



**JOINT STOCK COMMERCIAL BANK OF
TURKMENISTAN “HALKBANK”**

Financial Statements
for the year ended December 31, 2022

and independent auditors’ report

JOINT STOCK COMMERCIAL BANK OF TURKMENISTAN “HALKBANK”

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JOINT STOCK COMMERCIAL BANK OF TURKMENISTAN "HALKBANK"

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 auditors' responsibilities stated in the independent auditors' 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 Joint Stock Commercial Bank of Turkmenistan "Halkbank" (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, 2020, the results of its operations, cash flows and changes in shareholders' capital for the year then ended, in accordance with International Financial Reporting Standards (hereinafter 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;
- compliance with IFRS; 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 11, 2023 by the management of the Bank.

On behalf of the Management of the Bank:



Arabov M.
Chairman of Management Board

October 11, 2023
Ashgabat, Turkmenistan

Karaev A.
Chief Accountant

October 11, 2023
Ashgabat, Turkmenistan



INDEPENDENT AUDITORS' REPORT

To the Management Board of Joint Stock Commercial Bank of Turkmenistan "Halkbank":

Qualified opinion

We have audited the financial statements of Joint Stock Commercial Bank of Turkmenistan "Halkbank" (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, with the exception of adjustments that may be necessary if complete information is available on the issues described in the part containing 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, the provision for expected credit losses amounted to 158,808 thousand manats and 154,180 thousand manats, respectively (Note 12). 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 the provision 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.

Revaluation of fixed assets

As described in Note 14, the Bank performed revaluation of its property, plant and equipment. As at December 31, 2022 the fair value adjustment was amounting to 8,996 thousand manat (9,301 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 paragraph above in Basis for 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 to the mentioned paragraph.

Material Uncertainty related to going concern

Without further qualifying our opinion we draw your attention to Note 12, 26 and 27 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 June 2023. 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.

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 qualified 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 17 as at December 31, 2022 the Bank had advances paid for construction of residential buildings and dog breeding center. There is a high probability that the construction objects 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.

As described in Note 13 as at December 31, 2022 the Bank had a subsidiary entity SE "Halk Hyzmatlary". 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.

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.

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

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

October 11, 2023

JOINT STOCK COMMERCIAL BANK OF TURKMENISTAN "HALKBANK"

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	285,623	221,293
Interest expenses	4	(101,333)	(70,866)
NET INTEREST INCOME BEFORE ACCRUAL OF ALLOWANCE FOR EXPECTED CREDIT LOSSES ON INTEREST BEARING ASSETS		<u>184,290</u>	<u>150,427</u>
Accrual of allowance for expected credit losses on interest bearing assets	13	(4,628)	(15,306)
NET INTEREST INCOME		<u>179,662</u>	<u>135,121</u>
Commission income	5	116,103	104,899
Commission expenses	5	(17,177)	(16,487)
Net gain on foreign exchange operations	6	3,091	3,142
Other income		594	4,691
Other non-operating expenses, net	7	(40,182)	(67,972)
NET NON-INTEREST INCOME		<u>62,429</u>	<u>28,273</u>
Operating expenses	8	(116,772)	(110,626)
PROFIT BEFORE INCOME TAX		<u>125,319</u>	<u>52,768</u>
Income tax	9	(93,976)	(28,072)
NET PROFIT FOR THE YEAR		<u>31,343</u>	<u>24,696</u>
Other comprehensive income		-	-
Total comprehensive income		<u>31,343</u>	<u>24,696</u>



Arabov M.
Chairman of Management Board

October 11, 2023
Ashgabat, Turkmenistan



Karaev A.
Chief Accountant

October 11, 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.

JOINT STOCK COMMERCIAL BANK OF TURKMENISTAN "HALKBANK"

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	422,508	326,179
Due from banks	11	4,252	4,431
Loans to customers	12	10,952,092	9,485,921
Investments	13	82,515	400,321
Property, plant and equipment	14	197,605	194,589
Intangible assets	15	18,285	18,252
Investment property	16	5,522	5,810
Deferred tax asset	9	25,133	46,404
Other assets	18	88,955	90,317
TOTAL ASSETS		11,796,867	10,572,224
SHAREHOLDERS' EQUITY AND LIABILITIES			
LIABILITIES:			
Due to banks and other financial institutions		165,750	19,250
Customer accounts	19	3,749,217	2,844,528
Loans received	20	7,518,231	7,366,826
Advances received		5,512	4,818
Other liabilities	21	3,443	5,576
		11,442,153	10,240,998
SHAREHOLDERS' EQUITY:			
Share capital	22	303,030	303,030
Revaluation reserve		8,996	9,301
Retained earnings		42,688	18,895
		354,714	331,226
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		11,796,867	10,572,224



Arabov M.
Chairman of Management Board

October 11, 2023
Ashgabat, Turkmenistan

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JOINT STOCK COMMERCIAL BANK OF TURKMENISTAN "HALKBANK"

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

	Notes	Share capital	Revaluation reserve	Retained earnings	Total equity
Balance at December 31, 2020		303,030	9,946	1,316	314,292
Comprehensive income					
Profit for the year		-	-	24,696	24,696
Change in revaluation reserve		-	(645)	645	-
Total comprehensive income		-	(645)	25,341	24,696
Transactions with owners					
Dividends declared		-	-	(7,762)	(7,762)
Total transactions with owners		-	-	(7,762)	(7,762)
Balance at December 31, 2021	22	303,030	9,301	18,895	331,226
Comprehensive income					
Profit for the year		-	-	31,343	31,343
Change in revaluation reserve		-	(305)	305	-
Total comprehensive income		-	(305)	31,648	31,343
Transactions with owners					
Dividends declared		-	-	(7,855)	(7,855)
Total transactions with owners		-	-	(7,855)	(7,855)
Balance at December 31, 2022	22	303,030	8,996	42,688	354,714



Arabov M.
Chairman of Management Board

October 11, 2023
Ashgabat, Turkmenistan

Karaev A.
Chief Accountant

October 11, 2023
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JOINT STOCK COMMERCIAL BANK OF TURKMENISTAN "HALKBANK"

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		125,319	52,768
Adjustments for:			
Net interest income	4	(184,290)	(150,427)
Depreciation of property, plant and equipment	14	11,778	10,834
Amortization of intangible assets	15	2,996	2,402
Depreciation of investment property	16	192	14
Change in allowance for expected credit losses on loans to customers	12	4,628	15,306
Change in allowance for advances paid for construction		7,492	19,284
Change in vacation reserve	21	(1,702)	711
Change in allowance for other assets	18	(16,932)	12,553
Loss on assets disposal		-	(330)
Foreign exchange differences	6	(825)	36
Cash flows before changes in working capital		(51,344)	(36,849)
Changes in operating assets and liabilities:			
(Increase)/decrease in obligatory reserves		(48,586)	31,439
Increase in due from banks		(11)	(3,521)
Increase in loans to customers		(1,435,152)	(1,213,249)
Increase in advances paid for construction		(7,492)	(34,394)
Decrease in other assets		19,865	12,573
Increase in due to banks and other financial institutions		146,500	15,750
Increase in customer accounts		905,587	614,461
Increase in advances received for capital construction		694	618
Decrease in other liabilities		(425)	(142)
Cash outflow from operating activities before taxation and interest		(470,364)	(613,314)
Interest received		277,454	175,829
Interest paid		(101,363)	(70,826)
Income tax paid		(73,423)	(46,050)
Net cash outflow from operating activities:		(367,696)	(554,361)

JOINT STOCK COMMERCIAL BANK OF TURKMENISTAN "HALKBANK"

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	14	(16,191)	(20,276)
Purchase of intangible assets	15	(2,395)	(6,523)
Purchase of investments	13	<u>290,327</u>	<u>(13,649)</u>
Net cash outflow from investing activities		<u>271,741</u>	<u>(40,448)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid		(7,855)	(7,762)
Proceeds from borrowings		<u>151,405</u>	<u>501,642</u>
Net cash inflow from financing activities		<u>143,550</u>	<u>493,880</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		<u>47,595</u>	<u>(100,929)</u>
Effect of exchange rate changes on the balance of cash held in foreign currencies		<u>(31)</u>	<u>(103)</u>
CASH AND CASH EQUIVALENTS, at the beginning of the year	10	<u>131,630</u>	<u>232,662</u>
CASH AND CASH EQUIVALENTS, at the end of the year	10	<u>179,194</u>	<u>131,630</u>



Arabov M.
Chairman of Management Board

October 11, 2023

Ashgabat, Turkmenistan

Karaev A.
Chief Accountant

October 11, 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.

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