

**STATE COMMERCIAL BANK
OF TURKMENISTAN
“TURKMENBASHI”**

Financial Statements
for the year ended December 31, 2016

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, 2016

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 auditors in relation to the financial statements of the 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, 2016, the results of its operations, cash flows and changes in shareholder's 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, 2016 were approved and authorized for issue on May 19, 2017 by the Management of the Bank.

On behalf of the Management:


Gylychdurdyev Ahmet
Chairman of Management Board

May 19, 2017
Ashgabat, Turkmenistan


Sarjayeve Ogulsheker
Chief Accountant

May 19, 2017
Ashgabat, Turkmenistan

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INDEPENDENT AUDITOR'S REPORT

To the Management of the State Commercial Bank of Turkmenistan "Turkmenbashi":

Qualified Opinion

- [1] We have audited the accompanying financial statements of the State Commercial Bank of Turkmenistan "Turkmenbashi" (the "Bank"), which comprise the statement of financial position as at December 31, 2016, 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.
- [2] In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the issues mentioned in paragraph basis for qualified opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016, 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

- [3] As described in Note 17, the Bank performed revaluation of its property, plant and equipment. As at December 31, 2016 the fair value adjustment was amounting to 17,799 thousand manat (18,161 thousand manat as at December 31, 2015). 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.
- [4] In 2010 the State Enterprise "Turkmenhimiya" and OJSC "Belgorkhimprom" have signed an agreement for construction of potash fertilizers production plant. As part of the state development program the Bank has financed part of the total amount of the contract through the funds received from the Central Bank of Turkmenistan. Within framework of this contract the Bank provided two loans to the State Enterprise "Turkmenhimiya" in the total amount of 550,000 thousand US Dollars. To finance the loan, the Bank received two loans from the Central Bank of Turkmenistan in the same amount. As at the reporting date amounts of accrued interest receivable from State Enterprise "Turkmenhimiya" and payable to the Central Bank of Turkmenistan equaled to 115,142 thousand manat and 70,273 thousand manat, respectively. Due to the fact that at the reporting date there is uncertainty with respect to the deadline for construction of the plant and, accordingly, the starting date of actual repayment of accrued interest, calculation of the amortized cost of the debt is not possible.

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- [5] 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 in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Turkmenistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

- [6] Without qualifying our opinion we draw your attention to Note 14 and 32 to the accompanying financial statements. As at December 31, 2016 the Bank does not comply with some prudential covenants prescribed by the Central Bank of Turkmenistan which might result in sanctions from the Central Bank of Turkmenistan. We were unable to assess the impact of this incompliance, potential actions from state authorities and possible effect on financial statements.

Other Matter

- [7] This report, including the opinion, has been prepared and is intended solely for the information and use of the Banks'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

- [8] 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

- [9] Our objectives 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.
- [10] As part of an 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 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.

[11] 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.

[12] We also 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.


Michalis Papadouris,

Baker Tilly Klitou and Partners SRL

Bucharest, 19 May 2017



STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"


STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2016 (in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2016	For the year ended December 31, 2015
Interest income	5	433,265	308,975
Interest expenses	5	(251,104)	(173,752)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		182,161	135,223
Accrual of allowance for impairment losses on interest bearing assets	14	(37,305)	(29,173)
NET INTEREST INCOME		144,856	106,050
Commission income	6	61,837	63,146
Commission expenses		(460)	(1,075)
Net gain on foreign currency transactions	7	3,054	25,064
Other operating income	8	7,041	4,935
Other non-operating expenses, net	9	(13,573)	(12,288)
NET NON-INTEREST INCOME		57,899	79,782
Operating expenses	10	(65,109)	(54,227)
PROFIT BEFORE INCOME TAX		137,646	131,605
Income tax	11	(50,216)	(46,066)
NET PROFIT FOR THE YEAR		87,430	85,539
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		87,430	85,539

On behalf of the Management:


Gylychdurdyev Ahmet
Chairman of Management Board

May 19, 2017
Ashgabat, Turkmenistan


Sarjayeve Ogulsheker
Chief Accountant

May 19, 2017
Ashgabat, Turkmenistan

The notes on pages 11-50 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, 2016

(in thousands of Turkmen manat)

	Notes	December 31, 2016	December 31, 2015
ASSETS			
Cash and cash equivalents	12	810,430	711,576
Due from banks	13	451,719	436,837
Loans to customers	14	10,942,945	7,028,676
Financial assets held to maturity	15	29,293	-
Investments	16	19,775	19,696
Property, plant and equipment	17	95,691	90,003
Intangible assets	18	3,476	4,200
Investment property	19	9,602	9,735
Advances paid for construction	20	80,817	63,708
Other assets	21	58,942	21,945
TOTAL ASSETS		12,502,690	8,386,376
SHAREHOLDER'S EQUITY AND LIABILITIES			
LIABILITIES:			
Due to banks and other financial institutions	22	663,518	1,682
Customer accounts	23	3,996,683	3,365,490
Borrowings	24	7,285,469	4,597,711
Advances received	20	58	122
Deferred tax liabilities	11	70,494	20,278
Other liabilities	25	13,673	15,728
		12,029,895	8,001,011
SHAREHOLDER'S EQUITY:			
Share capital	26	456,000	343,000
Revaluation reserve		17,799	18,161
Retained earnings		(1,004)	24,204
		472,795	385,365
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		12,502,690	8,386,376

On behalf of the Management:


Gylychdurdyev Ahmet
 Chairman of Management Board

May 19, 2017
 Ashgabat, Turkmenistan


Sarjayeva Ogulshaker
 Chief Accountant

May 19, 2017
 Ashgabat, Turkmenistan

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STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"


STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2016 (in thousands of Turkmen manat)

	Note	Share capital	Revaluation reserve	Retained earnings	Total equity
Balance at December 31, 2014	26	230,700	18,553	50,573	299,826
Comprehensive income					
Profit for the year		-	-	85,539	85,539
Change in revaluation reserve		-	(392)	392	-
Total comprehensive income		-	(392)	85,931	85,539
Transactions with owners					
Increase in share capital		112,300	-	(112,300)	-
Total transactions with owners		112,300	-	(112,300)	-
Balance at December 31, 2015	26	343,000	18,161	24,204	385,365
Comprehensive income					
Profit for the year		-	-	87,430	87,430
Change in revaluation reserve		-	(362)	362	-
Total comprehensive income		-	(362)	87,792	87,430
Transactions with owners					
Increase in share capital		113,000	-	(113,000)	-
Total transactions with owners		113,000	-	(113,000)	-
Balance at December 31, 2016	26	456,000	17,799	(1,004)	472,795

On behalf of the Management:


Gylychdurdyev Ahmet
Chairman of Management Board

May 19, 2017
Ashgabat, Turkmenistan


Sarjayeva Ogulsheker
Chief Accountant

May 19, 2017
Ashgabat, Turkmenistan

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STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016 (in thousands of Turkmen manat)


	Notes	For the year ended December 31, 2016	For the year ended December 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax expenses		137,646	131,605
Adjustments for:			
Net interest income		(182,161)	(135,223)
Change in allowance for impairment losses on interest bearing assets	14	37,305	29,173
Depreciation of property and equipment and amortization of intangible assets	17,18	6,069	5,206
Change in allowance for impairment losses on other assets	21	2,855	1,520
Change in unused vacation provision	10	(51)	231
Foreign exchange differences	7	41	(18,263)
Cash flows before changes in working capital		1,704	14,249
Changes in operating assets and liabilities:			
Increase in loans to customers		(3,663,244)	(1,891,627)
Increase in advances paid for construction		(17,109)	(44,465)
Decrease/(increase) in due from banks		(53,052)	88,914
Decrease/(increase) in other assets		(14,234)	3,681
Increase/(decrease) in due to banks and other financial institutions		661,836	(1,302)
Increase in customer accounts		635,820	144,544
(Decrease)/increase in advances received		(64)	881
(Decrease)/increase in other liabilities		(2,004)	4,806
Cash outflow from operating activities before taxation and interest		(2,450,347)	(1,680,319)
Interest received		143,642	112,692
Interest paid		(212,174)	(146,323)
Income tax paid		(25,000)	(29,274)
Net cash outflow generated by operating activities		(2,543,879)	(1,743,224)

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2016 (CONTINUED) (in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2016	For the year ended December 31, 2015
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment	17	(11,179)	(13,410)
Purchase of intangible assets	18	(339)	(751)
Proceeds from disposal of property, plant and equipment		-	15
Purchase of financial assets held to maturity		(28,000)	-
Purchase of securities	15	(79)	(150)
Net cash outflow from investing activities		(39,597)	(14,296)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Attraction of long-term borrowings		3,086,484	2,170,010
Principal payments on long-term borrowings		(437,474)	(729,097)
Net cash inflow from financing activities		2,649,010	1,440,913
NET DECREASE IN CASH AND CASH EQUIVALENTS		65,534	(316,607)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(747)	70,070
CASH AND CASH EQUIVALENTS, at the beginning of the year	12	901,275	1,147,812
CASH AND CASH EQUIVALENTS, at the end of the year	12	966,062	901,275

On behalf of the Management:


Gylychdurdyev Ahmet
Chairman of Management Board

May 19, 2017
Ashgabat, Turkmenistan


Sarjayeva Ogulsheker
Chief Accountant

May 19, 2017
Ashgabat, Turkmenistan

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