



Financial sector in Turkmenistan and Deutsche Bank in Turkmenistan

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Business environment for the development of banking system

- Positive steps with important changes since May 2008
 - Unification of the dual exchange rates into a single official exchange rate
 - Establishment of the Interbank Currency Exchange in 2008 with daily trading
 - Permission for all commercial banks to open accounts abroad with Western banks and offer international business to their clients
 - Establishment of a Stabilisation Fund under leadership of Ministry of Finance
 - Introduction of a new currency Manat starting 1 January 2010 (denomination)
- Program for development of banking industry until 2030 adopted President and CBT
- New “Law on Central Bank of Turkmenistan” and “Law on Commercial Banks and Banking” adopted in April 2011
- Update of Currency Regulation Rules is in process

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Overview and analysis of Turkmen banking system I

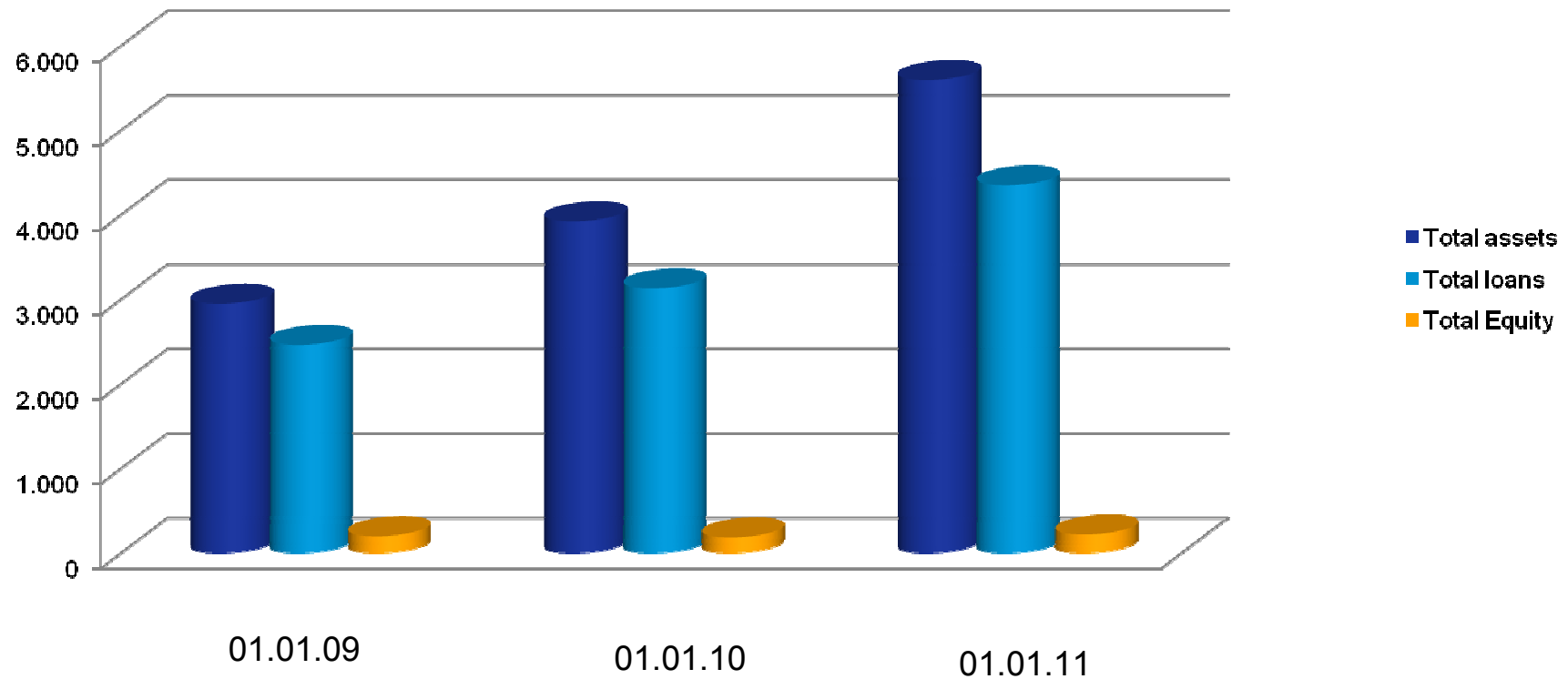
- Classical two tier banking system with Central Bank of Turkmenistan as regulator and 11 commercial banks
- Structure of commercial banks: 5 state owned banks, 3 joint stock banks, 1 joint venture bank, 2 foreign banks with total of 131 branches and 6.044 employees as per 01/2011
- 2 Representative Offices of Western European banks (*Deutsche Bank AG with license No. 1 since 1997 and Commerzbank AG with license No. 2 since 2008*)
- Banking system is dominated by state owned banks (*e.g. 71% of funds from private clients*)
- Substantial growth rates in last 3 years: 79% in 2008, 33% in 2009 and 43% in 2010
- Total Assets USD 5.6bn - comparatively low inter-mediation in the economy measured by “Total assets/GDP” or “Total Deposits/GDP”
- Limitation of banking activity in the real economy by banks’ capital base of USD 220mn (*2 banks capital \leq USD 3.5mn, 4 banks capital \leq US 7mn, 5 banks capital \geq 7mn*)

Overview and analysis of Turkmen banking system II

- Majority of loans provided to state owned companies (*share of loans in local currency as per Jan 2011 is 85%, most probably higher share in total loans, whereas share of loans in local currency to total loans 79%*)
- Small share of loans to private persons and entrepreneurs (*as per June 2010 by 14%*)
- By end of 2010 only 3 commercial banks will have an external auditor and financial statements by International Financial Reporting Standards (IFRS)
- Adopted in 12/2010 “Law on Accounting and Financial Reporting” requests all banks to introduce IFRS and invite independent auditors for all banks starting 2011 – companies will report by local standard, but obliged to publish results
- Turkmenistan economy is cash dominated
- Clients are limited to one account and bank in foreign currency (*mainly USD*)

Development of assets, loans and capital in 2009 - 2011

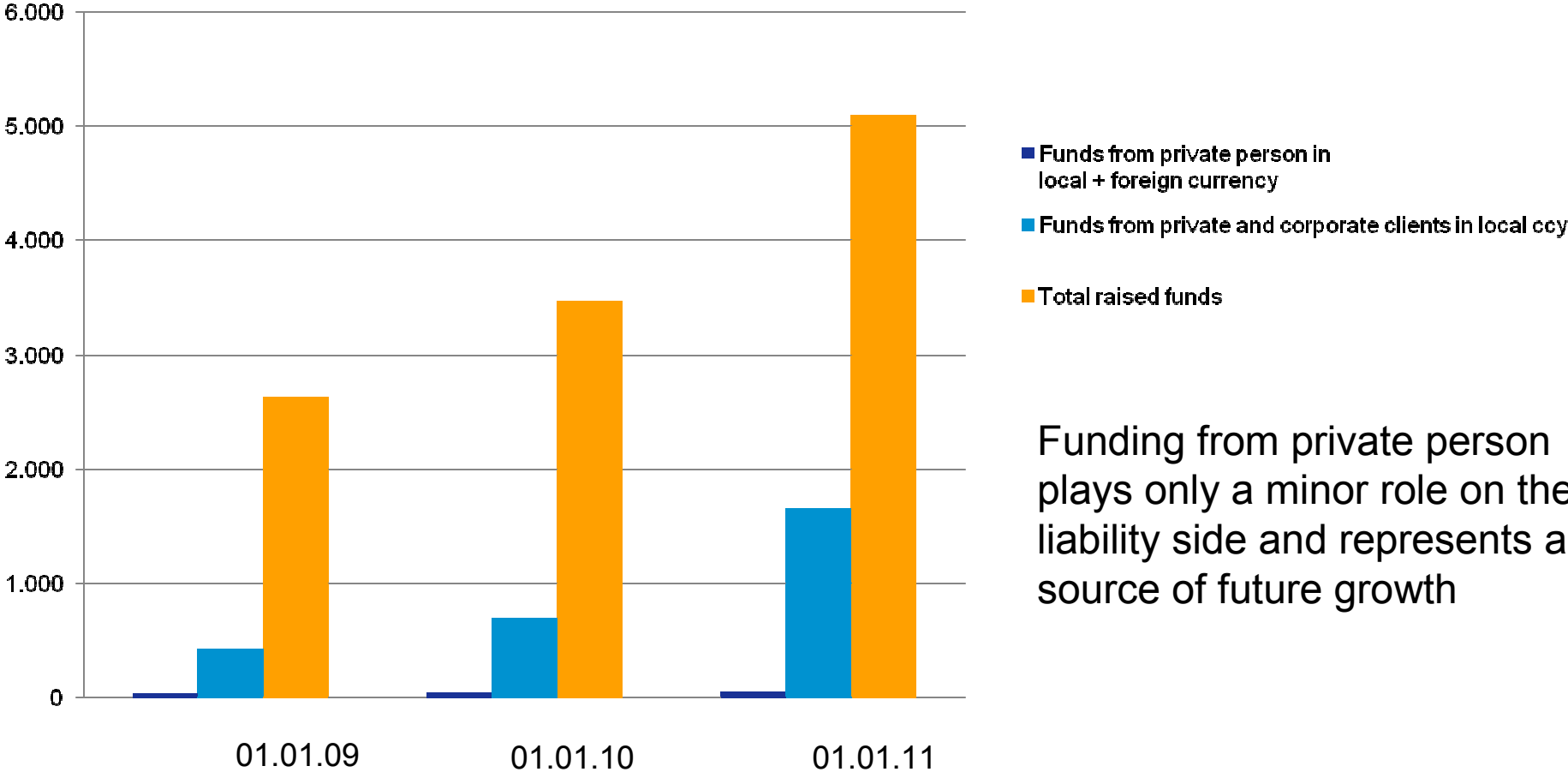
Chart on development of assets, loans and capital since 01/2009



The development of equity does not correspond to development of assets and loans:
Total Equity to Total Assets 3,9% and Charter Capital to Total Assets 2,4%

Development of raised funds in 2009 - 2011

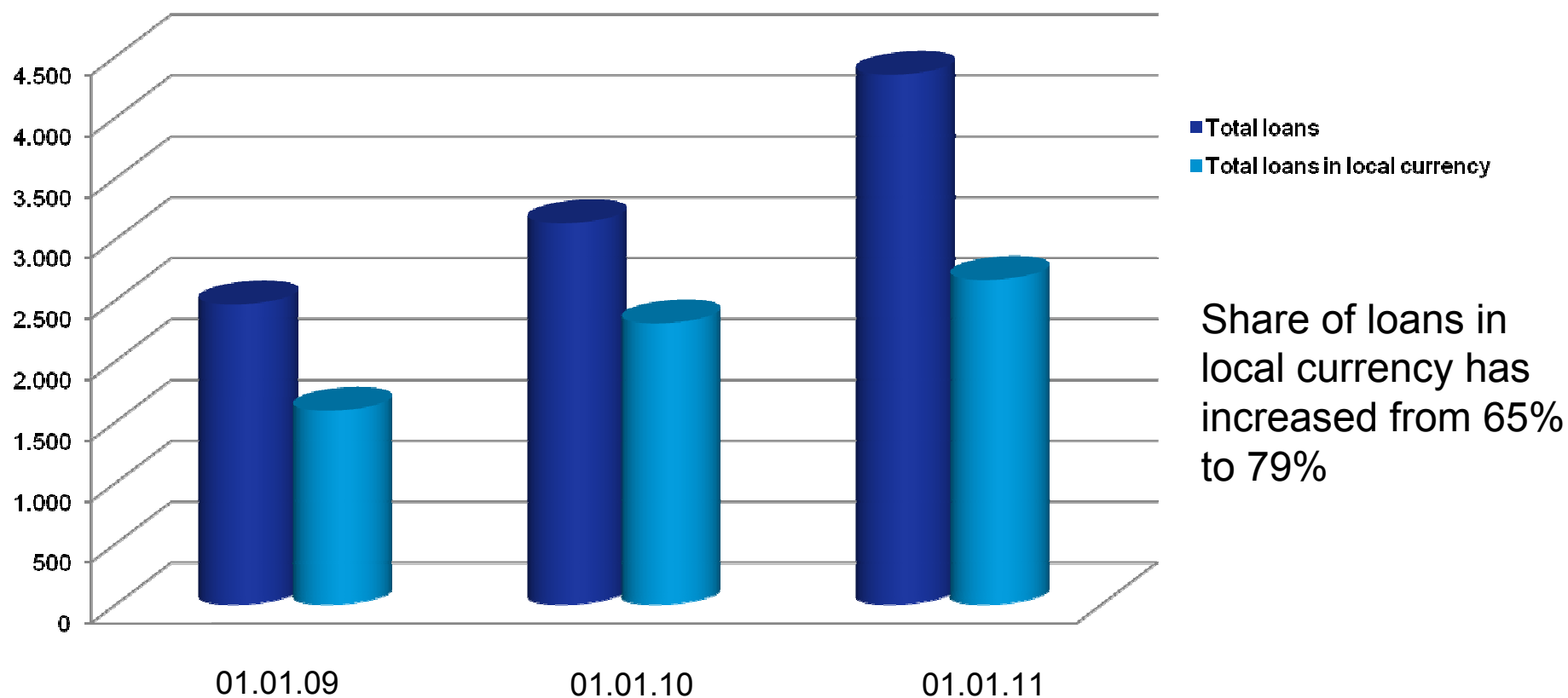
Chart on development of raised funds total, funds in local currency + from private person



Funding from private person plays only a minor role on the liability side and represents a source of future growth

Development of loans in 2009 - 2011

Chart on development of total loans and loans in local currency



Intermediation of banking industry in the economy

Country	Total Assets / GDP	Total Deposits / GDP
Czech Republic	115%	70%
Bulgaria	108%	60%
Ukraine	102%	38%
Russia	67%	31%
Kazakhstan	79%	29%
Turkmenistan	ca. 22%	ca. 5%
EURO zone	346%	107%

Intermediation of the banking industry in Turkmenistan shoes a big potential for growth

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Deutsche Bank is present in 12 out of 30 countries in Central & Eastern Europe (worldwide in 72 countries)



Onshore business operations



Greece



Hungary



Russia



Czech Rep.



Poland



Ukraine

Representative offices



Kazakhstan



Turkmenistan



Serbia & Montenegro



Romania



Bulgaria



Croatia

Deutsche Bank in Turkmenistan – Active since 1992



1992: Deutsche Bank opens first accounts for Turkmen banks

1996: Co-operation Agreement between DB and Government

1997: Opening of Representative in Ashgabat: License No. 1

1998: Financing of Lube Oil Plant in Turkmenbashi

2000: New Co-operation Agreement with Turkmen Government

2002: Financing of Diesel Hydrotreater at Refinery Turkmenbashi

1993-2009: Worldwide main partner in handling of import and export transactions in all areas

2008/2009: Opening of accounts for Turkmen commercial banks after Decree No. 9847

Deutsche Bank in Turkmenistan – Product Range

- Clearing / Cash Management in major foreign currencies: USD, EUR, CHF, JPY by main clearing centres including in Frankfurt, New York and London
- Handling of export and import transactions via Letters of Credits and Guarantees by all Deutsche Bank's branches / subsidiaries at exporters' / importers' domicile worldwide
- Foreign Exchange transactions, mainly USD against EUR
- Structured Trade and Export Financing including involvement of all major Export Credit Agencies worldwide
- Asset Management

Comment payment conditions in the trade business with Turkmenistan I

- **Clean payment:** unsecured, of performances rendered, and after issue of the respective certificate by the partners to the contract
- **Advance payment:** payable against the presentation of an Advance Payment Guarantee. Maximum quota allowed for an advance payment amounts to 25 % of the contract value. APG has to issued by a “first class Western bank” (minimum rating „A“, by S&P or „A2“ by Moody’s or „A“ by Fitch.
- **Documentary letter of credit (“LC”):** as the most common payment instrument for securing payment for cross border transactions. It is highly recommended to get in contact with the competent bank before final conclusion of the contract to ensure that the LC is drafted along the terms and conditions of the contract and that the documents required can be presented conform to the LC terms and conditions. Since mid 2009, Central Bank of Turkmenistan is aiming to request to include documents which can be produced only in Turkmenistan (Customs Clearance Declaration; Certificate of Acceptance from Turkmenstandartlary ; Act of Acceptance signed by both parties of the contract.

Comment payment conditions in the trade business with Turkmenistan II

- **Progress payments:** as the case may be unsecured, especially for construction works to be performed within the country, in form of monthly progress of works payments on the basis of a report on monthly progress of works accepted by both parties to the contract in writing.
- **Retention money:** As a general rule, an amount of 5 % of the contract value is retained from each invoice paid, to be disbursed after the elapsed of the Defects Liability Period and issue respectively signature of the Final Acceptance Certificate agreed upon, which is usually twelve months after the issue and signing of the Provisional Acceptance Certificate.