

Audited Project Financial Statements

Project Number: 44060-024

Loan Number: 3093

Period covered: 29 October 2014 to 31 December 2014

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: 8 July 2015

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).



Damu Entrepreneurship Development Fund JSC

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

**Special Purpose Cash Basis Project Financial Statements
and Independent Auditor's Report
For period from 29 October 2014 to 31 December 2014**

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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 (the 'Program') financed through the Asian Development Bank (the 'ADB') loan agreement No. 3093-KAZ dated 29 October 2014 with the JSC Damu Entrepreneurship Development Fund (the 'Fund'), which comprise the statement of utilisation of funds, the statement of imprest account, and the statement of expenditures for the period from 29 October to 31 December 2014, 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 about whether the special purpose cash basis project 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.



INDEPENDENT AUDITOR'S REPORT (continued)

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Opinion

In our opinion, the accompanying special purpose cash basis project financial statements of JSC Entrepreneurship Development Fund for the period from 29 October to 31 December 2014 are prepared, in all material respects, in accordance with the International Public Sector Accounting Standard 'Financial Reporting under the Cash Basis of Accounting'.

Basis of Accounting and 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.

PricewaterhouseCoopers LLP



Dana Inkarebekova
Managing Director of PricewaterhouseCoopers LLP
(General State License of the Ministry of Finance
of the Republic of Kazakhstan №00000005 dated 21
October 1999)
Auditor in charge (Qualified Auditor's Certificate
№000000492 dated 18 January 2000)



Signed by:

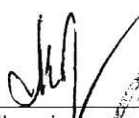
Derek Clark

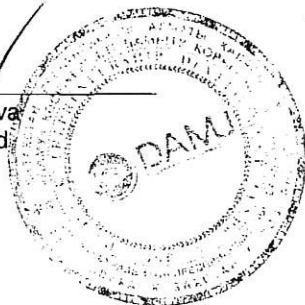
Derek Clark
Audit Partner
Assurance Partner
(Certificate of the Institute of Chartered
Accountants in Australia №26312; Special
Power of Attorney # 38-11 dated 6 October
2011)


Damu Entrepreneurship Development Fund JSC
Small and Medium Enterprises Investment Program (ADB LOAN No. 3093-KAZ)
Statement of Utilization of Funds

<i>In US dollars</i>	2014	Cumulative
Opening cash balance at 29 October	-	-
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: Uses 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	-	-

Approved for issue and signed on behalf of the Board of Management on 29 June 2015.


 Ms. Lyazzat Ibragimova
 Chairman of the Board




 Ms. Aigul Kusaiynova
 Chief Accountant

Damu Entrepreneurship Development Fund JSC
Small and Medium Enterprises Investment Program (ADB LOAN No. 3093-KAZ)
Statement of Imprest Account

Account No: KZ559261802102630003
Depository Bank: Kazkommertsbank JSC
Related loan: 3093-KAZ
Currency: US Dollars

In US dollars


2014

Balance of imprest account at 29 October

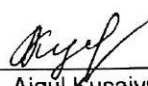
Add: Replenishment from Asian Development Bank	122,000,000
Deduct: Transfers to bank accounts of Participating Financial Institutions:	
- Bank CenterCredit JSC	(61,000,000)
- Tsesnabank JSC	(61,000,000)

Balance of imprest account at 31 December

Approved for issue and signed on behalf of the Board of Management on 29 June 2015.


Ms. Lyazzat Ibragimova
Chairman of the Board




Ms. Aigul Kusaiynova
Chief Accountant


Damu Entrepreneurship Development Fund JSC
Small and Medium Enterprises Investment Program (ADB LOAN No. 3093-KAZ)
Statement of Expenditures

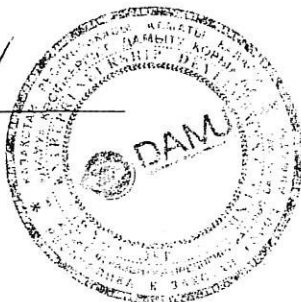
Name of Participating Financial Institution	Amount (in US Dollars)	Period covered by SoE
Bank CenterCredit JSC	61,000,000	December 2014
Tsesnabank JSC	61,000,000	December 2014
TOTAL EXPENDITURES	122,000,000	


Reconciliation of financing made through Imprest Account to the Statement of Expenditures:

<i>In US Dollars</i>	2014	From 29 October to 31 December 2014
Subloans issued per Statement of Expenditures	122,000,000	122,000,000
Replenishments from Asian Development Bank in advance	-	-
TOTAL AMOUNT OF FINANCING	122,000,000	122,000,000

Approved for issue and signed on behalf of the Board of Management on 29 June 2015.


 Ms. Lyazzat Ibragimova
 Chairman of the Board




 Ms. Aigul Kusaiynova
 Chief Accountant

1 Introduction

These Special Purpose Cash Basis Project Financial Statements for the period from 29 October to 31 December 2014 have been prepared by the Damu Entrepreneurship Development Fund JSC (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 26 April 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 31 December 2014, 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 ('SMEs') and microfinance organisations through funding of commercial banks. Credit risk on loans to end-borrowers is transferred to 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 12 May 2011 the Government of the Republic of Kazakhstan, the Fund and Asian Development Bank (the 'ADB') entered into a Framework Financing Agreement for assisting the Fund in financing projects under a Small and Medium Enterprise Investment Program ('Investment Program') through a multitranche financing provided by the ADB. On 29 October 2014, the Fund and the ADB signed a Loan Agreement (the 'Loan Agreement') for the second tranche (the 'Tranche 2') in the amount of USD 122 million to be provided by the ADB and further to be distributed to Participating Financial Institutions ('PFIs'). According to the Loan Agreement, the ADB agreed to lend through the Fund 61 million USD to Bank CenterCredit JSC and 61 million USD to Tsesnabank JSC. 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 PFIs to qualified SME borrowers. The loans to SMEs are given in Kazakhstani Tenge ('KZT') at market-based rate with 3-7 year term and limit of 550 million KZT (approximately 3 million USD).

On 18 November 2014 the Fund, 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.

Presentation currency. These Project's Special Purpose Cash Basis Project Financial Statements are prepared in United States dollars ('USD'). Loan proceeds from the ADB are received in USD.

The official rate of exchange established by the National Bank of the Republic of Kazakhstan (the 'NBRK') as of 31 December 2014 was the USD 1 = Tenge 182.35.

2 Basis of Preparation

This Special Purpose Cash Basis Project Financial Statement has 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.

This Special Purpose Cash Basis Project Financial Statement presents information only on granting initial loans using the Loan proceeds. Presentation of information about repayment of subloans in this Special Purpose Cash Basis Project Financial Statement 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 of 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 balances of cash and changes therein.

Borrowings from banks and international financial organizations (including Asian Development Bank) are generally considered to give rise 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.

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

Use of loan proceeds. The Project for which the Loan is made is the financing by the Fund of Qualified SME borrowers through Subloans 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 the ADB's loans proceeds the Fund monitors compliance with the following:

Participating Financial Institution

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

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

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 this Schedule; 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 the Project.

3 Summary of Significant Accounting Policies (Continued)

Subloans

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

- (a) the Fund enters into subloan agreements with each PFI, and correspondingly the Fund ensures that each PFI enters a Project agreement with the ADB.
- (b) each subloan 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 subloan matches the principal repayment schedule for the portion of the principal amount of the Loan corresponding to such subloan;
 - (ii) is denominated in USD at a fixed market-based interest rate of 4%;
- (c) within 30 calendar days of each PFI's receipt of the Subloan 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 subloan;

As at 31 December 2014 the Fund fully utilised total amount of the loan received from the ADB.