

STATE COMMERCIAL BANK OF TURKMENISTAN “TURKMENBASHI”

Financial Statements
for the year ended December 31, 2018

and Independent Auditor's Report

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

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STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

The following statement, which should be read in conjunction with the independent AUDITOR'S responsibilities stated in the independent auditor's report, is made with a view to distinguish the respective responsibilities of management and those of the independent auditor's in relation to the financial statements of State Commercial Bank of Turkmenistan "Turkmenbashi (the "Bank").

Management is responsible for the preparation of the financial statements that present fairly the financial position of the Bank as at December 31, 2018, the results of its operations, cash flows and changes in shareholders' capital for the year then ended, in accordance with International Financial Reporting Standards (the "IFRS").

In preparing the financial statements, management is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the financial statements; and
- preparing the financial statements on a going concern basis, unless it is inappropriate to presume that the Bank will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal control, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and IFRS;
- taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- detecting and preventing fraud and other irregularities.

The financial statements for the year ended December 31, 2018 were approved and authorized for issue on April 30, 2019 by the Management of the Bank.

On behalf of the Management:



Jumagulyjov Jumagulych
Chairman of the Management Board

Sarjayeva Ogulsheker
Chief Accountant



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of State Commercial Bank of Turkmenistan "Turkmenbashi"

Qualified Opinion

We have audited the financial statements of State Commercial Bank of Turkmenistan "Turkmenbashi" (the Bank), which comprise the statement of financial position as at December 31, 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the matters referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

- The Bank has not adopted "IFRS 9 Financial Instruments" standard, which has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted. We are unable to obtain sufficient appropriate audit evidence, nor are we able to carry out alternative audit procedures, to satisfy ourselves regarding the effect of IFRS 9 on the Bank's accompanying financial statements. Consequently, we are unable to determine whether any adjustment to the financial statements was necessary.
- The capital adequacy ratios of the Bank as at 31 December 2018 fall short of the required capital adequacy ratios.
- As at December 31, 2018 loans in amount of 4,195 Million, 1,281 Million Manat and 1,169 Million Manat were given to a Turkmenhimiya, Turkmennebit and Ministry of Railways respectively. These borrowers have not been able to make principal and interest payments of those loans. The Bank Management estimated and booked loan loss provision in amount of 119,934 Thousand Manat based on the Bank's internal loan loss provision methodology. However, we could not obtain sufficient and appropriate audit evidence concerning the sufficiency of the provision. Consequently, we were unable to determine whether adjustments might have been necessary in the accompanying financial statements.
- As described in Note 18, the Bank performed revaluation of its property, plant and equipment. As at December 31, 2018 the fair value adjustment was amounting to 16,996 Thousand Manat (December 31, 2017 : 17,458 Thousand Manat). The revaluation was made using various indices prescribed by the Ministry of Finance of Turkmenistan which does not conform to the requirements of IAS 16 "Property, Plant and Equipment" and IFRS 13 "Fair Value Measurement". It was not practicable to extend our audit procedures to determine the impact of this departure from International Financial Reporting Standards and so we are not able to quantify the effect of this departure on the amounts reported in the financial statements as property, plant and equipment, depreciation expenses, revaluation reserve and retained earnings.

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We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank within the meaning of ethical requirements and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter

Without qualifying further our opinion, we draw your attention to Note 27 to the financial statements. According to National Standards of Financial Reporting accepted in Turkmenistan the Bank is profitable and has a positive balance of retained earnings. During the year the Bank capitalizes part of retained earnings for reaching the required level of share capital according to the Central Bank of Turkmenistan requirements. In these financial statements the balance of retained earnings account is negative since there are differences between approaches for certain transactions in accordance with International Financial Reporting Standards and National Standards of Financial Reporting accepted in Turkmenistan.

Other Matter

The financial statements of the Bank for the year ended December 31, 2017 were audited by another auditor whose report dated May 14, 2018 contained a qualified opinion on those statements. As we were not assigned to perform independent audit, review or other related procedures on the Bank's financial statements for 2017 accounting period, we are unable to give an audit opinion as a whole or any other assurance thereon.

This report, including the opinion, has been prepared and is intended solely for the information and use of the Bank's members as a body. To the fullest extent permitted by the Law, our audit work has been undertaken so that we might report those matters that we are required to report in an Auditor's Report and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purposes or to any other person to whose knowledge this report may come to.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Responsibilities of independent auditors in an independent audit are as follows;

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

As part of an independent audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

BDO Denet Bağımsız Denetim ve Danışmanlık A.Ş.
Member, BDO International Network



30 April 2019
Istanbul, Turkey

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(in thousands of Turkmen Manat)

	Notes	For the year ended December 31, 2018	For the year ended December 31, 2017
Interest income	5	678,949	608,432
Interest expenses	5	(384,965)	(352,134)
NET INTEREST INCOME BEFORE (ACCRUAL)/RECOVERY OF PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	5	293,984	256,298
Accrual of provision for impairment losses on interest bearing assets	15	(156,673)	(115,633)
NET INTEREST INCOME		137,311	140,665
Commission income	6	85,714	73,149
Commission expenses	7	(2,337)	(417)
Net gain on foreign currency transactions	8	981	1,427
Other operating income	9	7,067	7,110
Other non-operating expenses, net	10	(11,350)	(15,984)
NET NON - INTEREST INCOME		80,075	65,285
Operating expenses	11	(76,828)	(65,641)
PROFIT BEFORE INCOME TAX		140,558	140,309
Income tax	12	(42,618)	(33,444)
Current tax expense	12	-	-
Deferred tax income/(expense)	12	(42,618)	(33,444)
NET PROFIT FOR THE PERIOD		97,940	106,865
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		97,940	106,865

On behalf of the Management:



Jumaglylyev Jumaglylych
Chairman of the Management Board

April 30, 2019
Ashgabat, Turkmenistan

Sarjayeva Ogulsheker
Chief Accountant

April 30, 2019
Ashgabat, Turkmenistan

The notes on pages 11-52 form an integral part of the financial statements. The Independent Auditor's Report is on pages 3-5.

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(in thousands of Turkmen Manat)


	Notes	December 31, 2018	December 31, 2017
ASSETS:			
Cash and cash equivalents	13	2,619,193	995,280
Due from banks	14	219,608	497,171
Loans to customers	15	15,887,759	12,889,159
Financial assets held to maturity	16	103,000	29,400
Investment	17	98,200	17,525
Property and equipment	18	88,622	91,061
Intangible assets	19	3,022	3,094
Investment property	20	10,738	10,888
Advances paid for construction	21	59,813	83,369
Other assets	22	90,535	68,404
TOTAL ASSETS		19,180,490	14,685,351
SHAREHOLDERS' EQUITY AND LIABILITIES			
LIABILITIES:			
Due to banks and other financial institutions	23	216,652	393,955
Customer accounts	24	5,952,052	4,416,804
Loans received	25	12,176,308	9,173,302
Deferred tax liabilities	12	137,926	103,938
Other liabilities	26	19,952	17,692
		18,502,890	14,105,691
SHAREHOLDERS' EQUITY:			
Share capital	27	662,000	582,000
Revaluation reserve		16,996	17,458
Accumulated deficit		(1,396)	(19,798)
		677,600	579,660
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		19,180,490	14,685,351

On behalf of the Management:



Jumaglyly Jumaglylych
Chairman of the Management Board

April 30, 2019
Ashgabat, Turkmenistan



Sarjayeva Ogulsheker
Chief Accountant

April 30, 2019
Ashgabat, Turkmenistan

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STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(in thousands of Turkmen Manat)

	Notes	Share capital	Revaluation reserve	Retained earnings/ (Accumulated deficit)	Total Equity
Balance at December 31, 2016	27	<u>456,000</u>	<u>17,799</u>	<u>(1,004)</u>	<u>472,795</u>
Comprehensive income					
Net profit for the year		-	-	106,865	106,865
Total comprehensive income		-	-	106,865	106,865
Transactions with owners					
Change in revaluation reserve		-	(341)	341	-
Increase in share capital		<u>126,000</u>	-	<u>(126,000)</u>	-
Total transactions with owners		<u>126,000</u>	<u>(341)</u>	<u>(125,659)</u>	-
Balance at December 31, 2017	27	<u>582,000</u>	<u>17,458</u>	<u>(19,798)</u>	<u>579,660</u>
Comprehensive income					
Net profit for the year		-	-	97,940	97,940
Total comprehensive income		-	-	97,940	97,940
Transactions with owners					
Change in revaluation reserve		-	(462)	462	-
Increase in share capital		<u>80,000</u>	-	<u>(80,000)</u>	-
Total transactions with owners		<u>80,000</u>	<u>(462)</u>	<u>(79,538)</u>	-
Balance at December 31, 2018	27	<u>662,000</u>	<u>16,996</u>	<u>(1,396)</u>	<u>677,600</u>

On behalf of the Management:



Jumaglylov Jumaglych
Chairman of the Management Board

April 30, 2019
Ashgabat, Turkmenistan

Sarjayeva Ogulsheker
Chief Accountant

April 30, 2019
Ashgabat, Turkmenistan

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STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(in thousands of Turkmen Manat)

	Note	For the year ended December 31, 2018	For the year ended December 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax expenses		140,558	140,309
Adjustments for:			
Net interest income	5	(293,984)	(256,298)
Change in allowance for impairment losses on interest bearing assets	15	156,673	115,633
Depreciation of property and equipment and amortization of intangible assets	18,19,20	6,973	6,680
Change in allowance for impairment losses on other assets	22	-	1,998
Change in unused vacation provision		305	234
Foreign exchange differences	8	27	(23)
Cash flows before changes in working capital		10,552	8,533
Changes in operating assets and liabilities:			
Changes in loans to customers	15	(3,608,920)	(1,588,792)
Changes in advances paid for construction	21	23,556	(2,552)
Changes in due from banks	14	277,563	(36,068)
Changes in other assets	22	(21,981)	(11,234)
Changes in due to banks and other financial	23	(177,303)	(269,563)
Changes in customer accounts	24	1,535,431	392,101
Changes in advances received		-	(58)
Changes in other liabilities	26	2,260	3,785
Cash outflow from operating activities before taxation and interest		(1,958,842)	(1,503,848)
Interest received (+)	5	750,282	135,270
Interest paid (-)	5	(385,148)	(220,723)
Income tax paid (-)		-	-
Net cash inflow/(outflow) generated by operating activities		(1,593,708)	(1,589,301)

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 (CONTINUED)
(in thousands of Turkmen Manat)

	Note	For the year ended December 31, 2018	For the year ended December 31, 2017
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment (-)	18	(4,110)	(2,965)
Purchase of intangible assets (-)	19	(428)	(90)
Purchase of financial assets, held to maturity	16	(75,000)	-
Proceeds from disposal of investment, available for sale	17	-	2,292
Purchase of investment, available for sale	17	(80,675)	(42)
Net cash outflow from investing activities		(160,213)	(805)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in share capital	27	(80,000)	-
Proceeds from long-term borrowings	25	3,399,439	2,489,325
Repayment on long-term borrowings	25	(396,433)	(732,676)
Net cash inflow/(outflow) from financing activities		2,923,006	1,756,649
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,169,085	166,543
Effect of exchange rate changes on the balance of cash held in foreign currencies		9,867	835
CASH AND CASH EQUIVALENTS, at the beginning of the year	13	1,133,440	966,062
CASH AND CASH EQUIVALENTS, at the end of the year	13	2,312,392	1,133,440

On behalf of the Management:



Jumaglyjov Jumaglych
Chairman of the Management Board

April 30, 2019
Ashgabat, Turkmenistan

Sarjayeva Ogulsheker
Chief Accountant

April 30, 2019
Ashgabat, Turkmenistan

The notes on pages 11-52 form an integral part of the financial statements. The Independent Auditor's Report is on pages 3-5.