

Audited Project Financial Statements

Project Number: 44060-025

Loan/Grant Number: 3231/3261

Period covered: 11 September 2015 to 31 December 2015

KAZ: Small and Medium Enterprise Investment Program – Tranche 3

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).



Damu Entrepreneurship Development Fund JSC

Small and Medium Enterprises Investment Program – Tranche 3
ADB LOAN 3231-KAZ AND 3261-KAZ

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

For Period from September 11, 2015 to December 31, 2015

“DAMU” ENTREPRENEURSHIP DEVELOPMENT FUND” JSC
SMALL AND MEDIUM ENTERPRISES INVESTMENT PROGRAM (ADB LOAN 3231-KAZ AND 3261-KAZ)

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT

SPECIAL PURPOSE CASH BASIS PROJECT FINANCIAL STATEMENTS

Statement of Utilization of Funds	1
Statement of Imprest Account	2
Statement of Expenditures	3

Notes to the Special Purpose Cash Basis Financial Statements

1	Introduction	4
2	Basis of Preparation	5
3	Summary of Significant Accounting Policies	5

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 3 (hereinafter the “Program”) financed through the Asian Development Bank (hereinafter the “ADB”) loan agreement No. 3231-KAZ and No.3261-KAZ dated September 11, 2015 with the JSC “Damu” Entrepreneurship development fund” (hereinafter the “Fund”), which comprise the statement of utilization of funds, the statement of imprest account, and the statement of expenditures for period from September 11, 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.



Grant Thornton

An instinct for growth™

Audit • Tax • Advisory

Opinion

In our opinion, the accompanying special purpose cash basis project financial statements of JSC “Damu” Entrepreneurship development fund” for the period from September 11, 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 3231-KAZ AND 3261-KAZ)

STATEMENT OF UTILIZATION OF FUNDS


In US dollars	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	228,000,000	228,000,000
TOTAL CASH AVAILABLE	228,000,000	228,000,000
Less: Uses of Funds		
Subloans to Participating Financial Institutions including:		
- Loans to Tsesnabank JSC	86,000,000	86,000,000
- Loans to Kazkommertsbank JSC	82,300,000	82,300,000
- Loans to Delta Bank JSC	50,000,000	50,000,000
- Loans to Kazinvestbank JSC	9,700,000	9,700,000
TOTAL EXPENDITURES	228,000,000	228,000,000
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 4 to 6 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 Zhashibayev
 Deputy Chairman of the Board




 Ms. Aigul Kusainova
 Chief Accountant

"DAMU" ENTREPRENEURSHIP DEVELOPMENT" FUND JSC
SMALL AND MEDIUM ENTERPRISES INVESTMENT PROGRAM (ADB LOAN 3231-KAZ AND 3261-KAZ)

STATEMENT OF IMPREST ACCOUNT

Account №: KZ17998CTB0000294413
Depository Bank Tsesnabank JSC
Related Loan: 3231-KAZ and 3261-KAZ
Currency US Dollars

In US dollars	2015	Cumulative
Balance of imprest account at September 11	-	-
Add: Replenishment from Asian Development Bank	86,000,000	86,000,000
Deduct: Transfers to bank accounts of participated Financial institutions:		
- Loans to Tsesnabank JSC	86,000,000	86,000,000
Balance of imprest account at December 31	-	-

Account №: KZ769261802102630013
Depository Bank Kazkommertsbank JSC
Related Loan: 3231-KAZ and 3261-KAZ
Currency US Dollars

In US dollars	2015	Cumulative
Balance of imprest account at September 11	-	-
Add: Replenishment from Asian Development Bank	82,300,000	82,300,000
Deduct: Transfers to bank accounts of participated Financial institutions:		
- Loans to Kazkommertsbank JSC	82,300,000	82,300,000
Balance of imprest account at December 31	-	-

Account №: KZ286390422030001166
Depository Bank Delta Bank JSC
Related Loan: 3231-KAZ and 3261-KAZ
Currency US Dollars

In US dollars	2015	Cumulative
Balance of imprest account at September 11	-	-
Add: Replenishment from Asian Development Bank	50,000,000	50,000,000
Deduct: Transfers to bank accounts of participated Financial institutions:		
- Loans to Delta Bank JSC	50,000,000	50,000,000
Balance of imprest account at December 31	-	-

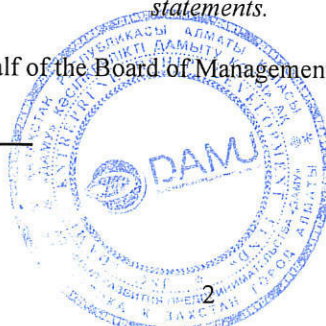
Account №: KZ90920RUAC011070736
Depository Bank Kazinvestbank JSC
Related Loan: 3231-KAZ and 3261-KAZ
Currency US Dollars

In US dollars	2015	Cumulative
Balance of imprest account at September 11	-	-
Add: Replenishment from Asian Development Bank	9,700,000	9,700,000
Deduct: Transfers to bank accounts of participated Financial institutions:		
- Loans to Kazinvestbank JSC	9,700,000	9,700,000
Balance of imprest account at December 31	-	-

The notes set out on pages 4 to 6 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 27 June, 2016

Mr. Anuar Zhashibayev
Deputy Chairman of the Board



Ms. Aigul Kusaiynova
Chief accountant

“DAMU” ENTREPRENEURSHIP DEVELOPMENT” FUND JSC
SMALL AND MEDIUM ENTERPRISES INVESTMENT PROGRAM (ADB LOAN 3231-KAZ AND 3261-KAZ)

STATEMENT OF EXPENDITURES

Name of Participating Financial institution	Amount	Period covered by SoE
- Loans to Tsesnabank JSC	86,000,000	From September 11 to December 31, 2015
- Loans to Kazkommertsbank JSC	82,300,000	From September 11 to December 31, 2015
- Loans to Delta Bank JSC	50,000,000	From September 11 to December 31, 2015
- Loans to Kazinvestbank JSC	9,700,000	From September 11 to December 31, 2015
Total expenditures	228,000,000	

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

In US Dollars	2015	From September 11 to December 31, 2015
Subloans issued per Statement of Expenditure	228,000,000	228,000,000
Replenishment from Asian Development Bank in advance	-	-
Total amount of financing	228,000,000	228,000,000

The notes set out on pages 4 to 6 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 27 June, 2016

Mr. Anuar Zhashibayev
Deputy Chairman of the Board



Ms. Aigul Kusaiynova
Chief accountant

NOTES TO THE SPECIAL PURPOSE CASH BASIS PROJECT FINANCIAL STATEMENTS

1 INTRODUCTION

These Special Purpose Cash Basis Project Financial Statements for the period from September 11, 2015 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 September 11, 2015, the Fund and the ADB signed a Loan agreement (hereafter the “Loan Agreement”) for the third tranche (hereafter the “Tranche 3”) in the amount of USD 228 million provided by the ADB and further distribution 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	№42-АБРІІІ	8.50%	23,690,420,000	86,000,000	August 5, 2020
Kazkommertsbanks JSC	№43-АБРІІІ	8.50%	22,671,181,000	82,300,000	August 5, 2020
Delta Bank	№44-АБРІІІ	8.50%	13,773,500,000	50,000,000	August 5, 2020
Kazinvestbank JSC	№45-АБРІІІ	8.50%	2,672,059,000	9,700,000	August 5, 2020

On September 11, 2015 the ADB signed project agreements in compliance with covenants of the Loan Agreement with Kazinvestbank JSC and Tsesnabank JSC. On September 21, 2015 the ADB signed project agreements in compliance with covenants of the Loan Agreement with Kazkommertsbank JSC and Delta Bank JSC.

The Tranche 3 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. According to this agreement, the ultimate responsibility for repayment of the principal loan amount and the respective charges lies with the Government of the Republic of Kazakhstan.

Under the Loan agreement the Fund should pay semiannually interest at floating rate based on LIBOR starting from April 15, 2016.

1 INTRODUCTION (CONTINUED)

Presentation Currency

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

The official rate of exchange established by the 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 of subloans, interest and compliance of special covenants of PFI in these Special Purpose Cash Basis Project Financial Statements are 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.

Imprest account.

The Fund has a separate bank accounts in Tsesnabank JSC, Kazkommertsbank JSC, Delta Bank JSC and Kazinvestbank JSC for operations in US dollars. This account is used for depositing advances by the ADB for its 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 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 ADB’s loan proceeds the Fund monitors compliance with the following:

Participating Financial Institution

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of loan proceeds (continued).

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 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.

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 the sub-loan agreement 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 sub-loan matches the principal repayment schedule for the portion of the principal amount of the Loan corresponding to such subloan;
 - (ii) is denominated in KZT 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 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 909,651.60 US dollars.