

# 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: Tsesna Bank

For the Asian Development Bank

Date received by ADB: 30 June 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 Tsesna Bank.

**Project “Kazakhstan Small and Medium Enterprise  
Investment Program – Tranche 2”,  
financed under Project Agreement No. 3093-KAZ, between Joint  
Stock Company “Tsesnabank” and Asian Development Bank**

Financial statements

*with independent auditors' report  
for the year ended 31 December 2015*

**Project “Kazakhstan Small and Medium Enterprise  
Investment Program – Tranche 2”,  
financed under Project Agreement No. 3093-KAZ,  
between Joint Stock Company “Tsesnabank”  
and Asian Development Bank**

**CONTENTS**

---

Independent auditors’ report

**Financial statements**

Statement of utilization of funds .....	1
Notes to the financial statements.....	2

## **Independent auditors' report**

To the management of the Joint Stock Company "Tsesnabank":

We have audited the accompanying financial statements of the Project "Kazakhstan Small and Medium Enterprise Investment Program – Tranche 2" (the "Project") financed under the Project Agreement No. 3093-KAZ between Joint Stock Company "Tsesnabank" (the "Bank") and Asian Development Bank, which comprise the statement of utilization of funds for the year ended 31 December 2015, and a summary of significant accounting policies and other explanatory information (the "Financial statements").

### **Management's responsibility for the financial statements**

Management of the Bank is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards (IPSAS) "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the financial reporting provisions of the Project Agreement No. 3093-KAZ between Joint Stock Company "Tsesnabank" and Asian Development Bank, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' 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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting 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 financial statements present fairly, in all material respects, the cash receipts and payments of the Project for the year ended 31 December 2015 in accordance with International Public Sector Accounting Standards (IPSAS) "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and the financial reporting provisions of the Project Agreement No. 3093-KAZ between the Joint Stock Company "Tsesnabank" and Asian Development Bank.

*Ernst & Young LLP*

29 June 2016  
Astana, Kazakhstan

Project “Kazakhstan Small and Medium Enterprise  
Investment Program – Tranche 2”,  
financed under Project Agreement No. 3093-KAZ,  
between Joint Stock Company “Tsesnabank”  
and Asian Development Bank

Financial statements

## STATEMENT OF UTILIZATION OF FUNDS\*

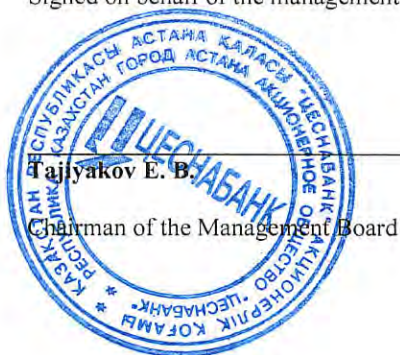
For the year ended 31 December 2015

*Thousands of tenge*

		<i>Notes</i>	<i>2014</i>	<i>2015</i>	<i>Cumulative</i>
Opening loan principal balance			–	11,111,150	11,111,150
Received loan principal during the year from DAMU			11,111,150	–	
Repaid loan principal during the year to DAMU			–	–	
Loans to SMEs:					
	Issued loan principal		–	(13,062,899)	
	Repaid loan principal		–	2,813,331	
Ending loan principal balance			11,111,150	861,582	861,582

\* The amounts in the Statement of Utilization of Funds represent gross principal amounts and do not include interest and allowances for impairment.

Signed on behalf of the management of the Bank:



Tajiyakov E. B.  
Chairman of the Management Board

Notes on page 2 form an integral part of these special purpose financial statements.



**Project “Kazakhstan Small and Medium Enterprise  
Investment Program – Tranche 2”,  
financed under Agreement No. 3093-KAZ,  
between Joint Stock Company “Tsesnabank”  
and Asian Development Bank**

## **NOTES TO THE FINANCIAL STATEMENTS**

---

### **1. BACKGROUND AND NATURE**

Tsesnabank JSC (the “Bank”) was registered as an Open Joint Stock Company in 1992 in accordance with legislation of the Republic of Kazakhstan. In 2003, due to changes in legislation, the Bank was re-registered as a Joint Stock Company.

The Bank’s principal business activity is banking operations within the Republic of Kazakhstan. The Bank operates under general license for conducting banking and other activities and operations on securities market No.1.2.35/225/37, issued by the National Bank of the Republic of Kazakhstan (the “NBRK”) dated 30 November 2015, which supersedes the previous licenses. The Bank is a member of the state deposit insurance system in Kazakhstan.

In 2010 Asian Development Bank (“ADB”) approved the USD 500 million multitranches financing facility for the Kazakhstan Small and Medium Enterprise Investment Program (the “Program”). Under the Tranche 2 of the Program (the “Project”), JSC “Entrepreneurship Development Fund “Damu” (“DAMU”) requested a loan of USD 122 million from ADB, guaranteed by the Government of Republic of Kazakhstan, for its relending through sub-loans to qualified second-tier financial institutions, including the Bank, to fund their respective market-based working capital and investment loans, leases, and other financing products provided to eligible small and medium businesses for eligible subprojects in Kazakhstan. The Project implementation started in October 2014.

### **2. BASIS OF PREPARATION**

The Statement of Utilization of Funds (the “Statement”) has been prepared in accordance with International Public Sector Accounting Standards (IPSAS) Financial Reporting Under the Cash Basis of Accounting issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants, and includes only loan principal balances before impairment allowance as at 31 December 2015 and 2014 and movement in loan principal issued to sub-borrowers and loan principal repayments received from sub-borrowers. Accordingly, the Statement is prepared by the Bank in accordance with the Loan agreement No. 3093-KAZ between DAMU and ADB, and the Project Agreement No. 3093-KAZ between the Bank and ADB.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Provisions of accounting policy described below were consistently applied in reporting periods presented in these financial statements.

#### ***Cash basis of accounting in these financial statements***

In these financial statements receipts and payments are recognised when they are incurred.

#### ***Reporting entity***

Tsesnabank JSC

The Statement of Utilization of Funds solely reflects the financial status and position of the Project funded by ADB and implemented by the Bank.

#### ***Reporting Period***

The reporting period is the year ended 31 December 2015.

#### ***Presentation currency***

These financial statements are presented in thousands of tenge, unless otherwise indicated.

### **4. DATE OF ISSUE**

The financial statements were approved for issue by the Management of the Bank on 29 June 2016.

**Joint Stock Company “Tsesnabank”**

*Independent Reasonable Assurance Report on Compliance with the  
specific provisions of the Project agreement No. 3093-KAZ for the  
year ended 31 December 2015*

## Independent Reasonable Assurance Report

To the Board of Directors of Joint Stock Company “Tsesnabank” (the “Bank”) and Asian Development Bank (“ADB”)

### *Subject matter and Criteria*

We have been engaged to perform an independent reasonable assurance engagement in connection with the following:

- compliance of the Bank with the specific provisions of the Project agreement No. 3093-KAZ dated 29 October 2014 concluded between the Bank and ADB (the “Project Agreement”), in relation to the use of proceeds of the loan withdrawn from ADB for the purpose of the Small and Medium Enterprise Investment Program – Tranche 2 (the “Project”); and
- compliance of the Bank with the specific provisions of the ADB’s Loan Disbursement Handbook in relation to the maintenance of adequate supporting documentation to support liquidations submitted to “Entrepreneurship Development Fund “Damu” (“DAMU”) and that the expenditures are eligible for financing under the Project Agreement.

### *Management’s Responsibility*

Management of the Bank is responsible for:

- compliance with the specific provisions of the Project Agreement in relation to the utilisation of proceeds of the loan withdrawn from ADB for purposes of the Project; and
- compliance with the specific provisions of the ADB’s Loan Disbursement Handbook in relation to the maintenance of adequate supporting documentation to support liquidations submitted to DAMU and that the expenditures incurred were eligible for financing under the Project Agreement.

### *Our Responsibility*

Our responsibility is to report on the subject matter (as specified in Section “Subject matter and Criteria”) based on our work performed.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 “Assurance Engagements other than Audits or Reviews of Historical Financial Information”. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance about whether the subject matter is in compliance, in all material respects, with the specified criteria (as specified in the Section “Subject matter and Criteria”).

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



### ***Summary of the Work Performed***

The scope of our work included the following procedures as specified in the Section "Subject matter and Criteria":

- testing of controls on a sample basis for authorization of loans disbursed during the year ended 31 December 2015 based on the Bank's internal policies and procedures implemented for the issuance of sub-loans by the Bank in accordance with the Project Agreement;
- checked on a sample basis whether responsible persons for the Project operation were appointed by the Bank in accordance with the requirements of the Project Agreement and whether these persons operated during the year ended 31 December 2015 in accordance with the Project Agreement;
- on a sample basis tested compliance of the Bank's sub-borrowers and sub-projects with required criteria for lending;
- on a sample basis tested that the expenditures incurred under the Project were eligible for financing in accordance to the requirements of the Project Agreement.
- on a sample basis traced loans issued by the Bank to its sub-borrowers as well as disbursements to the Bank from ADB through DAMU to supporting documentation (such as withdrawal applications, letters of authority to sign, approvals of loan disbursements to sub-borrowers by the Bank's Credit Committee, loan agreements with the Bank's sub-borrowers, payment slips on disbursement etc.);
- on a sample basis tested repayments of loans by the Bank's sub-borrowers during the year ended 31 December 2015 in accordance to the repayment schedules stipulated in the loan agreements between the Bank and its sub-borrowers.

### ***Reasonable Assurance Opinion***

In our opinion:

- the Bank has complied, in all material respects, with the specific provisions of the Project Agreement in relation to the utilisation of proceeds of the loan withdrawn from the ADB for purposes of the Project; and
- the Bank has complied, in all material respects, with the specific provisions of the ADB's Loan Disbursement Handbook in relation to the maintenance of adequate supporting documentation to support liquidations submitted to DAMU and that the expenditures incurred were eligible for financing under the Project Agreement.

### ***Other Matter – Inherent Limitations***

Without modifying our reasonable assurance opinion, we draw attention to the fact that inherent limitations exist in assurance engagements, due to the selective testing of the information being examined. Therefore fraud, error or non-compliance may occur and not be detected. Non-financial data may be subject to more inherent limitations than financial data, given its nature and methods used for determining or estimating such data. These inherent limitations may influence the evaluation of the subject matters against the criteria (as specified in Section "Subject matter and Criteria").

***Distribution of the Report***

This report is intended for the use by the Bank in its communication to ADB regarding its compliance with the specific provisions of the Project Agreement and ADB's Loan Disbursement Handbook. This report was prepared according to the terms of the agreement N° GFS-2016-00108 dated 28 April 2016 between us and the Bank (the "Assurance Agreement") and is not intended for the benefit of any other readers. Our cumulative liability with respect to any damage or loss connected with this report may not exceed the fees received under the aforementioned Assurance Agreement. We do not accept any liability if ADB does not accept the terms of the Assurance Agreement on which this report is prepared.

*Ernst & Young LLP*

29 June 2016

Astana, Kazakhstan

## **JOINT STOCK COMPANY “TSESNA BANK”**

### **Statement of management’s compliance with provisions of the Project agreements and ADB’s Loan Disbursement Handbook**

The Loan agreement No. 3093-KAZ between the JSC “Entrepreneurship Development Fund “Damu” (“DAMU”) and Asian Development Bank (“ADB”) (the “Loan Agreement”) under “Small and Medium Enterprise Investment Program – Tranche 2” (the “Project”) was signed on 29 October 2014. In accordance with the Loan Agreement, ADB provides a loan in the amount of USD 122,000,000 to DAMU from ADB’s ordinary capital resources, guaranteed by the Government of the Republic of Kazakhstan, for its relending through sub-loans to qualified participating financial institutions to fund their respective market-based working capital and investment loans, leases, and other financing products provided to eligible small and medium businesses for eligible subprojects in Kazakhstan.

The Sub-Loan Agreement No. 36-ABPII (the “Sub-loan Agreement”) between Joint Stock Company “Tsesnabank” (the “Bank”) and DAMU was signed on 29 October 2014 for the amount of USD 61,000,000. In accordance with the Sub-loan Agreement, a loan in the amount of KZT 11,111,150 thousand was provided to the Bank for the purpose of implementing the Project. The loan from ADB under the Sub-loan Agreement is fully repayable to DAMU on 5 September 2019, as set forth in the repayment schedules in Appendix No.1 to the Sub-loan Agreement.

The Project Agreement No. 3093-KAZ between the Bank and ADB (the “Project Agreement”) was signed on 29 October 2014 to set out specific provisions that the Bank shall comply with in respect to its sub-borrowers, sub-projects and sub-loans.

Responsible persons for the Project operation comprising of the Head of the Department for Small and Medium Business, a project monitoring specialists and Business projects’ Credit Risk Management Department specialists of the Bank were appointed in accordance with the Project Agreement with the purpose of monitoring the compliance with requirements of the Project Agreement and project implementation.

### ***Management’s responsibility***

Management is responsible for the Bank’s compliance with the provisions of the Loan Agreement in accordance with requirements of the Project Agreement and ADB’s Loan Disbursement Handbook, implementation and maintenance of internal control, maintenance of adequate supporting documentation to support compliance with the claims to ADB for reimbursements of expenditures incurred, which are eligible for financing under the Project Agreement and ADB’s Loan Disbursement Handbook.

### ***Management’s representation***

Management used the specific provisions set out in the Project Agreement in relation to the loans issued to the Bank’s sub-borrowers from funds received under the Project during the year ended 31 December 2015.

### ***Management's confirmation***

Management confirms that loan principal issued to sub-borrowers under the Project before impairment allowance during the year ended 31 December 2015 in the total amount of KZT 13,062,899 thousand net of repaid by sub-borrowers loan principal in the amount of KZT 2,813,331 thousand during the same period is in full compliance with the provisions of the Project Agreement and the ADB's Loan Disbursement Handbook.

**On behalf of the Management Board of the Bank:**

**Tajiyakov E.B.**



**Chairman of the Management Board**

29 June 2016



**ANNUAL STATEMENT OF UTILIZATION OF FUNDS**  
**Tsesnabank JSC**  
**For the year ended 31 December 2015**

*(in thousands of tenge)*

**Statement of Utilization of Funds\***

		Notes	2014	2015	Cumulative
<b>Opening loan principal balance</b>			–	<b>11,111,150</b>	<b>11,111,150</b>
Received loan principal during the year from DAMU			11,111,150	–	
Repaid loan principal during the year to DAMU			–	–	
Loans to SMEs:					
	Issued loan principal		–	<b>(13,062,899)</b>	
	Repaid loan principal		–	<b>2,813,331</b>	
<b>Ending loan principal balance</b>			<b>11,111,150</b>	<b>861,582</b>	<b>861,582</b>

\* the amounts in the Statement of Utilization of Funds represent gross principal amounts and do not include interest and allowances for impairment.

Accompanying Notes:

**1. BACKGROUND, NATURE OF OPERATIONS AND ACTIVITIES**

Tsesnabank JSC (the “Bank”) was registered as an Open Joint Stock Company in 1992 in accordance with legislation of the Republic of Kazakhstan. In 2003, due to changes in legislation, the Bank was re-registered as a Joint Stock Company.

The Bank’s principal business activity is banking operations within the Republic of Kazakhstan. The Bank operates under general license for conducting banking and other activities and operations on securities market No.1.2.35/225/37, issued by the National Bank of the Republic of Kazakhstan (the “NBRK”) dated 30 November 2015, which supersedes the previous licenses. The Bank is a member of the state deposit insurance system in Kazakhstan.

In 2010 Asian Development Bank (“ADB”) approved the USD 500 million multitranche financing facility for the Kazakhstan Small and Medium Enterprise Investment Program (the “Program”). Under the Tranche 2 of the Program (the “Project”), JSC “Entrepreneurship Development Fund “Damu” (“DAMU”) requested a loan of USD 122 million from ADB, guaranteed by the Government of Republic of Kazakhstan, for its relending through sub-loans to qualified second-tier financial institutions, including the Bank, to fund their respective market-based working capital and investment loans, leases, and other financing products provided to eligible small and medium businesses for eligible subprojects in Kazakhstan. The Project implementation started in October 2014.



## **2. BASIS OF PREPARATION OF THE STATEMENT OF UTILIZATION OF FUNDS**

The Annual Statement of Utilization of Funds (the "Statement") has been prepared in accordance with the accounting laws and regulations of Republic of Kazakhstan, which are consistent with international accounting principles and practices, and includes only loan principal balances before impairment allowance as at 31 December 2015 and 2014 and movement in loan principal issued to sub-borrowers and loan principal repayments received from sub-borrowers. Accordingly, the Statement is prepared by the Bank for the special purpose in accordance with the Loan agreement No. 3093-KAZ between DAMU and ADB, and the Project Agreement No. 3093-KAZ between the Bank and ADB.

### **Reporting entity**

Tsesnabank JSC

The Statement solely reflects the financial status and position of the Project funded by ADB and implemented by the Bank.

### **Reporting Period**

The reporting period for the Project is the year ended 31 December 2015.

### **Reporting currency**

The annual statement of utilization of funds is presented in thousands of tenge, unless otherwise indicated.

Tajiyakov E. B.



Chairman of the Management Board

29 June 2016