# **Audited Project Financial Statements**

Project Number: 44060-024 Loan/Grant Number: 3093

Period covered: 25 November 2014 to 31 December 2015

KAZ: Small and Medium Enterprise Investment Program – Tranche 2

Prepared by: Bank CenterCredit

For the Asian Development Bank Date received by ADB: 16 August 2016

The audited project financial statements are documents owned by the borrower. The views expressed herein do not necessarily represent those of ADB's Board of Directors, Management, or staff. These documents are made publicly available in accordance with ADB's Public Communications Policy 2011 and as agreed between ADB and Bank CenterCredit.

Republic of Kazakhstan: Small and Medium Enterprise Investment Program Loan No.3093-KAZ (Tranche 2) Statement of Utilization of Funds for the year ended 31 December 2015

and Independent Auditor's Report

ASIAN DEVELOPMENT BANK

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PUBLIC MANAGEMENT, FINANCIAL SECTOR
AND TRADE DIVISION
(CWPF)

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### INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Bank CenterCredit Joint Stock Company

We have audited the accompanying Statement of Utilization of Funds (hereinafter the "Report") of "Investment program for the development of small and medium enterprises of the Republic of Kazakhstan" (hereinafter the "Project"), implemented by Joint Stock Company Bank CenterCredit (hereinafter the "Bank") which comprises the Statement of Utilization of Funds, for the year ended 31 December 2015 and a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for financial statements

Management of the Bank is responsible for preparation and fair presentation of financial statement in accordance with the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants and for such internal controls that the management determine to be necessary to enable the preparation of the financial statements that are free from significant misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (hereinafter the "ISA") applicable to the audit of financial statements and to compliance auditing, with special reference to ISA 800 "The independent Auditor's Report on Special Purpose Audit Engagements". Those standards require that we comply with relevant ethical principles and plan and perform the audit to obtain reasonable assurance whether the Report is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In assessing such risks, the auditor considers internal controls relevant to the preparation and fair presentation of the financial statements by the entity, 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 entity's internal controls. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the accompanying Statement of Utilization of Funds presents fairly, in all material respects, the cash movement of the Bank for the year ended 31 December 2015 in accordance with International Financial Reporting Standards.

BDO Kazakhstan LLP

State License No.15003448 for auditing activities as issued by the Committee for Financial control, the Ministry of Finance of the Republic of Kazakhstan dated 19 February 2015.

30 June 2016 Almaty Director T.A. Omarov

Auditor A. Mussagul

Auditor's qualifying certificate No.0000393

issued by the Qualification Commission for Auditors Certification 25.04.1998

## ANNUAL STATEMENT OF UTILIZATION OF FUNDS BANK CENTRECREDIT JSC for the year ended 31 December 2015

(in US dollars)	Notes	2014	2015	Cumulative
Opening balance		(m)	60 933 096	
Amount received from DAMU	4	61 000 000	. /	61 000 000
Loan to SME		( <b>=</b> )	(59 763 921)	(59 763 921)
Translation (loss)/gain		(66 904)	(1 169 175)	(1 236 079)
Closing balance		60 933 096	=	

Accounting policies and explanatory notes on pages 6 to 8 form an integral part of these financial statement

Director of Corporate Finance Department

M.M. Nurgazin

30 June 2016 Almaty

# 1. General information

On 29 September 2010, the Asian Development Bank (hereinafter - ADB) approved a multitranche financing facility (MFF) for the Kazakhstan Small and Medium Enterprise Investment Program for an aggregate amount not exceeding 500 million US dollars. This is ADB's first sovereign operation that provides local currency (tenge) fixed interest rate financial intermediation loans which directly mitigate foreign exchange, interest rate and tenor mismatch risks for participating financial institutions (PFIs) and their small and medium-sized enterprise (SME) clients in Kazakhstan. Experience has shown that these financial risks have been a significant cause of stress for SMEs and their banks. Damu Entrepreneurship Development Fund JSC (hereinafter - Damu) (Kazakhstan national/state company) is committed, and implements its SME support programs in Kazakhstan that form an integral part of its recently adopted Action Plan to Improve SME Access to Finance for 2010-2015.

For the second tranche, Damu requested a loan of 122million US dollars (equivalent to 22.5 billion tenge) from the ADB ordinary financial resources under the guarantee of the Republic of Kazakhstan for on-lending through the allocation of sub-loans to qualified PFI for the financing of working and investment loans, leases and other financial products on the basis of the relevant market conditions, provided to eligible small and medium enterprises for funding relevant projects in Kazakhstan.

On 29 October, 2014, with a view to financing SMEs in Kazakhstan within the framework of the ADB Small and Medium Enterprise Investment Program, ADB, Damu and Bank CenterCredit JSC (the Bank acts as a PFI) concluded a Loan Agreement to finance small and medium enterprises for the amount of 61,000,000 US dollars.

The second tranche was expected to be utilized starting from September 2014 to December 2015 but implementation actually commenced as from January 2015.

The purpose of the project

The purpose of the project is to create jobs and increase economic growth through the development of SMEs.

## 2. Basis of preparation

These statements have been prepared in accordance with International Public Sector Accounting Standard (""IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board.

The reporting period for this project is the financial year ended 31 December 2015.

The Statements are presented in the United States dollars (hereinafter -"US dollars"), which is the financial statement representation currency. The Bank's functional currency is tenge.

Tenge is not a freely convertible currency outside the Republic of Kazakhstan and, accordingly, any conversion of tenge to the dollar should not be considered as a representation of the fact that tenge amounts have been, could be or will in the future be converted into US dollars at the exchange rate of reporting date, or any other exchange rate.

## 3. Significant accounting policies

### a) Foreign currency

This Report is presented in US dollars for the purposes of reporting to the ADB. Functional currency of the Bank and funding of SMEs is Kazakhstani tenge (hereinafter - tenge).

Cash receipts and payments arising from transaction in a foreign currency are recorded in the presentation currency by applying to the foreign currency of the exchange rate amount between the presentation currency and the foreign currency at the date of receipts and payments. The rates applied for translation purposes based on the rates published by the National Bank of Kazakhstan (hereinafter - NBK) as these are the reference rates commonly used for foreign currency denominated contracts in Kazakhstan.

#### b) Cash basis of accounting

Cash method of accounting is a basis of accounting that recognizes transactions and other changes in the financial position of an entity only when cash is received or paid.

#### c) Cash

Disbursement procedures from ADB are implemented through the imprest fund procedure. In accordance with the Loan Disbursement Handbook, Damu established a bank account under its name at an acceptable to ADB commercial bank. The currency of the account is in US dollars. Each PFI receives the proceeds of the relevant subloan from Damu.

Upon receiving the loan, each PFI enters into a swap arrangement with the National Bank of Kazakhstan to obtain funds in Kazakhstani tenge (Tenge). Such swap arrangements ensure that the currency risk is hedged as further financing of SMEs is implemented in tenge.

## d) Project expenditures

Expenditures under the project funds are recognized in the period when they were actually paid. The Bank undertakes to return the money received from the repayment of previously issued loans to SMEs within a reasonable period of time to redirect the financing of new potential SME borrowers in accordance with the terms of the Agreement. This money can be used to finance the same potential SME borrower, from which the released funds were received.

## 4. Utilization of funds

2015	in Tenge	In US dollars
Openning balance	11 111 150 000	60 933 096
Loan to SME	(11 111 150 000)	(59 763 921)
Repaid loan by SME during the year	3 931 770 611	16 495 833
Additional SME loans from repaid initial SME loans	(3 713 989 000)	(15 976 225)
Translation (loss)/gain*		$(1\ 047\ 249)$
Closing balance	217 781 611	641 534

Full utilization of funds (Tranche 2) was implemented before July 2015. Under the agreement, the Bank has the right to grant additional loans from the amount of repaid loans. Thus, during the period from July to December 2015 the Bank granted an additional loans in the amount of 15.9 mln US dollars (amount of loan repaid was 16.5 mln. US dollars).

\*In August 2015 National Bank of Kazakhstan made a transition of tenge to a freely floating rate that caused a significant fall of Kazakhstani tenge against major foreign currencies. The exchange rates during the year were as follows:

- December 31, 2014: 1 USD / 182.35 KZT

- August 31, 2015: 1 USD / 237.66 KZT

- December 31, 2015: 1USD / 339.47 KZT.

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