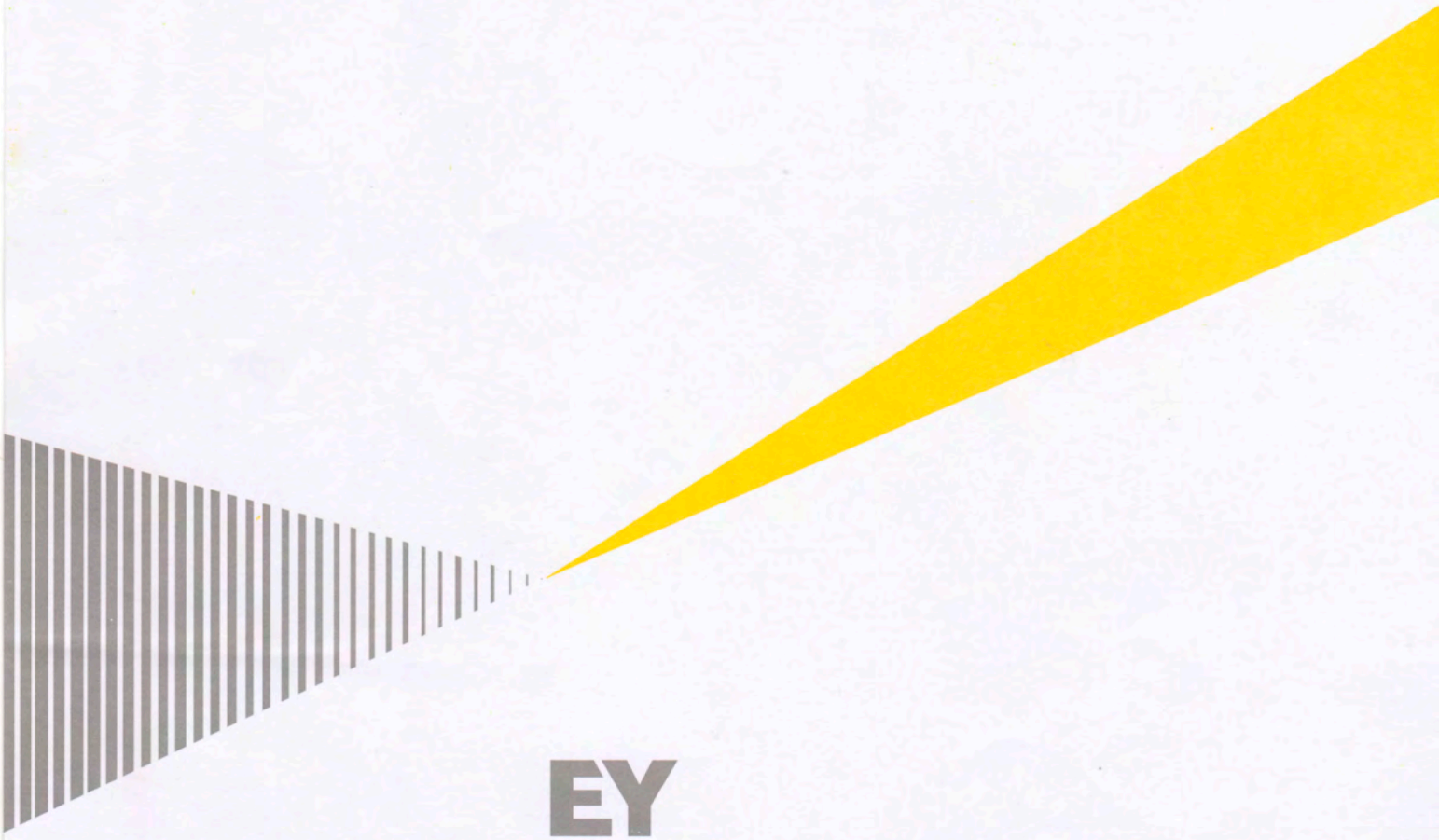

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CJSC SPITAMEN BANK

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

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AC/ 301/16
14 June 2016

Board of Directors
Closed Joint-Stock Spitamen Bank (the Bank)
Dushanbe
Tajikistan

Dear Sirs

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

This is reference to our engagement letter number AC/181(A)/16 dated 29 February 2016, through which we were appointed to carry out the audit of the Bank for the year ended 31 December 2015. Having completed our audit procedures as required under the International Standards on Auditing, we would like to enumerate below the significant matters that came to our attention during the course of the audit. We shall be pleased to sign the audit report once the financial statements of the Bank are approved by the Board of Directors of the Bank.

2. RESPONSIBILITIES OF THE MANAGEMENT AND AUDITORS IN RELATION TO THE FINANCIAL STATEMENTS

While the auditors are responsible for forming and expressing their opinion on the financial statements, the responsibility for their preparation is primarily that of the management of the Bank. The management's responsibilities include the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies and safeguarding of the assets of the Bank. The audit of financial statements does not relieve the management of its responsibilities. Accordingly, our audit of financial statements should not be relied upon to disclose all the errors or irregularities.

3.1 FINANCIAL POSITION OF THE BANK AND THE CAPITAL ADEQUACY RATIO

3.1.1 The loss after taxation of the Bank for the year ended 31 December 2015 is TJS 22,053 thousand and its accumulated losses as at 31 December 2015 aggregated to TJS 15,417 thousand. The net equity of the Bank as at 31 December 2015 is declined by TJS 8,510 thousand from the end of the previous year.

3.1.2 Further, the capital adequacy ratio of the Bank (in respect of regulative capital to total assets) is 7.16% as against the minimum required percentage set by the National Bank of Tajikistan (NBT) of 10%. The NBT has instructed the Bank to comply with the requirement of maintaining minimum capital adequacy ratio (i.e. 10% as in respect of regulative capital to total assets) by 31 August 2016 vide its letter number 05.1.161/292 dated 23 January 2016.

3.1.3 The Spitamen Insurance LLC (the holding company) has provided its full commitment towards the continuity of the operations of the Bank and also committed towards financial support, if needed, to address any liquidity, capital adequacy and solvency issues to enable the Bank to continue its business. In addition, the board of directors in their meeting held on 27 May 2016 resolved to inject further capital to the extent of TJS 16 million and to raise the debt to the extent of TJS 9 million, by the end of June 2016. This will help the Bank in increasing its Capital Adequacy Ratio. In this regard, the holding company provided us a letter of financial support dated 31 May 2016.

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3.2 FOREIGN CURRENCY RISKS

3.2.1 One of the most important economic pillar of Tajikistan's economy is the remittance of foreign currency from Russian Federation (Russia). Due to recent decline in Russian's economy pursuant to steep decline in the oil prices and decline in the value of Russian Ruble against US Dollars and Euro, the economic situation in Russia is not very favorable, which is now reflectin in the economic situation of Tajikistan mainly due to decline in foreign remittance from Russia.

3.2.2 The following table demonstrates the significant devaluation of Tajik Simoni (TJS) as against other foreign currencies over the period of last few years (foreign currency rates as compared to one TJS as at 31 December each year):

3.2.3

Year	USD	Euro	Russian Ruble
2015	6.9902	7.6389	0.1031
2014	5.3079	6.4550	0.0933
2013	4.7741	6.5772	0.1446
2012	4.7644	6.3099	0.1571
2011	4.7585	6.1565	0.1474

3.2.4 The above table shows that the TJS has devalued against the US Dollars over the past five years by approximately 50%.

3.3

3.3.1 Bank's total exposure in foreign currency monetary assets and liabilities as at the year end is disclosed in note 23.3.2 of the financial statements, which shows that the major concentration of Bank's net exposure is in US Dollars (i.e. US Dollars liabilities exceeding US Dollar assets by TJS 50.768 million). Therefore, any material variation in the US Dollar exchange rate against TJS could have significant effect on the profitability of the Bank in the future, if the Bank's net negative exposure remains significantly in the US Dollars.

3.3.2 It is also imperative to note here that the Bank originates loans and advances in foreign currencies. Despite the fact that these loans are repaid in the same currency, their devaluation against the TJS can negatively affect borrowers' ability to repay the loan, which increases the probability of future loan losses.

3.3.3 We understand that the management of the Bank manages its risk of foreign currency exposure by setting limits on foreign exchange transactions and also keeping a close watch on net open positions. However, we recommend that by keeping in view the current economic situation of the country and also pursuant to significant devaluation of TJS against US Dollars, the Bank shall be more vigilant in terms of managing its foreign currency operations and positions.

3.4 ASSESMENT OF LOAN PORTFOLIO OF THE BANK

3.4.1 The gross loan portfolio of the Bank as at the year end was TJS 193 million, against which the Bank has maintained provision of TJS 46.65 million i.e. 24% of the gross portfolio (2014: 6%).

3.4.2 The Bank has made provision against bad loans of TJS 37.83 million during the year based on the guidelines provided by the NBT which requires the Bank to make provision against bad loans on the basis of number of days the loan remains unpaid. The significant increase in the provision against non-performing loans during the year 2015 is mainly due to the current economic situation of Tajikistan which is having its effect on the repayment capacity of the borrowers.

3.4.3 We have been informed by the management of the Bank that the Bank has assessed the repayment capacity of its borrowers and considered that the current provision against the loan portfolio is appropriate and no further provision is required to be made as at the year end in addition to the provision made as required under the guidelines of the NBT. However, we recommend that the Bank shall closely monitor the repayment capacity and financial strength of all borrowers and make additional provision, if deemed necessary.

3.5 CHANGE IN ACCOUNTING POLICY

3.5.1 During the year, the Bank changed its accounting policy in respect of measurement of owned buildings and other real estate, whereby, with effect from the current year, these are carried under the revaluation mode as against past policy of carrying the same under the cost model. The financial impact of the above change in accounting policy is disclosed in note 15.3 of the financial statements.

3.5.2 Carrying the operating fixed assets under the revaluation model is allowed by the International Accounting Standard 16 'Property, Plant and Equipment'. The said accounting standard also requires that the revaluation exercise for assets reported at revalued amounts shall be undertaken with sufficient regularity (preferably between three to five years) to ensure that the carrying amount of such assets does not differ materially from their fair value at the end of the reporting period.

3.5.3 In view of the above, we recommend that the management of the Bank shall undertake the revaluation exercise for assets carried under the revalued model with sufficient regularity and especially when there is volatility in the real estate prices.

3.6 INFORMATION TECHNOLOGY

In order to understand the Bank's Information Technology (IT) environment, assessment of significant changes in the IT environment during the year and identification of IT based significant or business risks, we performed IT audit procedures in order to assess the overall IT environment and the related general controls. In this regard, we performed walkthroughs, tested and evaluated IT general controls for various IT applications.

Based on our audit procedures for testing IT general controls, we noted certain control weaknesses which were discussed and agreed with the relevant management's personnel. The detail of all such weaknesses will be communicated to the Board through our separate management letter in the due course. However, there were certain significant matters, as follows, which we would like to bring to the attention of the Board:

3.6.1 Disaster Recovery Plan (DRP)

There is no formal documentation of DRP available with the Bank. In the absence of a comprehensive documented, approved and well tested DRP, there is a risk that in the event of a disaster or prolonged disruption / outage of some kind, Bank might not be able to continue the operation of business critical processes and functions and recover key IT systems within an acceptable timeframe.

We suggest that the Bank should develop a comprehensive Information Technology DRP, addressing all the critical business functions and systems within the Bank. Further these plans should be periodically tested and reviewed to ensure that all essential aspects have been adequately covered and all relevant individuals are fully aware of their responsibilities in the event of a disaster.

3.6.2 IT Steering Committee

We noted that that there is no IT Steering Committee in place in the Bank. In the absence of an IT steering committee, IT projects and operating performance may not be as per the laid down objectives. This could lead to a potential loss of bank's investment. Further, without an effective IT steering committee, IT Strategic Plan may not be followed or there may be no clear direction for the business IT activity. This may result in corporate objectives going unfulfilled or extending far beyond estimated schedules.

We suggest that IT Steering Committee should be in place at the Bank comprising of members from both IT and other user departments.

3.6.3 IT strategy plan

We understand that Bank does not have an IT Strategy plan. In the absence of formal and approved IT strategy, there is a risk that future IT investments in technology (both in hardware and software) may not be those that meet Bank's short and long term objectives. Further, the IT organization may not be viewed as the provider of effective solutions to business problems impacting systems productivity and user confidence. The Bank should consider developing a formal IT strategic plan, to address requirements of the technology infrastructure needed for meeting the needs of the business.

3.7 REVIEW OF DATA MIGRATION PROCESS

3.7.1 During the year, the Bank implemented a new accounting software namely 'Flexcube' in place of its old accounting system namely 'AumBank'. In order to have assurance on the success of the data migration, we performed review of the data migration process of the Bank from the old to the new system.

3.7.2 In this regard, we performed various procedures including review of documented procedures, identification of data to be migrated and review of related internal controls placed by the management of the Bank. Based on our review, we noted certain internal control weaknesses which are described below:

- Physical sign-off of the management were not available on the data migration reports, documents etc.
- Absence of documentation relating to the data migration simulation, testing, approvals etc.; and
- No approvals in respect of certain areas of data migration which was done manually rather than automatically.

3.7.3 In view of the above issues, we performed additional steps for verification of data migration and by taking into account all aspects, we concluded that the data migration from 'AumBank' to 'Flexcube' was accurate. However, we would like the management of the Bank to take note the above observations in respect of any future plan for shifting from 'Flexcube' to other accounting system.

4. CONTINGENCIES AND COMMITMENTS

We have been informed by the management that there were no contingencies and commitments other than those disclosed in the financial statements.

5. TRANSACTIONS WITH RELATED PARTIES

We have been informed by the management that there were no transactions with related parties during the year other than those disclosed in the financial statements.

6. FRAUD AND ILLEGAL ACTS

The primary responsibility for the prevention and detection of fraud and error rests with both those charged with the governance and the management of an entity. Management, with the oversight of those charged with governance needs to set the proper tone, create and maintain a culture of honesty and high ethics, and establish appropriate controls to prevent and detect fraud and error within the entity.

In order to comply with the requirements of ISA 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', we conducted meetings with senior and middle management personnel and enquired about their knowledge of any fraud and illegal acts. However, no frauds or illegal acts were communicated to us and neither did any fraud came to our attention during the course of our audit.

7. MANAGEMENT LETTER

This letter contains our communication to the Board on significant matters relating to the financial statements, however, we also expect to provide you in the due course a separate management letter containing our observations and recommendations on internal controls and related matters.

We place on record our appreciation of the co-operation and courtesy extended to us by the management during the course of our audit.

Yours faithfully

Ernst & Young Ford Rhodes Sidat Hyder

Ernst & Young Ford Rhodes Sidat Hyder Chartered Accountants KARACHI

OC/SS:bf.

CJSC SPITAMEN BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	31 December 2015	31 December 2014
		----------(TJS '000)----------	
Interest income	5	**38,403**	31,005
Interest expense	6	**(36,339)**	(16,957)
Net interest income		**2,064**	14,048
Provision against loans to customers	13.1	**(37,839)**	(6,314)
Net interest (loss) / income		**(35,775)**	7,734
Foreign exchange gain - net	7	**34,379**	26,728
Fee and commission income - net	8	**6,327**	5,613
Dividend income		**-**	71
Other income		**1**	9
Net operating income		**40,707**	32,421
		4,932	40,155
Operating expenses	9	**23,935**	16,447
Operating (loss) / profit before taxation		**(19,003)**	23,708
Taxation	10	**(3,050)**	(6,508)
(Loss) / profit for the year after taxation		**(22,053)**	17,200
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Surplus on revaluation of property and equipment	21	**16,392**	-
Total comprehensive (loss) / income for the year after taxation		**(5,661)**	17,200

The annexed notes 1 to 29 form an integral part of these financial statements.

Chairman
Saidmurodov N.M

Chief Accountant
Sayismonov R.R.

CJSC SPITAMEN BANK
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	31 December 2015	31 December 2014
		----------(TJS '000)----------	
ASSETS			
Cash in hand and balances with the National Bank of Tajikistan	11	**303,439**	205,391
Due from banks	12	**181,200**	1,254
Loans to customers	13	**146,347**	138,711
Investments	14	**9,897**	714
Property and equipment	15	**47,178**	22,939
Intangible assets	16	**17,142**	9,331
Other assets	17	**10,868**	2,120
Advance Taxation		**2,244**	-
Total assets		**718,315**	380,460
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits	18	**319,654**	52,227
Borrowings	19	**278,884**	246,595
Due to banks		**51,209**	3
Tax payable		**207**	4,989
Other liabilities		**407**	182
Total liabilities		**650,361**	303,996
EQUITY			
Share capital	20	**66,622**	53,622
Additional paid-in capital		**217**	217
General Reserve		**140**	140
Accumulated losses		**(15,417)**	22,485
Other component of equity		**16,392**	-
Total equity		**67,954**	76,464
TOTAL LIABILITIES AND EQUITY		**718,315**	380,460
CONTINGENCIES AND COMMITMENTS	22		

The annexed notes 1 to 29 form an integral part of these financial statements.

Chairman
Saidmurodov N.M

Chief Accountant
Sayismonov R.R.

CJSC SPITAMEN BANK
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2015

	31 December 2015	31 December 2014
	----------(TJS '000)----------	
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) / profit before tax	(19,003)	23,708
Adjustments for non cash items		
Depreciation and amortization expense	2,386	1,105
Interest expense on borrowings	34,201	14,722
Unrealized exchange loss	90,168	16,893
Provision against loans to customers	37,839	6,314
Loss on disposal of Property and Equipment	6	14
	145,597	62,755
(Increase) / decrease in assets:		
Due from banks	(179,946)	250
Mandatory reserve	(9,313)	(2,352)
Loans to customers	(53,976)	(66,606)
Other assets	(8,747)	(1,283)
	(251,982)	(69,991)
Increase / (decrease) in liabilities:		
Deposits	267,427	(19,980)
Due to banks	51,206	(218)
Accounts payable and other liabilities	224	(123)
	318,857	(20,321)
Dividends Paid	(2,849)	-
Taxes paid	(5,588)	(3,944)
Interest paid on borrowing	(34,201)	(14,722)
Net cash generated from / (used in) operating activities	169,834	(46,222)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of property and equipment	-	23
Purchase of intangible assets	(8,533)	(6,373)
Investments made	(9,183)	-
Purchase of property and equipment	(17,398)	(9,271)
Net cash used in investing activities	(35,114)	(15,621)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	105,476	177,903
Issuance of share capital	13,000	8
Net cash generated from financing activities	118,476	177,911
Net increase in cash and cash equivalents during the year	253,196	116,068
Cash and cash equivalents at beginning of the year	201,182	85,114
Cash and cash equivalents at end of the year	454,378	201,182

The annexed notes 1 to 29 form an integral part of these financial statements.

Chairman
Saidmurodov N.M

Chief Accountant
Sayismonov R.R.

CJSC SPITAMEN BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital	Additional paid-in capital	General reserve*	Surplus on revaluation of property and equipment	Accumulated losses	Total
	(TJS '000)					
Balances at 31 December 2013	50,114	217	140	-	8,785	59,256
Issuance of ordinary share capital	8	-	-	-	-	8
Issued as bonus shares	3,500			-	(3,500)	-
Profit for the year	-	-	-	-	17,200	17,200
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	17,200	17,200
Balances at 31 December 2014	53,622	217	140	-	22,485	76,464
Issuance of ordinary share capital						
Issued as bonus shares	13,000	-	-	-	(13,000)	-
Dividend Paid	-	-	-	-	(2,849)	(2,849)
Loss for the year	-	-	-	-	(22,053)	(22,053)
Other comprehensive income	-	-	-	16,392	-	16,392
Total comprehensive loss for the year	-	-	-	16,392	(22,053)	(5,661)
Balances at 31 December 2015	**66,622**	**217**	**140**	**16,392**	**(15,417)**	**67,954**

The annexed notes 1 to 29 form an integral part of these financial

* The general reserve includes appropriations of retained earnings which are required under the legislation of the Republic of Tajikistan

Chairman
Saidmurodov N.M

Chief Accountant
Sayismonov R.R.