JOINT STOCK COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

Financial Statements
for the year ended December 31, 2022

and independent auditors' report

bakertilly

JOINT-STOCK COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

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JOINT-STOCK 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, 2022

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 in relation to the financial statements of Joint-Stock 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, 2022, 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") and requirements set by the Central Bank of Turkmenistan on the financial statements of banks and finance-credit institutions.

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; 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 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 October 4, 2023 by the Management of the Bank.

On behalf of the Management of the Bank:

Jumagylyjov Jumagylych
Chairman of the Management Board

October 4, 2023
Ashgabat, Turkmenistan

Sarjayeva Ogulsheker
Chief Accountant

October 4, 2023
Ashgabat, Turkmenistan

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INDEPENDENT AUDITORS' REPORT

To the Management of Joint-Stock Commercial Bank of Turkmenistan "Turkmenbashi":

Qualified opinion

We have audited the accompanying financial statements of Joint-Stock Commercial Bank of Turkmenistan "Turkmenbashi" (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 discussed in the first and second paragraph of the Basis for qualified opinion, 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 (IFRSs).

Basis for qualified opinion

Evaluation of impairment of the loan portfolio

The Bank calculates the provision for expected credit losses on loans to customers, according to the instruction of the Central bank of Turkmenistan (hereinafter "CBT"), which differs from the approach of International financial reporting standards and specifically with the provisions of IFRS 9 "Financial Instruments" (hereinafter – IFRS 9). As at December 31, 2022 and 2021 allowance for expected credit losses amounted to 464,615 thousand manats and 504,259 thousand manats, respectively (Note 13). Due to IFRS 9 became effective from January 1, 2018 the approach to 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 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 at reporting date, the Bank's loan portfolio includes a number of large borrowers, such as the SC "Turkmengaz", SC "Turkmenhimiya" and Ministry of Industry and the Agency of Railways of Turkmenistan and each of them has several loans. The total amount of loans granted to these borrowers is 17,834,679 thousand manats, 5,752,812 thousand manats, 2,549,337 thousand manats and 1,093,797 thousand manats, respectively. Loans to these borrowers were issued in accordance with the Decree of the President of Turkmenistan under the state program for the development of the hydrocarbon sector utilizing the funds received by the Bank from the Central Bank of Turkmenistan. Some of the loans of these borrowers have expired and have been prolonged. The Bank's management has calculated and accrued the allowance for expected credit losses on these borrowers in the amount of 218,109 thousand manats.

We do not agree with some assumptions made by the Bank for the purposes of classifying these loans and determining the amount of the allowance for expected credit losses on these loans as at the reporting date. There are objective signs of deterioration in the financial condition of the borrowers, the quantitative assessment of expected credit losses for these borrowers can be significantly underestimated.

Revaluation of fixed assets

As described in Note 15, the Bank performed revaluation of its property, plant and equipment. As at December 31, 2022 the fair value adjustment was amounting to 15,727 thousand manat (16,146 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". We were unable to determine the impact of this departure from International Financial Reporting Standards and consequently 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.

Due to limitations in the paragraphs above in Basis for a qualified opinion, we were not able to determine based on our audit procedures the potential tax effects or adjustments that might be needed for the income tax determined for the year ended December 31, 2022, in connection with the mentioned paragraphs.

Material Uncertainty related to going concern

We draw your attention to Notes 13 and 29 to the accompanying financial statements. As at December 31, 2022 the Bank does not comply with some prudential requirements prescribed by the Central Bank of Turkmenistan. The Bank is undergoing the regular inspections from the Central Bank of Turkmenistan, the last one being performed in 2022. Also, the Bank sends reports to the Central Bank on a monthly basis, which include information on compliance with prudential requirements and did not receive any warning reports on this regard. Additionally, Bank's capital adequacy ratios are well above the minimum required capital (Note 27) however the Bank cannot estimate the effect on the ratios from the implementation of IFRS 9.

The above conditions if materialise within next 12 months from the approval of these financial statements may adversely affect the Bank's going concern assumption. Our opinion is not modified in respect of this matter.

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.

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 assets

As described in Note 14 as at December 31, 2022 the Bank had a subsidiary entity SE "Tyaze Durmush". Since the entity is not a core business of the Bank and the Bank's management does not expect to receive any benefit from it, the Bank assessed the asset and decided to accrue allowance for impairment. The estimate of the required amount of the allowance was made on the basis of available information at the time of issuance of the financial statements and fully reflects the possibility of loss of the Bank's assets.

Our audit procedures included among others to obtain a detailed understanding of the methodology for calculating the impairment of investments of the Bank, we assessed the adequacy of the Bank's methodology for identifying impairment indicators.

In addition, we evaluated the design and operating effectiveness of internal controls implemented by management in the computation of allowances, including:
- Checks for timely identification of indications of impairment, if any
- Checks on regular reviews by management, the calculation results for the impairment of investments and related allowances.

We applied professional judgment to evaluate the factors to be taken into account in determining the loss of value and compared the results with those of the Bank. We assessed the completeness and adequacy of the Bank's financial statements disclosures on investments.

Other matter

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.

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.

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 perform the following:

- 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.

Auditor:

Baker Tilly Klitou & Partners

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

Autoritatea pentru Supravegherea Publică a Activității de Audit Statutar (ASPAAS)
Auditor financiar: BAKER TILLY KLITOU AND PARTNERS S.R.L.
Registrul Public Electronic: FA 384

October 4, 2023

JOINT-STOCK COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

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	976,996	1,052,551
Interest expenses	4	(588,105)	(661,682)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST BEARING ASSETS		388,891	390,869
Accrual of allowance for expected credit losses on interest bearing assets	13	39,644	38,355
NET INTEREST INCOME		428,535	429,224
Commission income	5	152,989	109,393
Commission expenses	5	(3,976)	(2,094)
Net gain on foreign exchange operations	6	819	830
Other income	7	12,813	17,958
Other non-operating expenses	8	(31,544)	(41,063)
NET NON-INTEREST INCOME		131,101	85,024
Operating expenses	9	(118,175)	(106,267)
PROFIT BEFORE INCOME TAX		441,461	407,981
Income tax	10	(439,712)	(617,235)
NET PROFIT/(LOSS) FOR THE YEAR		1,749	(209,254)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)		1,749	(209,254)

On behalf of the Management of the Bank:

Jumagylyjov Jumagylych
Chairman of the Management Board

October 4, 2023
Ashgabat, Turkmenistan

Sarjayeva Ogulsheker
Chief Accountant

October 4, 2023
Ashgabat, Turkmenistan

The notes on pages 12-53 form an integral part of the financial statements. The Independent Auditors' Report is on pages 3-6.

JOINT-STOCK COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

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	11	4,664,360	1,305,587
Due from banks	12	404,288	320,868
Loans to customers	13	32,658,701	26,824,679
Investments	14	134,075	334,099
Property, plant and equipment	15	353,697	330,310
Intangible assets	16	2,181	2,351
Investment property	17	1,087	4,108
Advances paid for construction	18	8,461	11,224
Other assets	19	58,240	233,092
TOTAL ASSETS		38,285,090	29,366,318
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Due to banks and other financial institutions	20	565,443	543,859
Customer accounts	21	6,940,861	6,048,453
Loans received	22	28,771,191	21,001,904
Deferred tax liabilities	10	868,762	975,871
Other liabilities	23	362,224	21,371
		37,508,481	28,591,458
SHAREHOLDERS' EQUITY:			
Share capital	24	1,000,000	1,000,000
Revaluation reserve		15,727	16,146
Accumulated deficit		(239,118)	(241,286)
		776,609	774,860
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		38,285,090	29,366,318

On behalf of the Management of the Bank:

Jumagylyjov Jumagylych
Chairman of the Management Board

October 4, 2023
Ashgabat, Turkmenistan

Sarjayeva Ogulsheker
Chief Accountant

October 4, 2023
Ashgabat, Turkmenistan

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JOINT-STOCK COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands of Turkmen manat)

	Note	Share capital	Revaluation reserve	Retained earnings/ (accumulated deficit)	Total equity
January 1, 2020		920,000	16,425	37,689	974,114
Comprehensive income					
Loss for the year		-	-	(209,254)	(209,254)
Change in revaluation reserve		-	(279)	279	-
Total comprehensive income		-	(279)	(208,975)	(209,254)
Transactions with owners					
Increase in share capital		80,000	-	(70,000)	10,000
Total transactions with owners		80,000	-	(70,000)	10,000
Balance at December 31, 2021	24	1,000,000	16,146	(241,286)	774,860
Comprehensive income					
Profit for the year		-	-	1,749	1,749
Change in revaluation reserve		-	(419)	419	-
Total comprehensive income		-	(419)	2,168	1,749
Transactions with owners					
Increase in share capital		-	-	-	-
Total transactions with owners			-	-	-
Balance at December 31, 2022	24	1,000,000	15,727	(239,118)	776,609

On behalf of the Management of the Bank:

Jumagylyjov Jumagylych
Chairman of the Management Board

October 4, 2023
Ashgabat, Turkmenistan

Sarjayeva Ogulsheker
Chief Accountant

October 4, 2023
Ashgabat, Turkmenistan

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JOINT-STOCK COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

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		441,461	407,981
Adjustments for:			
Net interest income	4	(388,891)	(390,869)
Depreciation of property, plant and equipment	15	5,684	6,297
Amortization of intangible assets	16	591	564
Depreciation of investment property	17	47	58
Loss on property, plant and equipment disposal	15	102	-
Loss on investment property disposal	17	2,974	-
Change in allowance for expected credit losses on loans to customers		(39,644)	(38,355)
Change in allowance for impairment of advances paid for construction		-	15,400
Change in unused vacation reserve	23	624	72
Change in allowance for impairment of other assets		109	(1,543)
Loss on assets disposal		-	(1,521)
Foreign exchange differences	6	36	17
Cash flows before changes in working capital		23,093	(1,899)
Changes in operating assets and liabilities:			
Decrease in obligatory reserves		42,016	78,202
Increase in due from banks		(23,827)	(1,750)
Increase in loans to customers		(7,316,178)	(664,329)
Decrease / (increase) in advances paid for construction		2,763	(20,811)
Increase in other assets		(272,966)	(160,998)
Increase / (decrease) in due to banks and other financial institutions		20,571	(43,979)
Increase in customer accounts		903,340	136,917
Increase in other liabilities		340,229	7,068
Cash outflow from operating activities before taxation and interest		(6,280,959)	(671,579)
Interest received		2,513,761	139,874
Interest paid		(1,019,331)	(170,159)
Income tax paid		(99,124)	-
Net cash outflow from operating activities:		(4,885,653)	(701,864)

JOINT-STOCK COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

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, plant and equipment	15	(29,173)	(8,915)
Purchase of intangible assets	16	(421)	(450)
Proceeds / (purchase) of investments		185,000	(33,658)
Net cash outflow from investing activities/		155,406	(43,023)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from increase of share capital		-	10,000
Proceeds from borrowings		19,613,159	595,162
Repayment of borrowings		(11,413,861)	(312,975)
Net cash inflow from financing activities		8,199,298	292,187
NET DECREASE IN CASH AND CASH EQUIVALENTS		3,469,051	(452,700)
Effect of exchange rate changes on the balance of cash held in foreign currencies		(4,851)	(4,479)
CASH AND CASH EQUIVALENTS, at the beginning of the year	11	1,169,638	1,626,817
CASH AND CASH EQUIVALENTS, at the end of the year	11	4,633,838	1,169,638

On behalf of the Management of the Bank:

Jumagylyjov Jumagylych
Chairman of the Management Board

October 4, 2023
Ashgabat, Turkmenistan

Sarjayeva Ogulsheker
Chief Accountant

October 4, 2023
Ashgabat, Turkmenistan

The notes on pages 12-53 form an integral part of the financial statements. The Independent Auditors' Report is on pages 3-6.

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.

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