



STATE COMMERCIAL BANK OF TURKMENISTAN “TURKMENISTAN”

Financial Statements
for the year ended December 31, 2022

and independent auditors' report

STATE COMMERCIAL BANK OF TURKMENISTAN “TURKMENISTAN”

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT’S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022	2
INDEPENDENT AUDITOR’S REPORT	3-5
THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022	
Statement of profit or loss and other comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9-10
Notes to the financial statements	11-48

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2022

The following statement, which should be read in conjunction with the independent auditor's responsibilities 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 "Turkmenistan" (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, 2022, the results of its operations, cash flows and changes in capital for the year ended December 31, 2022, in accordance with International Financial Reporting Standards ("IFRS") and requirements set by the Central Bank of Turkmenistan on the financial statements of banks and finance-credit institutions (the "CBT requirements").

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:

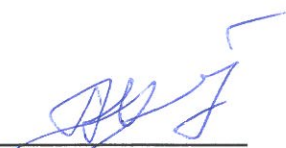
- designing, implementing and maintaining an effective and sound system of internal control, throughout the Bank;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Bank, and which enable them to ensure that the financial statements of the Bank comply with IFRS;
- maintaining statutory accounting records in compliance with legislation, accounting standards of the Turkmenistan and requirements set by the Central Bank of Turkmenistan;
- 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, 2022 were approved and authorized for issue on September 23, 2023 by the management of the Bank.

On behalf of the Management of the Bank:



Hajyyev M.Ch.
Chairman of Management Board
September 23, 2023
Ashgabat, Turkmenistan



Hojageldiyev A.
Chief Accountant
September 23, 2023
Ashgabat, Turkmenistan



INDEPENDENT AUDITOR'S REPORT

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

Qualified auditor's opinion

We have audited the financial statements of the State Commercial Bank of Turkmenistan "Turkmenistan" (the "Bank"), which comprise the statement of financial position as at December 31, 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 possible effects of the matters described in the "Basis for qualified opinion" paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022, and its financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards (the "IFRS").

Basis for a qualified opinion

We conducted our audit in accordance with International Standards on Auditing (the "ISA"). 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 qualified opinion.

Basis for a qualified opinion

The Bank calculates the allowance for expected credit losses on loans to customers, according to the instruction of the Central Bank of Turkmenistan (the "CBT"), which differs from the approach of the International Financial Reporting Standards and specifically with the provisions of IFRS 9 "Financial instruments" (the IFRS 9). As at December 31, 2022 and December 31, 2021, the allowance for expected credit losses amounted to 188,091 thousand manat and 170,226 thousand manat, respectively (Note 12). Due to the fact that IFRS 9 became effective from January 1, 2018 the approach with regards to the valuation of the loan portfolio and determining the amount of allowance for expected credit losses has changed. As at the reporting date, the Bank has not implemented IFRS 9 for valuation of expected credit losses on loans to customers, consequently we were unable to estimate the difference between the final results of the calculation of the allowance for expected credit losses in accordance with the CBT instruction and the IFRS 9 approach, and the impact of this discrepancy on the assessment of the Bank's loan portfolio and the amount of allowance for expected credit losses in the financial statements as at December 31, 2022.

As described in Note 14, the Bank performed revaluation of its property and equipment. As at December 31, 2022 the fair value adjustment was amounting to 22,751 thousand manat (23,036 thousand manat as at December 31, 2021). 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 IFRS and so we are not able to quantify the effect of this departure on the amounts reported in the financial statements as property and equipment, depreciation expenses, revaluation reserve and retained earnings.

Due to limitations in the paragraphs above in Basis for qualified opinion, we were unable to determine, based on our audit procedures, the potential tax effects or adjustments that might be required for income tax determined for the year ended December 31, 2022, in connection with the mentioned paragraphs.

Material uncertainty related to going concern

Without further qualifying our opinion, we draw your attention to Note 2 to the financial statements. According to the 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 IFRS and National standards of financial reporting accepted in Turkmenistan. Consequently, these conditions indicate the existence of a material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of the recorded asset amounts, the amounts and classification of liabilities or any other adjustments that might result should the Bank be unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of matter

Without further qualifying our opinion, we draw attention to Note 12 to the attached financial statements, which states that the Bank as at December 31, 2022 the Bank does not comply with the standard of the maximum amount of risk per borrower or a group of related borrowers. The Bank is regularly subject to inspections by the Central Bank of Turkmenistan, including for compliance with economic standards, and given the Bank's status in financing government programs, no claims were made by the regulator.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of advances paid

As described in Note 15 as at December 31, 2022 the Bank had advances paid for construction of nursery, fitness center and golf club. There is a high probability that the constructions will be transferred to the balance of the Ashgabat City Municipality. In this regard, the Management of the Bank carried out estimation of the possibility of future losses and made a decision to create an appropriate allowance. Estimation of the required amount of allowance was made on the basis of available information at the time of issue of the financial statements, and fully reflects the probability of loss of the Bank's assets.

How we addressed the matter

We reviewed Management's assessment of the allowance, taking into account the possibility of future losses, existing practice for similar transactions and other available information and have come to the conclusion that Management assessment is valid.

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, for compliance with the legislation 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

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.

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.

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.

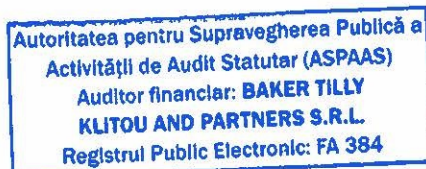
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Other matters

This report, including the opinion of the auditor, was prepared and intended solely for information and use by the Bank's management. To the maximum extent permitted by law, the audit was carried out in order to provide all the information required in the audit report and not for any other purposes. We are not responsible for the use of information for other purposes or by other users who may ever become familiar with this report.

Auditor:


BAKER TILLY KLITOU AND PARTNERS
Recorded in the public electronic register
of auditors and audit firms under FA 384



September 23, 2023

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"


STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021
Interest income	4	255,216	271,219
Interest expenses	4	(76,874)	(85,605)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON LOANS TO CUSTOMERS		178,342	185,614
Accrual of allowance for expected credit losses on loans to customers	12	(17,865)	(2,227)
NET INTEREST INCOME		160,477	183,387
Commission income	5	92,906	75,785
Commission expenses	5	(16,516)	(19,282)
Net gain from investing operations		539	472
Net gain on foreign currency transactions	6	3,162	2,603
Other expenses, net	7	(847)	(8,826)
NET NON-INTEREST INCOME		79,244	50,752
Operating expenses	8	(106,799)	(99,190)
PROFIT BEFORE INCOME TAX		132,922	134,949
Income tax benefit / (expenses)	9	30,189	(240,585)
NET INCOME / (LOSS)		163,111	(105,636)
Other comprehensive income		315	315
TOTAL COMPREHENSIVE INCOME / (LOSS)		163,426	(105,321)

On behalf of the Management of the Bank:


Hajyyev M.Ch.
 Chairman of Management Board
 September 23, 2023
 Ashgabat, Turkmenistan


Hojageldiyev A.
 Chief Accountant
 September 23, 2023
 Ashgabat, Turkmenistan

The notes on pages 11-48 form an integral part of the financial statements. The independent auditor's report is on pages 3-5.

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2022

(in thousands of Turkmen manat)

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Cash and cash equivalents	10	6,977,688	739,038
Due from banks	11	327,809	155,857
Loans to customers	12	5,175,968	6,767,776
Investment securities	13	126,431	126,431
Property and equipment	14	100,698	95,433
Intangible assets	14	2,868	1,902
Investment property		4,517	4,674
Advances paid for construction	15	1	1
Other assets	16	67,846	606,228
TOTAL ASSETS		12,783,826	8,497,340
SHAREHOLDERS' EQUITY AND LIABILITIES			
LIABILITIES:			
Due to banks and other financial institutions		4,066	182
Customer accounts	17	8,681,027	4,477,244
Loans received from banks and other financial institutions	18	3,482,245	3,363,407
Deferred tax liabilities	9	61,462	320,214
Other liabilities	19	65,681	10,059
		12,294,481	8,171,106
SHAREHOLDERS' EQUITY:			
Share capital	20	475,000	425,000
General reserves		122,442	104,879
Revaluation reserve of property and equipment		22,721	23,036
Accumulated loss		(130,818)	(226,681)
		489,345	326,234
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		12,783,826	8,497,340

On behalf of the Management of the Bank:



Hajyyev M.Ch.
Chairman of Management Board

September 23, 2023
Ashgabat, Turkmenistan

Hojageldiyev A.
Chief Accountant

September 23, 2023
Ashgabat, Turkmenistan

The notes on pages 11-48 form an integral part of the financial statements. The independent auditor's report is on pages 3-5.

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Turkmen manat)

	Note	Share capital	General reserve	Revaluation reserve of property and equipment	Accumulated loss	Total equity
Balance at December 31, 2020	20	<u>370,000</u>	<u>94,344</u>	<u>23,351</u>	<u>(55,825)</u>	<u>431,870</u>
Loss		-	-	-	(105,636)	(105,636)
Transfer revaluation reserve of property and equipment to retained earnings		-	-	(315)	315	-
Increase in share capital		55,000	-	-	(55,000)	-
Transfer to general reserves		-	10,535	-	(10,535)	-
Balance at December 31, 2021	20	<u>425,000</u>	<u>104,879</u>	<u>23,036</u>	<u>(226,681)</u>	<u>326,234</u>
Profit		-	-	-	163,111	163,111
Transfer revaluation reserve of property and equipment to retained earnings		-	-	(315)	315	-
Increase in share capital		50,000	-	-	(50,000)	-
Transfer to general reserves		-	17,563	-	(17,563)	-
Balance at December 31, 2022	20	<u>475,000</u>	<u>122,442</u>	<u>22,721</u>	<u>(130,818)</u>	<u>489,345</u>

On behalf of the Management of the Bank:



Hajyyev M.Ch.
Chairman of Management Board

September 23, 2023
Ashgabat, Turkmenistan

Hojageldiyev A.
Chief Accountant

September 23, 2023
Ashgabat, Turkmenistan

The notes on pages 11-48 form an integral part of the financial statements. The independent auditor's report is on pages 3-5.

STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Turkmen manat)


	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax expenses		132,922	134,949
Adjustments for:			
Net interest income	4	(178,342)	(185,614)
Depreciation of property and equipment	14	5,795	5,545
Amortization of intangible assets	14	308	291
Depreciation of investment property		157	54
Loss on disposal of property, equipment and investment property	14	1,577	957
Change in allowance for expected credit losses on loans to customers	12	17,865	2,227
Gain from investment securities at fair value through other comprehensive income	13	-	(472)
Change in allowance for impairment of advances paid	15	-	6,060
Change in provision for unused vacation	19	242	175
Change in allowance for impairment of other assets	16	(400)	(163)
Forex exchange differences	6	48,276	99
Cash inflow / (outflow) from operating activities before changes in operating assets and liabilities		28,400	(35,892)
Changes in operating assets and liabilities:			
(Increase)/decrease in operating assets:			
Loans to customers		1,025,557	(538,040)
Obligatory reserve in the Central bank of Turkmenistan		27,398	7,736
Due from banks		(170,630)	(79,099)
Advances paid		-	(6,060)
Other assets		480,673	(482,207)
Increase/(decrease) in operating liabilities:			
Due to banks and other financial institutions		3,884	(1,769)
Customer accounts		4,203,642	(16,472)
Other liabilities		55,380	(772)
Cash inflow / (outflow) from operating activities before income tax and interests		5,654,304	(1,152,575)
Interest received		779,079	72,151
Interest paid		(76,494)	(84,830)
Income tax paid		(194,446)	(45,034)
Net cash inflow / (outflow) from operating activities		6,162,443	(1,210,288)


STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENISTAN"

STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	14	(12,637)	(12,688)
Purchase of intangible assets	14	(1,274)	(421)
Dividends received		-	472
Changes in investment securities at fair value through other comprehensive income		-	(34,041)
Net cash outflow from investing activities		(13,911)	(46,678)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from loans received from banks and other financial institutions		403,651	569,473
Repayment of loans received from banks and other financial institutions		(284,813)	(265,654)
Net cash inflow from financing activities		118,838	303,819
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		6,267,370	(953,147)
CASH AND CASH EQUIVALENTS, at the beginning of the year	10	371,804	1,324,951
CASH AND CASH EQUIVALENTS, at the end of the year	10	6,639,174	371,804

On behalf of the Management of the Bank:


Hajyyev M.Ch.
Chairman of Management Board
September 23, 2023
Ashgabat, Turkmenistan


Hojageldiyev A.
Chief Accountant
September 23, 2023
Ashgabat, Turkmenistan

The notes on pages 11-48 form an integral part of the financial statements. The independent auditor's report is on pages 3-5.

Baker Tilly Klitou and Partners SRL trading as Baker Tilly is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

© 2023 Baker Tilly



Contact us

Bucharest Office
42 Pipera Street, Globalworth
Plaza, 7th Fl., 2nd Sector,
Bucharest, Romania

T: +40 21 3156100
F: +40 21 3156102
E: info@bakertilly.ro
W: www.bakertilly.ro