

Audited Project Financial Statements

Project Number: 44060-024

Loan/Grant Number: 3093

Period covered: 1 January 2015 to 31 December 2015

KAZ: Small and Medium Enterprise Investment Program – Tranche 2

Prepared by: DAMU Entrepreneurship Development Fund (Damu)

For the Asian Development Bank

Date received by ADB: 4 July 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 DAMU Entrepreneurship Development Fund (Damu).



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Damu Entrepreneurship Development Fund JSC

Small and Medium Enterprises Investment Program – Tranche 2
ADB LOAN № 3093-KAZ

**Special Purpose Cash Basis Project Financial Statements
and Independent Auditor's Report**

For the period from January 1, 2015 to December 31, 2015

**DAMU ENTREPRENEURSHIP DEVELOPMENT FUND JSC
SMALL AND MEDIUM ENTERPRISES INVESTMENT PROGRAM – TRANCHE 2
ADB LOAN № 3093-KAZ**

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of JSC "Damu" Entrepreneurship development fund"

We have audited the accompanying special purpose cash basis project financial statements of the Small and Medium Enterprises Investment Program - Tranche 2 (hereinafter the "Program") financed through the Asian Development Bank (hereinafter the "ADB") loan agreement No. 3093-KAZ dated October 29, 2014 with the JSC "Damu" Entrepreneurship development fund" (hereinafter the "Fund"), which comprise the statement of utilization of funds for the period from January 1, 2015 to December 31, 2015, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Special Purpose Cash Basis Project Financial Statements

Management of the Fund is responsible for the preparation of these special purpose cash basis project financial statements in accordance with International Public Sector Accounting Standard "Financial Reporting under the Cash Basis of Accounting" promulgated by the International Public Sector Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of the special purpose cash basis project financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these special purpose cash basis project 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 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 special purpose cash basis project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose cash basis project financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the special purpose cash basis project 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 entity'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 special purpose cash basis project financial statements.

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



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Opinion

In our opinion, the accompanying special purpose cash basis project financial statements of JSC “Damu” Entrepreneurship development fund” for the period from January 1, 2015 to December 31, 2015 are prepared, in all material respects, in accordance with the International Public Sector Accounting Standard “Financial Reporting under the Cash Basis of Accounting”.

Restriction on Distribution and Use

This report is intended solely for the Shareholder and Board of Directors of JSC “Damu” Entrepreneurship development fund” and the Asian Development Bank and should not be distributed to or used by other parties.

Grant Thornton


Yerzhan Dossymbekov

General Director
Grant Thornton LLP




Arman Chingilbayev

Engagement partner



Certified Auditor of the Republic of Kazakhstan
Certificate #MF-0000069 on January 20, 2012
Republic of Kazakhstan

Certified Auditor of the Republic of Kazakhstan
Certificate #MF-0000487 on October 12, 1999
Republic of Kazakhstan

State license for providing audit services on the territory of the Republic of Kazakhstan: series MFU-2, #0000087, issued by the Ministry of Finance of the Republic of Kazakhstan on June 21, 2012

June 27, 2016
Almaty, the Republic of Kazakhstan



“DAMU” ENTREPRENEURSHIP” DEVELOPMENT FUND JSC

**SMALL AND MEDIUM ENTERPRISES INVESTMENT PROGRAM (ADB LOAN №3093 – KAZ)
STATEMENT OF UTILIZATION OF FUNDS**

In US dollars	2014	2015	Cumulative
Opening cash balance		-	-
Surplus / (deficit) of loan proceeds from Asian Development Bank		-	-
TOTAL OPENING CASH BALANCE		-	-
Add: Sources			
Replenishments from Asian Development Bank to imprest account	122,000,000	-	122,000,000
TOTAL CASH AVAILABLE	122,000,000	-	122,000,000
Less: Use of Funds			
Subloans to Participating Financial Institutions including:			
- Loans to Bank CenterCredit JSC	61,000,000	-	61,000,000
- Loans to Tsesnabank JSC	61,000,000	-	61,000,000
TOTAL EXPENDITURES	122,000,000	-	122,000,000
Surplus / (deficit)		-	-
Closing cash balance at 31 December			
Surplus / (deficit) of loan proceeds from Asian Development Bank		-	-
TOTAL CLOSING CASH BALANCE		-	-

The notes set out on pages 2 to 4 form an integral part of these special purpose cash basis project financial statements.

Approved for issue and signed on behalf of the Board of Management on June 27, 2016

Mr. Anuar Zhasimbayev
Deputy Chairman of the Board



Ms. Aigul Kusainova
Chief accountant

“DAMU” ENTREPRENEURSHIP DEVELOPMENT FUND” JSC
SMALL AND MEDIUM ENTERPRISES INVESTMENT PROGRAM (ADB LOAN №3093 – KAZ)

NOTES TO THE SPECIAL PURPOSE CASH BASIS PROJECT FINANCIAL STATEMENTS

1 INTRODUCTION

These Special Purpose Cash Basis Project Financial Statements for the period from January 1 to December 31, 2015 have been prepared by the “Damu” Entrepreneurship Development Fund” JSC (hereafter “the Fund”) in accordance with International Public Sector Accounting Standard (IPSAS) ‘Financial Reporting under the Cash Basis of Accounting’ promulgated by the International Federation of Accountants (IFAC).

The Fund was established in pursuance of Decree of the Government of the Republic of Kazakhstan No.665 dated April 26, 1997. The Fund is incorporated and domiciled in the Republic of Kazakhstan as a joint stock company and provides financial services as a development institution to support development of small and medium size enterprises. As at December 31, 2015, the Fund is under 100% ownership of the “Baiterek” National Managing Holding JSC. The Fund is ultimately controlled by the Government of the Republic of Kazakhstan.

Principal Activity

The main activity of the Fund is lending to small and medium size enterprises (hereafter the “SMEs”) and microfinance organizations through funding of commercial banks. The Fund uses its own and borrowed funds to finance small and medium sized entities throughout Kazakhstan.

The Fund has 16 regional branches. The head office is located in Almaty, Kazakhstan.

Registered address and place of business

The Fund’s registered address is: 111 Gogol Street, Almaty, Kazakhstan.

Small and Medium Enterprise Investment Program

On May 12, 2014 the Government of the Republic of Kazakhstan, the Fund and Asian Development Bank (hereafter the “ADB”) entered into a Framework Financing Agreement for assisting the Fund in financing projects under Small and Medium Enterprise Investment Program (hereafter the “Investment Program”) through a multitranche financing provided by the ADB. On October 29, 2014, the Fund and the ADB signed a Loan agreement (hereafter the “Loan Agreement”) for the second tranche (hereafter the “Tranche 2”) in the amount of USD 122 million provided by the ADB and further distributed to Participating Financial Institutions (hereafter “PFIs”). According to the Loan Agreement, the ADB agreed to lend through the Fund to the following PFIs:

PFI	Contract number	Interest rate	Principal amount, KZT	Principal amount, USD	Maturity date
Tsesnabank JSC	36-ABPII	4.00%	11,111,150,000	61,000,000	September 9, 2019
Bank CenterCredit JSC	35-ABPII	4.00%	11,111,150,000	61,000,000	September 9, 2019

On the same date, the ADB and the PFIs signed project agreements in compliance with covenants of the Loan Agreement.

The Tranche 2 has two outputs: medium term financing to SMEs, and improved financial sector outreach with a focus on women entrepreneurs. According to the Loan Agreement, the proceeds of the ADB loan must be disbursed by the PFIs to qualified SME borrowers. The loans to SMEs are given in Kazakhstani Tenge (hereafter the “KZT”) at market-based rate with 3-7 year term and limit of 550 million KZT (approximately 1.6 million USD) per borrower.

On November 18, 2014 the Fund, the Ministry of Finance of the Republic of Kazakhstan, and the ADB signed a Guarantee Agreement No. 4RRK021. According to this agreement, the ultimate responsibility for repayment of the principal loan amount and the respective charges lies with the Government of Republic of Kazakhstan.

Under the Loan agreement the Fund should pay semiannually interest at floating rate based on LIBOR starting from April 15, 2015. During the 2015 the Fund paid interest to the ADB in amount of 1,5 million USD.

NOTES TO THE SPECIAL PURPOSE CASH BASIS PROJECT FINANCIAL STATEMENTS (CONTINUED)

1 INTRODUCTION (CONTINUED)

Small and Medium Enterprise Investment Program (continued)

Monitoring of PFI

Under the terms of Loan agreement the Fund should monitor the PFI on utilization of funds. The Fund has carried out the consolidated information on a monthly basis during 2015 that has been obtained from PFIs and sent to ADB on each individual PFI.

PFI's information was formed on the basis of reports from PFIs and included the following statements:

- Statement of utilization of funds with the amount of expense funds of PFIs for the reporting period;
- Statement of expenditures with the information of the issued SME sub-loans in the reporting period;
- Imprest account reconciliation statement (IARS) reflecting the balance of unclaimed funds for further disbursement;
- Withdrawal Application for Imprest Fund is intended for liquidation of issued PFI's amounts in the reporting period.

Besides these statements, Damu is forwarding to ADB the PFIs report “Cash flow” which was recommended by ADB to review the amounts of loans issued by PFIs for the reporting period.

Presentation Currency

These Special Purpose Cash Basis Project Financial Statements are prepared in United States dollars (hereafter the “USD”). Loan proceeds from the ADB are received in USD.

The official rate of exchange established by KASE as of December 31, 2015 was the USD 1 = Tenge 340,01.

2 BASIS OF PREPARATION

These Special Purpose Cash Basis Project Financial Statements have been prepared in accordance with:

- The International Public Sector Accounting Standard (IPSAS) ‘Financial Reporting under the Cash Basis of Accounting’ promulgated by the International Public Sector Accounting Standards Board (IPSASB) as required in Financial Management Technical Guidance Note on Project Financial Reporting and Auditing, issued by the Asian Development Bank in 2013;
- The requirements of the Loan Agreement and Project Agreement.

The Special Purpose Cash Basis Project Financial Statements present information only on granting initial loans using the Loan proceeds. Presentation of information about repayment, interest and compliance of special covenants of PFI in these Special Purpose Cash Basis Project Financial Statements is not required.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Basis of Accounting

The Cash Basis of Accounting recognizes transactions and events only when cash (including cash equivalents) is received or paid by the Fund. Financial statements prepared under the cash basis provide information about the sources cash raised during the period, the purposes for which cash was used and the cash balances at the reporting date. The measurement focus in the financial statements is the balances of cash and changes therein.

Borrowings from banks and international financial organizations (including Asian Development Bank) are generally considered to give raise to cash inflows. Cash is controlled by the Fund when the Fund can use the cash for the achievement of its own objectives or otherwise benefit from the cash and exclude or regulate the access of others to that benefit. Cash collected by, or appropriated or granted to, the Fund which the Fund can use to fund its operating objectives, acquire capital assets or repay its debt is controlled by the Fund.

NOTES TO THE SPECIAL PURPOSE CASH BASIS PROJECT FINANCIAL STATEMENTS (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Imprest account.

The Fund has a separate bank account in Kazkommertsbank JSC for operations in US dollars. This account is used for depositing advances by the ADB for further disbursement. The account is not in exclusive use within the Project.

Use of loan proceeds.

The Project for which the Loan is made is the financing by the Fund of Qualified SME borrowers through sub-loans to PFIs in accordance with terms of the Loan Agreement and Project Agreements. In order to meet requirements of the Loan Agreement and other related documents in relation to purposefulness of use of ADB's loan proceeds the Fund monitors compliance with the following:

Participating Financial Institution

The Fund has to monitor the use of proceeds by the PFIs by reviewing the following:

- the selection process of SMEs;
- terms and provisions in subloan agreements with SMEs; and
- utilization of the loan proceeds by the PFIs.

Qualified SME borrowers

The Fund shall cause Participating Financial Institutions to ensure that Qualified SME borrowers:

- are excluded from the list of prohibited investment activities set out in the table to the schedule of loan agreement with the ADB; and
- have minimal or no adverse environmental or social risks. Activities that fall under categories A or B of the ADB's Safeguard Policy Statement (2009) and/or require environmental assessment clearance by the borrower shall not be financed under this Project.

Sub-loans

The ADB loan proceeds are designated only for making a sub-loan to PFIs. The conditions of entering the sub-loan agreement are as follows:

- (a) the Fund enters into the sub-loan agreement with each PFI, and correspondingly the Fund ensures that each PFI enters Project Agreement with the ADB;
- (b) each sub-loan agreement is in the form and on terms and conditions acceptable to the ADB, and is without prejudice to, and without limitation on, the obligations of the Fund under the Loan Agreement, and complies with two conditions:
 - (i) principal repayment schedule for each sub-loan matches the principal repayment schedule for the portion of the principal amount of the Loan corresponding to such sub-loan;
 - (ii) is denominated in USD at a fixed market-based interest rate.
- (c) within 30 calendar days of each PFI's receipt of the Sub-loan proceeds from the Fund, the PFI executed a currency swap with the NBRK pursuant to which the NBRK provided Kazakhstani Tenge to the PFI in exchange for the USD proceeds of sub-loan.

As at December 31, 2015 and 2014 the Fund fully utilized total amount of the loan received from the ADB.

Subsequent events

In 2016 the Fund paid to ABD interest under the Loan agreement in amount of 1,235,250 US dollars.