

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

**Financial Statements**  
for the year ended December 31, 2017

**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, 2017

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, 2017, 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, 2017 were approved and authorized for issue on May 14, 2018 by the Management of the Bank.

On behalf of the Management:



**Gylychurdyev Ahmet**  
Chairman of Management Board

May 14, 2018  
Ashgabat, Turkmenistan



**Sarjayeva Ogulsheker**  
Chief Accountant

May 14, 2018  
Ashgabat, Turkmenistan

## 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, 2017, 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 paragraphs [3] and [4] from 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, 2017, 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 16, the Bank performed revaluation of its property, plant and equipment. As at December 31, 2017 the fair value adjustment was amounting to 17,458 thousand manat (17,799 thousand manat as at December 31, 2016). 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 193,628 thousand manat and 131,668 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.

As at reporting date, the loan portfolio of the Bank has several loans issued to state-owned companies with maturity dates expired in 2017 with the principal amount of 573,030 thousand manat. As those loans were issued according to the President's Decrees, the procedure for extending such loans is difficult and requires additional time. As part of the state development program the Bank has financed

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such loans through the funds received from the Central Bank of Turkmenistan. In addition, in terms of such projects, two loan agreements are being concluded: 1) between the Bank and the client; and 2) between the Bank and the Central Bank of Turkmenistan. Moreover, there is an overdue interest on such loans remaining on the Bank's statement of financial position at the reporting date. The amount of allowance for impairment losses on these loans equaled to 89,430 thousand manat.

We were unable to obtain sufficient audit evidence in respect of the amount of allowance for impairment losses on these loans. Consequently, we were unable to determine whether adjustments might have been necessary to the amounts shown in the financial statements for impairment charge on these loans as we were unable to identify effect on the financial statements of the Bank with sufficient level of reliability.

- [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 further our opinion, we draw your attention to Note 25 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.
- [7] As described in Notes 13 and 31 as at December 31, 2017 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 and going concern. These financial statements do not include any possible effect of this incompliance.

### **Other Matter**

- [8] 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**

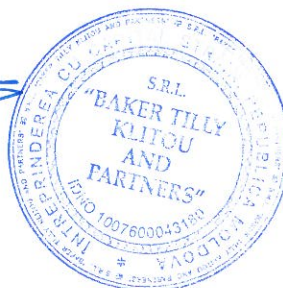
- [9] Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to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

- [10] 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.
- [11] 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.
- [12] 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.
- [13] 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.

Constantin Schendra,

Managing Director  
ICS Baker Tilly Klitou and Partners SRL



Chisinau, Moldova  
May 14, 2018


# STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2017 (in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
Interest income	4	608,432	433,265
Interest expenses	4	(352,134)	(251,104)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS		256,298	182,161
Accrual of provision for impairment losses on interest bearing assets	13	(115,633)	(37,305)
NET INTEREST INCOME		140,665	144,856
Commission income	5	73,149	61,837
Commission expenses		(417)	(460)
Net gain on foreign currency transactions	6	1,427	3,054
Other operating income	7	7,110	7,041
Other non-operating expenses, net	8	(15,984)	(13,573)
NET NON-INTEREST INCOME		65,285	57,899
Operating expenses	9	(65,641)	(65,109)
PROFIT BEFORE INCOME TAX		140,309	137,646
Income tax	10	(33,444)	(50,216)
NET PROFIT FOR THE YEAR		106,865	87,430
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		106,865	87,430

On behalf of the Management:

  
Gylychurdyev Ahmet  
Chairman of Management Board  
May 14, 2018  
Ashgabat, Turkmenistan

  
Sarjayeve Ogulsheker  
Chief Accountant

May 14, 2018  
Ashgabat, Turkmenistan

The notes on pages 11-51 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, 2017

(in thousands of Turkmen manat)

	Notes	December 31, 2017	December 31, 2016
<b>ASSETS</b>			
Cash and cash equivalents	11	995,280	810,430
Due from banks	12	497,171	451,719
Loans to customers	13	12,889,159	10,942,945
Financial assets held to maturity	14	29,400	29,293
Investments	15	17,525	19,775
Property and equipment	16	91,061	95,691
Intangible assets	17	3,094	3,476
Investment property	18	10,888	9,602
Advances paid for construction	19	83,369	80,817
Other assets	20	68,404	58,942
<b>TOTAL ASSETS</b>		<b>14,685,351</b>	<b>12,502,690</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>LIABILITIES:</b>			
Due to banks and other financial institutions	21	393,955	663,518
Customer accounts	22	4,416,804	3,996,683
Borrowings	23	9,173,302	7,285,469
Advances received		-	58
Deferred tax liabilities	10	103,938	70,494
Other liabilities	24	17,692	13,673
		<b>14,105,691</b>	<b>12,029,895</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	25	582,000	456,000
Revaluation reserve		17,458	17,799
Accumulated deficit		(19,798)	(1,004)
		<b>579,660</b>	<b>472,795</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>14,685,351</b>	<b>12,502,690</b>

On behalf of the Management:

  
**Gylychurdyev Ahmet**  
 Chairman of Management Board

May 14, 2018  
 Ashgabat, Turkmenistan

  
**Sarjayeva Ogulsheker**  
 Chief Accountant

May 14, 2018  
 Ashgabat, Turkmenistan

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# STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2017 (in thousands of Turkmen manat)

	Notes	Share capital	Revaluation reserve	Retained earnings/ (Accumulated deficit)	Total equity
Balance at December 31, 2015	25	343,000	18,161	24,204	385,365
<b>Comprehensive income</b>					
Profit for the year		-	-	87,430	87,430
Change in revaluation reserve		-	(362)	362	-
<b>Total comprehensive income</b>		-	(362)	87,792	87,430
<b>Transactions with owners</b>					
Increase in share capital		113,000	-	(113,000)	-
<b>Total transactions with owners</b>		113,000	-	(113,000)	-
Balance at December 31, 2016	25	456,000	17,799	(1,004)	472,795
<b>Comprehensive income</b>					
Profit for the year		-	-	106,865	106,865
Change in revaluation reserve		-	(341)	341	-
<b>Total comprehensive income</b>		-	(341)	107,206	106,865
<b>Transactions with owners</b>					
Increase in share capital		126,000	-	(126,000)	-
<b>Total transactions with owners</b>		126,000	-	(126,000)	-
Balance at December 31, 2017	25	582,000	17,458	(19,798)	579,660

On behalf of the Management:

  
**Gylendurdyev Ahmet**  
**Chairman of Management Board**  
 May 14, 2018  
 Ashgabat, Turkmenistan

  
**Sarjayeva Ogulsheker**  
**Chief Accountant**

May 14, 2018  
 Ashgabat, Turkmenistan

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# STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2017 (in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax expenses		140,309	137,646
Adjustments for:			
Net interest income		(256,298)	(182,161)
Change in allowance for impairment losses on interest bearing assets	13	115,633	37,305
Depreciation of property and equipment and amortization of intangible assets	16,17	6,680	6,069
Change in allowance for impairment losses on other assets	20	1,998	2,855
Change in unused vacation provision	9	234	(51)
Foreign exchange differences	6	(23)	41
Cash flows before changes in working capital		8,533	1,704
Changes in operating assets and liabilities:			
Increase in loans to customers		(1,588,792)	(3,663,244)
Increase in advances paid for construction		(2,552)	(17,109)
Increase in due from banks		(36,068)	(53,052)
Increase in other assets		(11,234)	(14,234)
(Decrease)/increase in due to banks and other financial		(269,563)	661,836
Increase in customer accounts		392,101	635,820
Decrease in advances received		(58)	(64)
Increase/(decrease) in other liabilities		3,785	(2,004)
Cash outflow from operating activities before taxation and interest		(1,503,848)	(2,450,347)
Interest received		135,270	143,642
Interest paid		(220,723)	(212,174)
Income tax paid		-	(25,000)
Net cash outflow generated by operating activities		(1,589,301)	(2,543,879)

# STATE COMMERCIAL BANK OF TURKMENISTAN "TURKMENBASHI"

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017 (CONTINUED)


(in thousands of Turkmen manat)

	Notes	For the year ended December 31, 2017	For the year ended December 31, 2016
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	16	(2,965)	(11,179)
Purchase of intangible assets	17	(90)	(339)
Purchase of financial assets, held to maturity		-	(28,000)
Proceeds from disposal of investments, available for sale		2,292	-
Purchase of investments, available for sale		(42)	(79)
Net cash outflow from investing activities		(805)	(39,597)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Attraction of long-term borrowings		2,489,325	3,086,484
Principal payments on long-term borrowings		(732,676)	(437,474)
Net cash inflow from financing activities		1,756,649	2,649,010
NET INCREASE IN CASH AND CASH EQUIVALENTS		166,543	65,534
Effect of exchange rate changes on the balance of cash held in foreign currencies		835	(747)
CASH AND CASH EQUIVALENTS, at the beginning of the year	11	966,062	901,275
CASH AND CASH EQUIVALENTS, at the end of the year	11	1,133,440	966,062

On behalf of the Management:

  
Galychdurayev Ahmet  
Chairman of Management Board

May 14, 2018  
Ashgabat, Turkmenistan

  
Sarjayeva Ogulsheker  
Chief Accountant

May 14, 2018  
Ashgabat, Turkmenistan

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