

**STATE BANK FOR FOREIGN
ECONOMIC AFFAIRS OF
TURKMENISTAN**

**Financial Statements
and Independent Auditor's Report
for the Year Ended 31 December 2018**

State Bank for Foreign Economic Affairs of Turkmenistan

Statement of Management's Responsibilities For the Preparation and Approval of the Financial Statements For the Year Ended 31 December 2018

Management is responsible for the preparation of the financial statements that present fairly the financial position of State Bank for Foreign Economic Affairs of Turkmenistan ("the Bank") as at 31 December 2018, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Bank's financial position and financial performance; and
- Making an assessment of the Bank's ability to continue as a going concern

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Bank;
- Maintaining adequate accounting records that are sufficient to show and explain the Bank's transactions and 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 accounting standards of Turkmenistan;
- Taking such steps as are reasonably available to them to safeguard the assets of the Bank; and
- Preventing and detecting fraud and other irregularities.

These financial statements of the Bank for the year ended 31 December 2018 were approved by the Management Board on 29 June 2019.

On behalf of the Management Board of the Bank:

V. Jus
Jepbarov R.J.

Chairman of the Board

29 June 2019
Ashgabat, Turkmenistan



Khangeidyyev Zh.
Khangeidyyev Zh.
Chief Accountant

29 June 2019
Ashgabat, Turkmenistan

Accepted



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INDEPENDENT AUDITOR'S REPORT

To the Management of the State Bank for Foreign Economic Affairs of Turkmenistan

Qualified Opinion

We have audited the financial statements the State Bank for Foreign Economic Affairs of Turkmenistan (the "Bank"), which comprise the statement of financial position as at 31 December 2018, 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 the significant accounting policies.

In our opinion, except for the possible effects of the matters described 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 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

As discussed in Note 2 to these financial statements, the Bank has not adopted IFRS 9 *Financial Instruments*, which is effective for periods beginning on or after 1 January 2018, in the preparation of the financial statements for the year ended 31 December 2018. In the absence of any information, we were unable to satisfy ourselves with regard to the full impact of implementation of this standard or with the appropriateness of disclosures required as at 1 January 2018 and for the year ended 31 December 2018.

As disclosed in the statement of financial position, the Bank had held to maturity investments in the amount of TMT 109,045 thousand. We were unable to obtain sufficient appropriate audit evidence regarding the valuation of these investments. Consequently, we were unable to determine whether any adjustments to the amortised cost of these investments were necessary as at 31 December 2018.

We conducted our audit in accordance with International Standards on Auditing ("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* ("the IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other Matter

The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who expressed a modified opinion on those statements on 29 June 2018.

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 the approved accounting policies of the Bank, 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.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities ("DTN"), each of which is a separate legal entity. DTTL and its member firms are not affiliated with the US member firm Deloitte LLP, which is a separate legal entity. Deloitte LLP is not a member firm of DTN.

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.

Deloitte LLP

Roman Sattarov
Engagement Partner

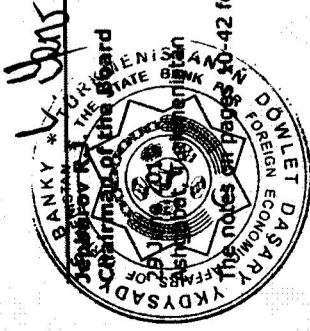
03 July 2019
Almaty, Kazakhstan

State Bank for Foreign Economic Affairs of Turkmenistan

Statement of Profit or Loss and Other Comprehensive Income For the Year Ended 31 December 2018 (in Turkmen Manat and in thousands)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Interest income	4, 18	1,237,898	914,970
Interest expense	4, 18	(903,382)	(667,398)
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES ON INTEREST BEARING ASSETS	4	334,516	247,572
Provision for impairment losses on interest bearing assets	5, 18	(131,765)	(124,975)
NET INTEREST INCOME		202,751	122,597
Net gain on foreign exchange operations	5, 133	5,133	17,413
Fee and commission income	6, 18	120,644	91,094
Fee and commission expense	6	(91,408)	(25,928)
Other expense, net		(11,380)	(14,950)
NET NON-INTEREST INCOME		22,989	67,629
OPERATING INCOME		225,740	190,226
OPERATING EXPENSES		(31,530)	(28,187)
PROFIT BEFORE INCOME TAX		194,210	162,039
Income tax expense	7	(65,375)	(42,689)
NET PROFIT		128,835	119,350
TOTAL COMPREHENSIVE INCOME		128,835	119,350

On behalf of the Management Board:



Khangelidze Zh.
Khangelidze Zh.
Chief Accountant

29 June 2019
Ashgabat, Turkmenistan

The notes on pages 40-42 form an integral part of these financial statements.

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State Bank for Foreign Economic Affairs of Turkmenistan

Statement of Financial Position

As at 31 December 2018

(in Turkmen Manat and in thousands)

	Notes	31 December 2018	31 December 2017
ASSETS			
Cash and balances with the Central Bank of Turkmenistan	8, 18	5,999,833	6,531,521
Due from banks	9, 18	10,599,340	9,577,269
Loans to customers	10, 18	18,665,980	17,294,065
Held to maturity investments	18	109,045	87,365
Investments available-for-sale	18	2,207	2,105
Investments in associates		16,825	44,528
Investment property		1,679	12,620
Property, equipment and intangible assets		88,326	70,992
Assets held for sale		27,696	-
Premises built under a state program	7	53,036	58,650
Deferred tax asset	11	1,352	2,105
Other assets		661,889	882,635
TOTAL ASSETS		36,227,208	34,563,855
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	12, 18	494,347	360,391
Customer accounts	13, 18	16,757,409	17,397,691
Other borrowed funds	14	17,362,354	15,136,138
Current tax liabilities		41,236	29,124
Other liabilities	15, 18	641,041	838,525
Total liabilities		35,296,387	33,761,869
EQUITY			
Share capital	16	592,508	529,390
Property revaluation reserve		20,206	20,834
Retained earnings		318,107	251,762
Total equity		930,821	801,986
TOTAL LIABILITIES AND EQUITY		36,227,208	34,563,855

On behalf of the Management Board:

K. 2018



Khangeidiyev Zh.

Chief Accountant

29 June 2019

Ashgabat, Turkmenistan

These financial statements form an integral part of these financial statements.

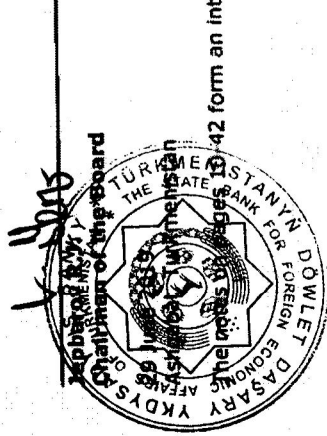
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State Bank for Foreign Economic Affairs of Turkmenistan

Statement of Changes in Equity For the Year Ended 31 December 2018 (in Turkmen Manat and in thousands)

	Note	Share capital	Property revaluation reserve	Retained earnings	Total equity
As at 31 December 2016		469,987	21,580	191,069	682,636
Distribution of profit	16	59,403	-	(59,403)	-
Depreciation of property and equipment revaluation reserve		-	(746)	746	-
Total comprehensive income		-	-	119,350	119,350
As at 31 December 2017		529,390	20,834	251,762	801,986
Distribution of profit	16	63,118	-	(63,118)	-
Depreciation of property and equipment revaluation reserve		-	(628)	628	-
Total comprehensive income		-	-	128,835	128,835
As at 31 December 2018		592,508	20,206	318,107	930,821

On behalf of the Management Board:




Khangelidye Zh.
Chief Accountant

29 June 2019
Ashgabat, Turkmenistan

Annexes 1-42 form an integral part of these financial statements.



State Bank for Foreign Economic Affairs of Turkmenistan

Statement of Cash Flows For the Year Ended 31 December 2018 (in Turkmen Manat and in thousands)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income tax		194,210	162,039
Adjustment for:			
Depreciation and amortization		5,321	3,227
Provision for impairment losses	5	131,765	124,975
Loss on foreign exchange operations		127,606	451,330
Change in interest accruals, net		52,151	(203,051)
Cash inflow from operating activity before changes in operating assets and liabilities		511,053	538,520
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Minimum reserve deposits with the CBT	8	(17,521)	(75,671)
Due from banks		(870,673)	554,190
Loans to customers		(1,554,756)	(5,431,208)
Assets held for sale		259,060	(140,216)
Other assets			
Increase/(decrease) in operating liabilities:			
Due to banks		125,624	26,790
Customer accounts		(606,763)	1,302,147
Other liabilities		(240,202)	121,641
Cash outflow from operating activities before taxation	7	(2,394,178)	(3,103,807)
Income tax paid		(52,510)	(30,402)
Net cash outflow from operating activities		(2,446,688)	(3,134,209)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for investments available-for-sale		(102)	(138)
Receipts for investments available-for-sale		-	2,029
Payments for investments in associates		-	(27,696)
Payments for held to maturity investments		(20,000)	-
Payments for property, equipment and intangible assets		(22,655)	(5,385)
Proceeds from sale of investment property		10,941	-
Receipts for premises built under a state program		68,459	-
Payments for premises built under a state program		(62,845)	(40,322)
Net cash outflow from investing activities		(25,734)	(71,512)

State Bank for Foreign Economic Affairs of Turkmenistan

Statement of Cash Flows For the Year Ended 31 December 2018 (Continued) (in Turkmen Manat and in thousands)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of other borrowed funds	14	(3,397,085)	(306,227)
Receipt of other borrowed funds	14	5,378,505	5,089,928
Net cash inflow from financing activities		1,981,420	4,783,701
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(491,470)	1,577,980
Effect of changes in exchange rates on cash and cash equivalents		(1,808)	
CASH AND CASH EQUIVALENTS, beginning of the year	8	13,118,542	11,540,562
CASH AND CASH EQUIVALENTS, end of the year	8	12,625,264	13,118,542

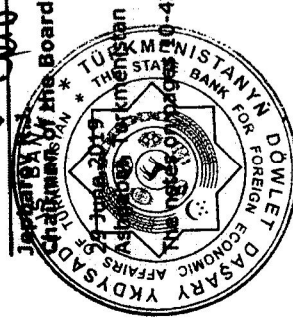
During the year ended 31 December 2018 the interest paid and received by the Bank amounted to TMT 850,075 thousand and TMT 1,236,742 thousand, respectively.

During the year ended 31 December 2017 the interest paid and received by the Bank amounted to TMT 536,954 thousand and TMT 635,795 thousand, respectively.

During the year ended 31 December 2018 there were non-cash movement in Assets held for sale in the form of assets transferred from Investments in associates in amount of TMT 27,703 thousand.

On behalf of the Management Board:

V. Y. Y. Y.



Khangeidiyev Zh.
Chief Accountant

29 June 2019
Ashgabat, Turkmenistan

The statements 0-42 form an integral part of these financial statements.

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