

**TURKMEN TURKISH JOINT STOCK  
COMMERCIAL BANK**

**Financial statements**

for the year ended  
December 31, 2022

and

**Independent Auditor's Report**

# TURKMEN-TURKISH JOINT-STOCK COMMERCIAL BANK

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## TURKMEN-TURKISH JOINT-STOCK COMMERCIAL BANK

### 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 auditors in relation to the financial statements of Turkmen-Turkish Joint-stock Commercial Bank (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 ("IFRS") and requirements set by the Central Bank of Turkmenistan.

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 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 5, 2023 by the management of the Bank.

On behalf of the Management:



**Ercan Durmus**  
Chairman of Management Board



**Serdar Saparov**  
Chief Accountant

September 5, 2023  
Ashgabat, Turkmenistan

September 5, 2023  
Ashgabat, Turkmenistan

## **INDEPENDENT AUDITOR'S REPORT**

### **To the Shareholders and Supervisory Council of Turkmen-Turkish Joint-Stock Commercial Bank**

#### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the financial statements of Turkmen-Turkish Joint-stock Commercial Bank (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, statement of changes in equity and statement of cash flows for the year then ended, and the explanatory notes to the financial statements, including a disclosure of significant accounting policies and other explanatory information.

In our 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 its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for Opinion**

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 of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Turkmenistan, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA 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.

**Adjustments for expected credit losses (ECL) on loans issued**

<b>Key Audit Matter</b>	<i>How this key audit matter was addressed in our audit</i>
<p>Management's assessment of the indicators of impairment and determining expected losses on loans to customers is a complex process that involves the use of estimates and judgment. In order to determine the expected loss provisioning requirements for loans, the Bank applies a statistical model that uses parameters determined both internal and external parameters.</p> <p>In accordance with IFRS 9 Financial Instruments, the Bank distinguishes between three stages of impairment, based on classification criteria that take into account both objective characteristics of the loans and the borrowers, and subjective estimates of the Bank.</p> <p>Classification credits stages of impairment is the result of the interplay of several factors:</p> <ul style="list-style-type: none"> <li>• The comparison between the probability of default to the date of grant and the date of the financial statements;</li> <li>• Limits established by law, for example the 90 days delay;</li> <li>• Other factors that are relevant to the Bank, for example threshold for individual analysis.</li> </ul> <p>Expected losses are calculated based on historical data and macroeconomic forecasting elements.</p> <p>The statistical model used to determine the expected loss on loans to customers is based on the probability of default and the estimated value. According to Note 12 "Loans to customers" and Note 30 "Risk management policies" in the financial statements, the Bank created ECL provisions in value of 15,338 thousand manats for consumer and corporate loans granted on the gross amount of 964,504 thousand manats.</p> <p>Because of the importance of these judgments and the volume of loans to customers, ECL of loans to customers is a key aspect of the audit.</p>	<p>Our audit procedures included among others to obtain a detailed understanding of the methodology for calculating the depreciation of the loan portfolio, we assessed the adequacy of the Bank's methodology for identifying depreciation loan portfolio and establish expected credit loss. Thus, we analysed the macroeconomic scenarios and related indexes, criteria for staging loans and assessed models for determining credit risk parameters and quality of data used. For this purpose, we used specialist experts in the field. We also reviewed the quality of the historical data used in the calculation of credit risk parameters.</p> <p>In addition, we evaluated the design and operating effectiveness of internal controls implemented by management in the computation of provisions, including:</p> <ul style="list-style-type: none"> <li>• Checks for timely identification of indications of impairment, if any</li> <li>• Checks on regular reviews by management, the calculation results for the impairment of loans and related provisions.</li> </ul> <p>We performed substantive procedures on a sample of loans to check their classification and to identify any indications of impairment and if necessary additional provisions for expected credit losses. 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 evaluated the impact of economic conditions, the collaterals, and other factors that may affect the recoverability of loans.</p> <p>We assessed the completeness and adequacy of the Bank's financial statements disclosures on loans to customers.</p>

## **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, as adopted by Turkmenistan, 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.

Management is responsible for preparation and maintaining AML/CTF/PWMD program and internal policies in compliance with the requirements of the Law of Turkmenistan "On combating the legalisation of proceeds from crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction"

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on Other Legal and Regulatory Requirements**

### ***Reporting in accordance with Art. 12 of the Law of Turkmenistan "On combating the legalisation of proceeds from crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction"***

- The Bank's AML/CTF/PWMD program and internal policies have remained in compliance with the requirements of the Law of Turkmenistan "On combating the legalisation of proceeds from crime, the financing of terrorism and the financing of the proliferation of weapons of mass destruction".

### ***Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act of Bulgaria***

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- ZAHARINOVA NEXIA LTD. was appointed as a statutory auditor of the financial statements of Turkmen-Turkish Joint-Stock Commercial Bank (the Bank) for the period ended December 31, 2022 by the letter #1699-04/15 dated April 03<sup>rd</sup>, 2023 with a period of one year.
- The audit of the financial statements of the Bank for the period ended December 31, 2022 represents second consecutive statutory audit engagement for that entity carried out by us.

- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act of Bulgaria.
- We hereby confirm that in conducting the audit we have remained independent of the Bank.



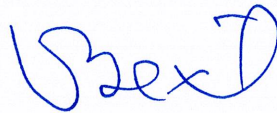
**Audit firm  
ZAHARINOVA NEXIA LTD.**

**Managing Partner  
Dimitrina Zaharinoва**



**Registered auditor, responsible for the audit  
Dimitrina Zaharinoва**

**September 5, 2023  
Sofia, Bulgaria**





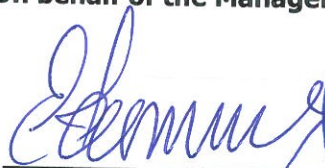
## TURKMEN-TURKISH JOINT-STOCK COMMERCIAL BANK

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

(in thousands of Turkmen manats)

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021
Interest income	4	71,776	68,265
Interest expenses	4	(6,157)	(4,121)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST BEARING ASSETS		65,619	64,144
Accrual of allowance for expected credit losses on interest bearing assets	12	(1,199)	(4,433)
NET INTEREST INCOME		64,420	59,711
Commission income	5	39,505	37,140
Commission expenses	5	(1,919)	(2,410)
Net loss on foreign exchange operations	6	(51)	(380)
Other expenses, net	7	(2,563)	(2,014)
NET NON-INTEREST INCOME		34,972	32,336
Operating expenses	8	(28,407)	(25,522)
PROFIT BEFORE INCOME TAX		70,985	66,525
Income tax	9	(1,205)	(8,157)
NET GAIN/(LOSS) FOR THE YEAR		69,780	58,368
Change in revaluation reserve		-	(6)
TOTAL COMPREHENSIVE INCOME		69,780	58,362

On behalf of the Management



**Ercan Durmus**  
Chairman of Management Board

September 5, 2023  
Ashgabat, Turkmenistan



**Serdar Saparov**  
Chief Accountant

September 5, 2023  
Ashgabat, Turkmenistan

The notes on pages 13-58 form an integral part of the financial statements. The Independent Auditor's Report is on pages 3-7.

# TURKMEN-TURKISH JOINT-STOCK COMMERCIAL BANK

## STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED DECEMBER 31, 2022 (in thousands of Turkmen manats)

	Notes	December 31, 2022	December 31, 2021
<b>ASSETS:</b>			
Cash and cash equivalents	10	1,408,268	1,241,309
Due from banks	11	42,810	162,423
Loans to customers	12	949,166	666,451
Investments to Securities	13	1,555	543,178
Property, plant and equipment	14	5,130	4,879
Right-of-use assets	15	206	402
Intangible assets	16	1,223	1,238
Investment property	17	1,146	1,174
Assets held for sale	18	2,940	2,940
Deferred tax asset	9	4,860	-
Other assets	19	41,264	4,348
<b>TOTAL ASSETS</b>		<b>2,458,568</b>	<b>2,628,342</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES:</b>			
<b>LIABILITIES:</b>			
Due to banks	20	3,262	11,267
Customer accounts	21	1,991,552	2,264,328
Loans received	22	126,353	83,170
Lease liability	15	227	443
Deferred tax liability	9	-	909
Other liabilities	23	8,323	9,154
		<b>2,129,717</b>	<b>2,369,271</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Share capital	24	113,790	113,790
Revaluation reserve		439	439
General reserves		10,987	10,987
Retained earnings		203,635	133,855
		<b>328,851</b>	<b>259,071</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>2,458,568</b>	<b>2,628,342</b>

On behalf of the Management



**Ercan Durmus**  
Chairman of Management Board




**Serdar Saparov**  
Chief Accountant

September 5, 2023  
Ashgabat, Turkmenistan

September 5, 2023  
Ashgabat, Turkmenistan

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# TURKMEN-TURKISH JOINT-STOCK COMMERCIAL BANK

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

	Notes	Share capital	General reserves	Revaluation reserve of PPE	Retained earnings	Total equity
Balance at December 31, 2020		113,790	10,987	445	75,487	200,709
<b>Comprehensive income</b>						
Profit for the year	24	-	-	-	58,368	58,368
Change in revaluation reserve		-	-	(6)	-	(6)
<b>Total comprehensive income</b>		-	-	(6)	58,368	58,362
Balance at December 31, 2021		113,790	10,987	439	133,855	259,071
<b>Comprehensive income</b>						
Profit for the year	24	-	-	-	69,780	69,780
Change in revaluation reserve		-	-	-	-	-
<b>Total comprehensive income</b>		-	-	-	69,780	69,780
Balance at December 31, 2022		113,790	10,987	439	203,635	328,851

On behalf of the Management



**Ercan Durmus**  
Chairman of Management Board

September 5, 2023  
Ashgabat, Turkmenistan




**Serdar Saparov**  
Chief Accountant

September 5, 2023  
Ashgabat, Turkmenistan

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## TURKMEN-TURKISH JOINT-STOCK COMMERCIAL BANK

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2022

(in thousands of Turkmen manats)

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Profit before income tax expenses		70,985	66,525
Adjustments for:			
Net interest income	4	(65,619)	(64,144)
Foreign exchange differences	6	(51)	(982)
Loss from disposal of irrigation system	7	1,821	-
Change in allowance for expected credit losses on interest bearing assets	12	1,199	4,433
Loss from disposal of PPE	14	-	251
Depreciation of property, plant and equipment	14	1,110	1,058
Depreciation of ROU asset	15	196	196
Amortization of intangible assets	16	386	355
Depreciation of investment property	17	28	28
Change in unused vacation provision	23	91	36
Cash flows before changes in working capital		10,146	7,756
Changes in operating assets and liabilities:			
Decrease/(increase) in due from banks	11	53,769	(50,000)
Increase in loans to customers	12	(281,296)	(305,526)
Decrease in obligatory reserve in CBT	10	27,988	65,926
Decrease/(increase) in other assets	19	401	(342)
Decrease in customer accounts	21	(273,306)	(518,746)
Decrease in due to banks	20	(8,291)	(4,014)
(Decrease)/increase in other liabilities	23	(833)	768
Cash outflow from operating activities before taxation and interest		(471,422)	(804,178)
Interest received	4	115,830	41,469
Interest paid	4	(6,074)	(4,034)
Income tax paid	9	(44,380)	(6,387)
Net cash outflow from operating activities		(406,046)	(773,130)

## TURKMEN-TURKISH JOINT-STOCK COMMERCIAL BANK

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

	Notes	For the year ended December 31, 2022	For the year ended December 31, 2021
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, plant and equipment	7, 14	(3,182)	(1,867)
Purchase of intangible assets	16	(371)	(45)
Repayment of government bonds	13	495,000	-
Net cash inflow /(outflow) from investing activities		491,447	(1,912)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Payment of lease liabilities	15	(238)	(206)
Proceeds from loans received	22	43,137	59,961
Net cash inflow from financing activities		42,899	59,755
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		128,300	(715,287)
Effect of changes in exchange rates on cash and cash equivalents	6	-	(13)
CASH AND CASH EQUIVALENTS, at the beginning of the year	10	1,106,038	1,821,338
CASH AND CASH EQUIVALENTS, at the end of the year	10	1,234,338	1,106,038

On behalf of the Management



**Ercan Durmus**  
Chairman of Management Board



September 5, 2023  
Ashgabat, Turkmenistan



**Serdar Saparov**  
Chief Accountant

September 5, 2023  
Ashgabat, Turkmenistan

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