due to banks	1,521	101,769	1,902	-	-	58	105,250
Customer accounts	276,843	5,754,442	90,437	-	1	57,537	6,179,260
Other borrowed funds	-	-	146,499	1,427,524	988,036	3,007	2,565,066
Other financial liabilities	3,462	17	2	-	-	5	3,486
Total financial liabilities	281,826	5,856,228	238,840	1,427,524	988,037	60,607	8,853,062
OPEN BALANCE SHEET POSITION	197,909	103,357	3,750	98	(8,285)	(57,187)	
	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	1,232,631	908,529	117,954	2,635,576
Investments available-for-sale	2,025	-	-	-	-	26	2,051
Total financial assets	221,408	3,275,316	244,387	1,232,756	908,630	133,842	6,016,339
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	1,229,526	907,619	4,182	2,333,463
Other financial liabilities	8,008	582	19	2	2	32	8,645
Total financial liabilities	256,801	3,171,765	239,622	1,229,528	907,641	19,964	5,825,321
OPEN BALANCE SHEET POSITION	(35,393)	103,551	4,765	3,228	989	113,878	

Currency risk sensitivity

The following table details the Bank's sensitivity to a 5% increase and 5% decrease (2012 and 2011: 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 (2012 and 2011: 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 2012 and 2011:

	31 December 2012		31 December 2011	
	TMM/USD	TMM/USD	TMM/USD	TMM/USD
	+5%	-5%	+5%	-5%
Impact on net profit before tax and equity	5,168	(5,168)	5,178	(5,178)

Limitations of sensitivity analysis

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

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

27. SUBSEQUENT EVENTS

In accordance with the Decree of the President of Turkmenistan dated 8 January 2013 the Bank has increased its share capital by TMM 165,541 thousand by re-investment of retained earnings.