

Audited Project Financial Statements

Project Number: 44060-025
Loan/Grant Number: 3231/3261
Period covered: 9 October 2015 to 31 December 2015

KAZ: Small and Medium Enterprise Investment Program – Tranche 3

Prepared by: Tsesna Bank

For the Asian Development Bank
Date received by ADB: 23 December 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.

Joint Stock Company "Tsesnabank"

Independent Reasonable Assurance Report on
Compliance with the specific provisions of
the Project agreement (No. 3231-KAZ / 2361-KAZ per Bank; No.
3231-KAZ/3261-KAZ per ADB)

for the year ended 31 December 2015

ASIAN DEVELOPMENT BANK

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PAU - HEAD
PUBLIC MANAGEMENT, FINANCIAL SECTOR
AND TRADE DIVISION (CWPF)

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 dated 11 September 2015 (No. 3231-KAZ / 2361-KAZ per Bank; No. 3231-KAZ/3261-KAZ per ADB) concluded between the Bank and ADB (the "Project Agreement"), in relation to the use of proceeds of the loan withdrawn from the ADB for the purpose of the Small and Medium Enterprise Investment Program – Tranche 3 (the "Project"); and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compliance with the specific provisions of the Project Agreement in relation to the utilisation of proceeds of the loan withdrawn from the ADB for purposes of the Project; and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":

- ▶ tested on a sample basis controls 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;
- ▶ tested on a sample basis compliance of the Bank's sub-borrowers and sub-projects with required criteria for lending;
- ▶ tested on a sample basis that the expenditures incurred under the Project were eligible for financing in accordance to the requirements of the Project Agreement;
- ▶ traced on a sample basis loans issued by the Bank to its sub-borrowers as well as disbursements to the Bank from the 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.).

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 the ADB regarding its compliance with the specific provisions of the Project Agreement and the ADB's Loan Disbursement Handbook. This report was prepared according to the terms of the agreement № GFS-2016-00351 dated 7 December 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 the ADB does not accept the terms of the Assurance Agreement pursuant to which this report is prepared.

Ernst & Young LLP



Bakhtiyor Eshonkulov
Auditor / audit partner

Auditor qualification certificate
No. МФ-0000099 dated 27 August 2012

12 December 2016



Gulmira Turmagambetova
General director
Ernst and Young LLP

State audit license for audit activities
on the territory of the Republic of Kazakhstan:
series МФЮ-2 No. 0000003 issued by
the Ministry of finance of the Republic of
Kazakhstan on 15 July 2005

Statement of management's compliance with provisions of the Project agreements and ADB's Loan Disbursement Handbook

Joint Stock Company "Tsesnabank"

The Loan agreement No. 3231-KAZ/3261-KAZ between JSC "Entrepreneurship Development Fund "Damu" ("DAMU") and Asian Development Bank ("ADB") (the "Loan Agreement") under "Small and Medium Enterprise Investment Program – Tranche 3" (the "Project") was signed on 11 September 2015. In accordance with the Loan Agreement, the ADB provides a loan in the amount of USD 228,000,000 to DAMU from the 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. 42-АБПІІІ (the "Sub-loan Agreement") between Joint Stock Company "Tsesnabank" (the "Bank") and DAMU was signed on 11 September 2015. In accordance with the Sub-loan Agreement, a loan in the amount of KZT 23,690,420 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 August 2020, as set forth in the repayment schedules in Appendix No.1 to the Sub-loan Agreement.

The Project Agreement No. 3231-KAZ/2361-KAZ between the Bank and ADB (the "Project Agreement") was signed on 11 September 2015 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 operations 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 Bank's 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 the ADB's Loan Disbursement Handbook, implementation and maintenance of internal control, maintenance of adequate supporting documentation to support compliance with the claims to the ADB for reimbursements of expenditures incurred, which are eligible for financing under the Project Agreement and the 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 all loans issued under the Project during the year ended 31 December 2015 for the total amount of KZT 10,245 thousand were 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:

Batyrbekova Zh.B.

12 December 2016



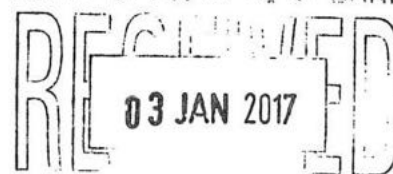
Acting Chairperson of the Management Board

**Project “Kazakhstan Small and Medium Enterprise
Investment Program – Tranche 3”,
financed under Project Agreement (No. 3231-KAZ/2361-KAZ per
Bank; No. 3231-KAZ/3261-KAZ per ADB), between Joint Stock
Company “Tsesnabank” and Asian Development Bank**

Financial statement

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

ASIAN DEVELOPMENT BANK



PUBLIC AND TRADE DIVISION (CWPF) PUBLIC SECTOR

Independent auditors' report

To the management of Joint Stock Company "Tsesnabank"

We have audited the accompanying statement of cash receipts and disbursements of the Project "Kazakhstan Small and Medium Enterprise Investment Program - Tranche 3" (the "Project") financed under the Project Agreement (No. 3231-KAZ/2361-KAZ per Bank; № 3231-KAZ/3261-KAZ per ADB) between Joint Stock Company "Tsesnabank" (the "Bank") and Asian Development Bank for the year ended 31 December 2015 and a summary of significant accounting policies and other explanatory information (together the "financial statement"). The financial statement has been prepared by management using the cash receipts and disbursements basis of accounting as described in Note 2.

Management's responsibility for the financial statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash receipts and disbursements basis of accounting as described in Note 2; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances and for such internal control as management determines is necessary to enable the preparation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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, if any, made by management, as well as evaluating the overall presentation of the financial statement.

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

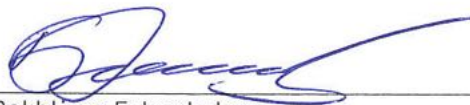
Opinion

In our opinion, the financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Project for the year ended 31 December 2015 in accordance with the cash receipts and disbursements basis of accounting as described in Note 2.

Basis of accounting

Without modifying our opinion, we draw attention to Note 2 to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to Asian Development Bank. As a result, this financial statement may not be suitable for another purpose.

Ernst & Young LLP



Bakhtiyor Eshonkulov
Auditor / audit partner



Gulmira Turmagambetova
General director
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12 December 2016

Project “Kazakhstan Small and Medium Enterprise
Investment Program – Tranche 3”,
financed under Project Agreement No. 3231-KAZ/2361-KAZ,
between Joint Stock Company “Tsesnabank”
and Asian Development Bank

Financial statement

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Investment Program – Tranche 3",
financed under Project Agreement No. 3231-KAZ/2361-KAZ,
between Joint Stock Company "Tsesnabank"
and Asian Development Bank

Financial statement

STATEMENT OF UTILIZATION OF FUNDS

For the year ended 31 December 2015

Thousands of tenge

	Notes	2014	2015	Cumulative amounts
Opening balance		–	–	–
Received during the year from DAMU		–	23,690,420	
Repaid during the year to DAMU		–	–	
Loans to SMEs:				
Issued during the year		–	(10,245)	
Repaid during the year		–	–	
Ending balance		–	23,680,175	23,680,175

Signed on behalf of the management of the Bank:


Batyrbekova Zh.B.

Acting Chairperson of the Management Board



The accompanying notes on pages 2 to 3 are an integral part of this financial statement.

NOTES TO THE FINANCIAL STATEMENT

For the year ended 31 December 2015

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 includes 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 3 of the Program (the “Project”), JSC “Entrepreneurship Development Fund “Damu” (“DAMU”) requested a loan of USD 228 million from the 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 December 2015.

2. BASIS OF PREPARATION

The Statement of Utilization of Funds (the “Statement”) has been prepared in accordance with cash receipts and disbursement method of accounting, and includes loan balances before impairment allowance as at 31 December 2015 and 2014 and movement in loan amounts disbursed to sub-borrowers and loan repayments received from sub-borrowers. The Statement has been also prepared by the Bank in accordance with the Loan agreement No. 3231-KAZ/3261-KAZ between DAMU and ADB, and the Project Agreement No. 3231-KAZ/2361-KAZ between the Bank and ADB.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Provisions of accounting policies described below were consistently applied in the reporting periods presented in the financial statement.

Cash basis of accounting in this financial statement

In the financial statement cash receipts and disbursements 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 the ADB as implemented by the Bank.

Reporting period

The reporting period is the year ended 31 December 2015.

Presentation currency

This financial statement is presented in thousands of tenge, unless otherwise indicated.

Project "Kazakhstan Small and Medium Enterprise
Investment Program – Tranche 3",
financed under Agreement No. 3231-KAZ/2361-KAZ,
between Joint Stock Company "Tsesnabank"
and Asian Development Bank

Financial statement

NOTES TO THE FINANCIAL STATEMENT (continued)

4. STATUS OF FUNDS AND UNCOMMITTED AMOUNTS BY FUNDS

The total funds financing for the Project and the available funds for future commitments as of 31 December 2015 are as follows:

Thousands of tenge

Participating financial institution	Total amount of financing	Total committed as of 31 December 2015	Available balance as of 31 December 2015
Tsesnabank JSC	23,690,420	23,690,420	23,680,175

5. SUBLOAN

Thousands of tenge

Subloan agreement No.	Subloan borrower name	Subloan amount	ADB commitment	Amount repaid	Balance as at 31 December 2015
230\0014-15/1	Individual Entrepreneur Shelnskih R.K.	8,000	8,000	–	8,000
120\0193-15/1	LLP DNS-Cleaning	2,245	2,245	–	2,245
Total		10,245	10,245	–	10,245

6. DATE OF ISSUE

The financial statement was approved for issue by the Management of the Bank on 12 December 2016.