

# Audited Project Financial Statements

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Project Number: 44060-024

Loan Numbers: 3093

Period covered: 01 January 2016 to 31 December 2016

## KAZ: Small and Medium Enterprise Investment Program – Tranche 2

Prepared by: Bank CenterCredit

For the Asian Development Bank

Date received by ADB: 25 July 2017

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 Bank CenterCredit.

## AUDIT REQUIREMENTS IN LOAN/PROJECT AGREEMENTS

Loan Number/Title	:	Loan 3093-KAZ: Small and Medium Enterprise Investment Program-Tranche 2
Executing Agency	:	JSC Entrepreneurship Development Fund
Implementing Agency	:	Bank CenterCredit – APFS

Audit Requirements	
1	<p><b>Audit required in the Loan and Project Agreements:</b></p> <p><b>Loan Agreement:</b></p> <p>Section 5.03.</p> <p>(a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) prepare an annual consolidated Statement of Utilization of Funds for the Project in accordance with accounting standards acceptable to ADB; (iii) have such consolidated Statement of Utilization of Funds to be audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the consolidated Statement of Utilization of Funds, use of the Loan proceeds as well as on the use of the procedures for the imprest fund and statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any, as well as any significant weaknesses identified by the auditor based on a review of the Borrower's internal controls over PFI monitoring as outlined in the Borrower's "Manual on Monitoring of Programs" and attached to the audit terms of reference); and (v) furnish to ADB, no later than 6 months after the end of each fiscal year to which they relate, copies of such audited consolidated Statement of Utilization of Funds, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.</p> <p>(b) ADB shall disclose the annual audited consolidated Statement of Utilization of Funds and the opinion of the auditors thereto within 30 days of the date of their receipt by posting them on ADB's website.</p> <p>(c) In addition to the annual audited consolidated Statement of Utilization of Funds referred to in subsection (a) hereinabove, the Borrower shall (i) provide its annual financial statements prepared in accordance with International Financial Reporting Standards; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; and (iii) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements in the English language and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.</p> <p>(d) The Borrower shall enable ADB, upon ADB's request, to discuss the consolidated Statement of Utilization of Funds and the financial statements for the Borrower and its financial affairs where they relate to the Project with the auditors appointed by the Borrower pursuant to subsections (a)(iii) and (c) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.</p> <p><b>Project Agreement:</b></p> <p>Section 3.06.</p> <p>(a) BCC shall (i) maintain separate accounts and records for the Project; (ii) prepare an annual Statement of Utilization of Funds for the Project in accordance with International Financial Reporting Standards; (iii) have such Statement of Utilization of Funds to be audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for</p>

	<p>auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the Statement of Utilization of Funds, use of the BCC Subloan proceeds and compliance with the use of the procedures for the statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, through the Borrower, no later than 6 months after the end of each fiscal year to which they relate, copies of such audited Statement of Utilization of Funds, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.</p> <p>(b) ADB shall disclose the annual audited Statement of Utilization of Funds and the opinion of the auditors thereto within 30 days of the date of their receipt by posting them on ADB's website.</p> <p>(c) In addition to the annual audited Statement of Utilization of Funds referred to in subsection (a) hereinabove, BCC shall (i) provide its annual unconsolidated financial statements prepared in accordance with International Financial Reporting Standards; (ii) have its unconsolidated financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iii) as part of such audit, have the auditors prepare a letter which includes the auditors' opinion on compliance with the eligibility criteria referred to in subparagraphs 2(c), (d) and (e) of the Schedule to this Project Agreement, provided, that, such letter shall only be required in respect of any such eligibility criteria that is not disclosed in such audited unconsolidated financial statements or the footnotes thereto; and (iv) furnish to ADB, through the Borrower, no later than 1 month after approval by the relevant authority of BCC, copies of such audited unconsolidated financial statements and the letter referred to in subsection (c)(iii) hereinabove, each in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.</p> <p>(d) BCC shall enable ADB, upon ADB's request, to discuss the Statement of Utilization of Funds and the unconsolidated financial statements for BCC and its financial affairs where they relate to the Project with the auditors appointed by BCC pursuant to subsections (a)(iii) and (c) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of BCC, unless BCC shall otherwise agree.</p>
2	<p><b>Financial Covenants:</b> Loan Agreement, Schedule 2, para. 3 (c)-(e): Eligibility Criteria for PFIs</p> <p>3. The Borrower shall cause each PFI to comply with the following eligibility criteria. In the event, however, of any non-compliance by such PFI with any of the following eligibility criteria, the Borrower shall cause such PFI to notify ADB of such non-compliance within the time period indicated in paragraph 2 of the Schedule to the respective Project Agreements:</p> <p>(c) be profitable for its most recently completed fiscal year, or have an agreed action plan to become profitable. For purposes of the foregoing, profitability refers to profit after tax;</p> <p>(d) have a ratio of non-performing loans (NPLs) less than 10%, or have an agreed action plan to reduce NPLs to that level. For purposes of the foregoing, non-performing loans shall mean loans overdue by more than 90 days and shall include, at a minimum, principle and accrued interest;</p> <p>(e) maintain a ratio of total capital to risk-weighted assets of not less than 12%, or have an agreed action plan to attain such ratio. For purposes of the foregoing, such ratio shall be calculated in accordance with Kazakhstan statutory requirements.</p>
3	<p>(If there are more than one IA)</p> <p><b>The following IAs are required to submit APFS and AFS:</b></p> <p>The Borrower to submit consolidated APFS and AFS.</p> <p>The two implementing agencies (PFIs), both namely; Tsesna Bank and Bank Center Credit are required to submit APFS and AFS under the Loan and Project Agreements.</p>

## AUDITED PROJECT FINANCIAL STATEMENTS (APFS) REVIEW CHECKLIST

Name of Auditor	:	BDO Kazakhstan, LLP
For Fiscal Year Ended	:	31 December 2016
Date APFS Received	:	25 July 2017      Bank CenterCredit - APFS
Deadline for submission	:	30 June 2017

Item		Yes	No	n/a	Remarks
<b>A.</b>	<b>BASIC REQUIREMENTS</b>				
1.	Submission of complete APFS:				
1.1.	Auditor's report includes an opinion on the project financial statements as a whole	X			
1.2.	Specific audit opinions on:				
	(i) use of proceeds for purpose intended	X			See Independent Assurance Report.
	(ii) compliance with imprest account procedures			X	
	(iii) compliance with statement of expenditure (SOE) procedures	X			
	(iv) compliance with financial covenants			X	
1.3.	Audited project financial statements	X			
1.4.	Management letter	X			
2.	Auditor's report and financial statements are in English language	X			<i>minor delay</i>
3.	APFS received within covenanted period		X		Due date: 30 June 2017 Time delayed: 25 days
<b>B.</b>	<b>AUDITOR'S REPORT (OPINIONS)</b>				
4.	Auditor's report is in accordance with recognized standards (e.g., international standards on auditing, ISA):				
4.1.	Does it state the auditing standards applied	X			International Assurance Engagement 800 (ISA 800)
4.2.	Does the auditor's report on the project financial statements include the following elements (which are in accordance with ISA):				
	(i) title (e.g., independent auditor's report);	X			
	(ii) addressee (to the relevant stakeholder);	X			Shareholder and Board of Directors of BCC JSC.
	(iii) introductory paragraph (identification of the entity/ project audited, the financial statements audited, the date or period covered, and the financial reporting framework applied);	X			
	(iv) management's responsibility;	X			
	(v) auditor's responsibility;	X			
	(vi) auditor's opinion;	X			
	(vii) auditor's signature;	X			
	(viii) date of the auditor's report; and	X			26 June 2017
	(ix) auditor's address.	X			
4.3.	Was the auditor's opinion unqualified?	X			
4.4.	Did the auditor use one of these phrases to express their (unqualified) opinion in accordance with ISA 700: (i) The financial statements present fairly, in all material respects, ... in accordance with [the applicable financial reporting framework]; or	X			See Auditor's Responsibility in the Independent Auditor's Report

Item			Yes	No	n/a	Remarks
		(ii) The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework]				
<b>C.</b>	<b>AUDITED PROJECT FINANCIAL STATEMENTS</b>					
5.	Project financial statements are clear and cover key items of receipts and expenditures:					
	5.1.	Summary of funds received by all sources (e.g., OCR, ADF, government, cofinanciers)	X			
	5.2.	Sources of funds received by methods of withdrawal (direct payment, reimbursement, imprest)	X			
	5.3.	Expenditure categorization and analysis are representative of project activities and includes classification based on the categories in the loan/grant agreement			X	
	5.4.	Opening and closing cash balances (and increases and decreases, where applicable) are presented	X			
6.	Project financial statements include figures for the current year, previous year, and cumulative to date, and (ideally) a comparison against budget (or the latest project cost estimates)		X			
7.	Project financial statements are signed and dated		X			
8.	Notes to the financial statements are provided which include a (i) summary of significant accounting policies (ii) statement of the accounting basis (cash or accrual) and (iii) financial reporting framework		X			Accounting policies mentioned generally, as those applied in the Republic of KAZ consistent with international accounting principles.
9.	Notes include description of the Project and activities		X			
10.	Analytical review:					
	10.1	Is the financial information consistent with ADB's own records (e.g., LFIS/GFIS, Statement of Loans, Statement of Disbursements)	X			<b>ADB record: LFIS</b> FY2016 (Current year): 0 Cumulative: US\$61,000,000  <b>Information available in APFS:</b> Current year: 0 Cumulative: US\$61,000,000  <b>Discrepancies:</b> Current year: 2016 Cumulative: 0
	10.2	Are there any expenditures that appear unusual or ineligible		X		
	10.3	Are there trends or comparisons that should be clarified		X		
	10.4	Are reported expenditures within budget and consistent with loan/grant allocations, and eligible ADB financing percentages	X			
	10.5	Are there significant computational errors		X		
	10.6	Any other observations		X		
<b>D.</b>	<b>MANAGEMENT LETTER</b>					
11.	Comprehensive management letter provided including follow up of prior-year issues:					
	11.1	General overview of internal control systems	X			
	11.2	Identification of weaknesses or issues	X			Shown in the Management Letter are the significant shortcomings of internal controls.
	11.3	Auditor's recommendations for improvement	X			See page 5, Management Letter.



	Item	Yes	No	n/a	Remarks
11.4	Client's responses to findings and recommendations		X		
11.5	Follow-up action/ status on previously identified issues and findings (if any)	X			Prior-year issue: <ul style="list-style-type: none"> <li>Discuss findings with BCC management and ensure that requirement to establish a separate sub-ledger account is met in future project.</li> <li>Recommendation to tighten control over documentation on use of funds.</li> </ul>

<b>E.</b>	<b>CONCLUSIONS, PUBLIC DISCLOSURE, AND FOLLOW-ON ACTIONS (if any)</b>			
12.	<b>Conclusion:</b> The reviewer should conclude whether or not the submission is acceptable in substance and form to ADB.			
	<b>Acceptability and Rating</b>	<b>Yes</b>	<b>No</b>	<b>Remarks</b>
	12.1. Completeness and quality			
	(i) Auditor's report	X		
	(ii) APFS	X		
	(iii) Management letter	X		
	12.2. Received within covenanted period		X	
	<b>General remarks:</b> The unqualified audit opinion on the APFS is acceptable. The Independent Assurance Report based on ISAE3000 on use of loan proceeds and SOE would need clarifications as "conclusions" sound like limited assurance, not reasonable assurance required. See Management Letter, please highlight (briefly) the two issues: not maintain special sub-ledger accounts to show flow of funds and submit documents to confirm proposer use of funds.			
13.	<b>Follow up actions needed:</b> Task manager reviews audit observations, and addresses issues, as appropriate. Particular attention paid to the conclusion above, and the following financial and non-financial aspects:  <b>A. Financial Aspects:</b>  <b>B. Non-financial Aspects:</b>			
14.	Comments, if any, on an independent auditor: qualifications, experience, terms of reference, acceptability.			
15.	<b>Public Disclosure</b>	<b>Yes</b>	<b>No</b>	<b>Remarks</b>
	15.1. Are the APFS subject to public disclosure (indicate date of issuance of invitation to negotiate in the remarks)	X		
	15.2. The APFS and auditor's report thereon have been separated from the management letter and other documents (e.g., audited entity financial statements) for uploading to eOps and disclosure	X		
	15.3. The APFS and auditor's report thereon do not contain references to disputed territories or geographic areas, or any other issues which may reputationally impact the DMC or ADB (if no, DER, OSFM and OGC guidance must be sought)	X		
	15.4. The APFS and auditor's report can be publicly disclosed (if no, DER, OSFM and OGC guidance must be sought)	X		
	15.5. Record following dates:			
	(i) date of uploading in eOps August 2017			
	(ii) latest date for disclosure November 2016			

<b>Prepared by:</b>	
Rafael Aquino Operations Analyst, CWPf Date: 29 July 2017 (Revised) 21 August 2017 (Revised)	Inmaculada Martinez Senior Private Development Specialist, CWPf Date: 13 August 2017 (Revised) 22 August 2017 (Revised)

<b>Reviewed and Advised by:</b>	<b>Approved by:</b>
Xu Yi Senior Financial Management Specialist, CWOD-PSG Date: 25 September 2017	Werner Liepach Officer-in-Charge, CWPf Date: November 2017

ASIAN DEVELOPMENT BANK  
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25 SEP 2017  
PORTFOLIO, RESULTS, SAFEGUARDS & SOCIAL SECTOR (CWOD-PSS)  
OFFICE OF THE DIRECTOR GENERAL, CWOD

**Republic of Kazakhstan: Small and Medium  
Enterprise Investment Program  
Loan No.3093-KAZ (Tranche 2)  
Statement of Utilization of Funds for the year  
ended 31 December 2016**

**and Independent Auditor's Report**



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## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Bank CenterCredit Joint Stock Company

We have audited the accompanying Statement of Utilization of Funds (hereinafter the "Report") of "Investment program for the development of small and medium enterprises of the Republic of Kazakhstan" (hereinafter the "Project"), implemented by Joint Stock Company Bank CenterCredit (hereinafter the "Bank") which comprises the Statement of Utilization of Funds, for the year ended 31 December 2016 and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying Statement of Utilization of Funds presents fairly, in all material respects, the cash movement of the Bank for the year ended 31 December 2016 in accordance with the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

### Basis for Opinion

We have performed our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under those standards are described in the section Auditor's Responsibility for the Audit of the Financial Statements herein. We are independent in relation to the Company, as required by the Code of Ethics for Professional Accountants of the International Ethics Standards Boards for Accountants (Code of IESBA) and the ethical requirements applicable to our audit of the financial statements in Kazakhstan, and we performed other ethical responsibilities of ours in compliance with those requirements and the Code of IESBA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management of the Bank is responsible for the preparation and fair presentation of these separate financial statements in accordance with the International Public Sector Accounting Standard "Financial Reporting Under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants and in accordance with the requirements of Asian Bank of Development, and for such internal control as management determines is necessary to enable preparation of the separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for the evaluation of a Bank's ability to continue as a going concern, and for disclosure, where appropriate, of information relevant to the going concern, as well as for preparation of the financial statements based on the assumption of going concern, except when management intends to liquidate the Company, or discontinue its operations, or where has no other realistic alternatives, other than liquidation or discontinuation of operations.

Those charged with governance are responsible for supervision of the preparation of the Project's financial statements.

Товарищество с ограниченной ответственностью "BDO Kazakhstan", зарегистрированное в соответствии с законодательством Республики Казахстан, является участником международного объединения BDO International Limited, британского общества с ответственностью, ограниченной гарантией его участников, и является частью международной сети независимых компаний BDO.

BDO Kazakhstan, a limited liability partnership, registered under the laws of the Republic of Kazakhstan, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

## Auditor's 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 (hereinafter the "ISA") applicable to the audit of financial statements and to compliance auditing, with special reference to ISA 800 "The independent Auditor's Report on Special Purpose Audit Engagements". Those standards require that we comply with relevant ethical principles and plan and perform the audit to obtain reasonable assurance whether the Report is free of 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 in the financial statements, whether due to fraud or error. In assessing such risks, the auditor considers internal controls relevant to the preparation and fair presentation of the financial statements by the entity, 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 controls. An audit also includes assessing the accounting principles used and significant 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.

Our objective is to obtain reasonable assurance whether the financial statements are free from material misstatement due to fraud or error, and to express the audit opinion. Reasonable assurance means a high degree of certainty, but does not guarantee that the audit performed in accordance with the International Standards on Auditing, with special reference to ISA 800 "The independent Auditor's Report on Special Purpose Audit Engagements" always identifies material misstatements, if any. Misstatement can be caused by fraud or errors, and are considered material if you can reasonably assume that they, individually or cumulatively, can impact on economic decisions of users made on the basis of the financial statements.

As part of the audit performed in accordance with the International Standards on Auditing, we use professional judgment and maintain professional scepticism throughout the audit. In addition, we perform the following:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or errors; design and perform audit procedures in response to the risks; obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. Detection risk of material misstatement resulting from fraud is higher than the detection risk of material misstatement due to errors, since fraud can involve conspiracy, falsification, deliberate omission, misrepresentation of information or override of internal controls;
- Obtain understanding of the internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates, and appropriateness of disclosures prepared by management;
- Evaluate the overall presentation of the separate financial statements, its structure and content, including disclosures, we also evaluate whether the financial statements present the underlying transactions and events so as to ensure their fair presentation.

We interact with those charged with governance over the Project, bringing to their attention, inter alia, information about the planned scope of the audit and its timing, as well as material findings of the audit, including significant shortcomings of the internal control identified in the course of the audit.

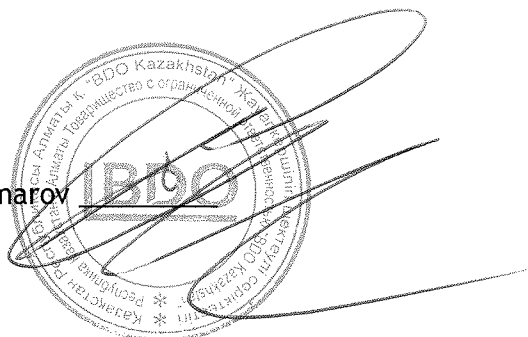
We also provide those charged with governance over the Project with a statement that we complied with all relevant ethical requirements with respect to independence, and informed them about all relationships and other issues that may reasonably be regarded as affecting the auditor's independence and, where necessary, about appropriate precautions.

We select from the issues that we brought to the attention of those charged with governance over the Project those issues that were most important to the audit of the financial statements for the current period and, therefore, are the key issues. We disclose information related to those issues in our audit opinion, except in cases where public disclosure of such information is prohibited by applicable laws or regulations, or, in very rare cases, where we come to the conclusion that the adverse effects of communicating such information would be much stronger than public benefit from its disclosure.

**BDO Kazakhstan LLP**

State License No.15003448 for auditing activities as issued by the Committee for Financial control, the Ministry of Finance of the Republic of Kazakhstan dated 19 February 2015.

Director T.A. Omarov



26 June 2017  
Almaty

Auditor E. Kalinina

Auditor's qualifying certificate No.0000085  
issued by the Qualification Commission for  
Auditors Certification 13.06.1994



**ANNUAL STATEMENT OF UTILIZATION OF FUNDS**  
**BANK CENTRECREDIT JSC**  
**for the year ended 31 December 2016**

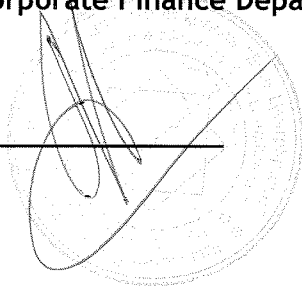
<i>(in US dollars)</i>	Notes	2014	2015	2016	Cumulative
Opening balance		-	60 933 096	-	-
Amount received from DAMU	4	61 000 000	-	-	61 000 000
Loan to SME		-	(59 763 921)	-	(59 763 921)
Translation (loss)/gain		(66 904)	(1 169 175)	-	(1 236 079)
Closing balance		60 933 096	-	-	-

*Accounting policies and explanatory notes on pages 7 to 8 form an integral part of these financial statement*

**Director of Corporate Finance Department**

M.M. Nurgazin

26 June 2017  
 Almaty



## 1. General information

On 29 September 2010, the Asian Development Bank (hereinafter - ADB) approved a multitranche financing facility (MFF) for the Kazakhstan Small and Medium Enterprise Investment Program for an aggregate amount not exceeding 500 million US dollars. This is ADB's first sovereign operation that provides local currency (tenge) fixed interest rate financial intermediation loans which directly mitigate foreign exchange, interest rate and tenor mismatch risks for participating financial institutions (PFIs) and their small and medium-sized enterprise (SME) clients in Kazakhstan. Experience has shown that these financial risks have been a significant cause of stress for SMEs and their banks. Damu Entrepreneurship Development Fund JSC (hereinafter - Damu) (Kazakhstan national/state company) is committed, and implements its SME support programs in Kazakhstan that form an integral part of its recently adopted Action Plan to Improve SME Access to Finance for 2010-2015.

For the second tranche, Damu requested a loan of 122million US dollars (equivalent to 22.5 billion tenge) from the ADB ordinary financial resources under the guarantee of the Republic of Kazakhstan for on-lending through the allocation of sub-loans to qualified PFI for the financing of working and investment loans, leases and other financial products on the basis of the relevant market conditions, provided to eligible small and medium enterprises for funding relevant projects in Kazakhstan.

On 29 October, 2014, with a view to financing SMEs in Kazakhstan within the framework of the ADB Small and Medium Enterprise Investment Program, ADB, Damu and Bank CenterCredit JSC (the Bank acts as a PFI) concluded a Loan Agreement to finance small and medium enterprises for the amount of 61,000,000 US dollars.

The second tranche was expected to be utilized starting from September 2014 to December 2015 but implementation actually commenced as from January 2015. In 2016 SMEs were financed from repaid loans (secondary financing).

### *The purpose of the project*

The purpose of the project is to create jobs and increase economic growth through the development of SMEs.

## 2. Basis of preparation

These statements have been prepared in accordance with International Public Sector Accounting Standard ("IPSAS") "Financial Reporting under the Cash Basis of Accounting" issued by the International Public Sector Accounting Standards Board.

The reporting period for this project is the financial year ended 31 December 2016.

The Statements are presented in the United States dollars (hereinafter - "US dollars"), which is the financial statement representation currency. The Bank's functional currency is tenge.

Tenge is not a freely convertible currency outside the Republic of Kazakhstan and, accordingly, any conversion of tenge to the dollar should not be considered as a representation of the fact that tenge amounts have been, could be or will in the future be converted into US dollars at the exchange rate of reporting date, or any other exchange rate.

## 3. Significant accounting policies

### *a) Foreign currency*

This Report is presented in US dollars for the purposes of reporting to the ADB. Functional currency of the Bank and funding of SMEs is Kazakhstani tenge (hereinafter - tenge).

Cash receipts and payments arising from transaction in a foreign currency are recorded in the presentation currency by applying to the foreign currency of the exchange rate amount between the presentation currency and the foreign currency at the date of receipts and payments. The rates



applied for translation purposes based on the rates published by the National Bank of Kazakhstan (hereinafter - NBK) as these are the reference rates commonly used for foreign currency denominated contracts in Kazakhstan.

*b) Cash basis of accounting*

Cash method of accounting is a basis of accounting that recognizes transactions and other changes in the financial position of an entity only when cash is received or paid.

*c) Cash*

Disbursement procedures from ADB are implemented through the imprest fund procedure. In accordance with the Loan Disbursement Handbook, Damu established a bank account under its name at an acceptable to ADB commercial bank. The currency of the account is in US dollars. Each PFI receives the proceeds of the relevant subloan from Damu.

Upon receiving the loan, each PFI enters into a swap arrangement with the National Bank of Kazakhstan to obtain funds in Kazakhstani tenge (Tenge). Such swap arrangements ensure that the currency risk is hedged as further financing of SMEs is implemented in tenge.

*d) Project expenditures*

Expenditures under the project funds are recognized in the period when they were actually paid. The Bank undertakes to return the money received from the repayment of previously issued loans to SMEs within a reasonable period of time to redirect the financing of new potential SME borrowers in accordance with the terms of the Agreement. This money can be used to finance the same potential SME borrower, from which the released funds were received.

**4. Utilization of funds**

2016	in Tenge	In US dollars
<b>Opening balance</b>	<b>217 781 611</b>	<b>641 534</b>
Opening balance adjustment	(123 950 440)	(365 129)
Loan to SME	-	-
Repaid loan by SME during the year	9 652 619 151	28 303 050
Additional SME loans from repaid initial SME loans *	(6 936 547 322)	(20 300 855)
<i>Translation (loss)/gain**</i>	-	152 205
<b>Closing balance</b>	<b>2 809 903 000</b>	<b>8 430 805</b>

Full utilization of funds (Tranche 2) was implemented before July 2015. Under the agreement, the Bank has the right to grant additional loans from the amount of repaid loans. In 2016 additional SME loans were financed through the repaid initial SME loans.

\*In December 2016 Bank implemented EBRD programs (Tranche 4, "Women in Business" 2 Tranche). Loans issued under the terms of the ADB program in the amount of 670 million of tenge were refinanced (replaced) by means of EBRD programs. Actual changes in the source of financing in the Bank's loan portfolio were reflected in 2017.

\*\*In August 2015 National Bank of Kazakhstan made a transition of tenge to a freely floating rate that caused a significant fall of Kazakhstani tenge against major foreign currencies. The exchange rates during the year were as follows:

- December 31, 2014: 1 USD / 182.35 KZT
- August 31, 2015: 1 USD / 237.66 KZT
- December 31, 2015: 1USD / 339.47 KZT
- December 31, 2016: 1USD / 333.29 KZT.

**Bank CenterCredit JSC**

**INDEPENDENT ASSURANCE REPORT**

**for the year ended 31 December 2016**



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## INDEPENDENT ASSURANCE REPORT

To Shareholders and the Board of Directors of Bank CenterCredit Joint-stock Company (BCC) and the Asian Development Bank (ADB).

We have performed the procedures described below to obtain a reasonable assurance in respect of proper utilization of funds by BCC in compliance with the criteria specified in Article III, Sections 3.03, 3.04 and subparagraphs 2 (c), (d), (e) of the Annex to the Project agreement (ADB criteria). The criteria were determined in respect of Small and Medium Enterprise Investment Program, Loan Agreement No. 3093-KAZ, Tranche 2 (hereinafter referred to as "the Project"). We have performed our procedures in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Our responsibilities under this standard are described in the section Scope of work herein.

Review period for this report is fiscal year ended 31 December 2016.

Reasonable assurance has been obtained in respect of compliance of the Project with the criteria with regards to the following tasks:

- 1) The use of borrowed funds: to confirm that the funds have been utilized in accordance with the Project Agreement and only for the purpose of issuing SME loans to potential SME borrowers, as defined in the Annex to the Project Agreement;
- 2) Compliance with financial conditions (to confirm compliance with the criteria set out in Sections 3.03, 3.06 and subparagraphs 2 (c), (d), (e) of Article III of the Annex to the Project Agreement);
- 3) Compliance with the procedures for Reporting Expenditures: to confirm the availability of the relevant documentation confirming liquidations, submitted to DAMU, in accordance with ADB's Reference book on loan disbursement and documentation confirming financing of the expenses under the Loan Agreement.

### Scope of work

The auditor has designed and performed work in accordance with the objectives and procedures of this engagement described below to obtain evidence regarding the use of the borrowed funds and compliance with the financing conditions and procedures set out in the Expenditures Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the information provided. In assessing such risks, and with a view to designing auditing procedures appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BCC's internal controls, an Auditor reviews the internal controls, associated with the preparation and reliable presentation of the information on the use of the borrowed funds and compliance with financing conditions and procedures set out in the Expenditures Report. When performing these procedures, the auditor used methods such as research and analysis, calculation, comparison, other verifications of the accuracy of the calculations, monitoring, inspection of records and documents, verification of assets and obtaining evidence, or any other procedures deemed necessary to obtain evidence.

### Source of information

The report contains analysis based on the information provided by BCC in response to specific inquiries, or received or retrieved from the banking and accounting system of BCC and credit files

Товарищество с ограниченной ответственностью "BDO Kazakhstan", зарегистрированное в соответствии с законодательством Республики Казахстан, является участником международного объединения BDO International Limited, британского общества с ответственностью, ограниченной гарантией его участников, и является частью международной сети независимых компаний BDO.

BDO Kazakhstan, a limited liability partnership, registered under the laws of the Republic of Kazakhstan, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

of borrowers. The BCC management is responsible for the preparation and presentation of reliable information and financial statements in accordance with IFRS, and for such internal controls as BCC management determines necessary to prepare information that is free from material misstatements, whether due to fraud or error.

#### Findings

The abovementioned tasks have been considered, and all procedures established for the fulfilment of our engagement have been performed. Based on the results of these procedures, the following was detected:

**1) The use of borrowed funds: to confirm that the funds have been used in accordance with the Project Agreement and only for the purpose of issuing SME loans to potential SME borrowers, as defined in the Annex to the Project Agreement.**

To perform this task in compliance with BDO methodology, some items have been selected from MSE borrowers' register funded by means of Tranche 2. 20 items were selected. Using the items data, the loans were inspected in respect of their intended use in compliance with criteria described in the Annex to the Project Agreement. The source of information was MSE borrowers' credit files. Also, reconciliation reports have been received and analysed with a view to obtain additional confirmation of the actual existence of the borrowers and debt amounts as at the end of the reporting period. Test of control was carried out with the aim of designing audit procedures that are appropriate in the circumstances.

**Conclusion:** The audit detected no deviations.

**2) Compliance with financial conditions:**

**Article 3 of Section 3.03 states: BCC shall keep accounts and records related to the progress of Project implementation and each of potential sub-projects for SME (including their prices), and show BCC's transactions and financial position in accordance with the International Financial Reporting Standards.**

We have received and reviewed the operating chart of accounts of the Bank to make sure that the chart of accounts provides for separate sub-ledger accounts to record and maintain the process of Project implementation. We have read the accounting policies and audited non-consolidated financial statements of BCC to make sure that the accounting policies were developed in accordance with the IFRS, and accounting records are maintained based on those accounting policies, and financial statements have been prepared in accordance with the IFRS.

**Conclusion:** The audit identified that BCC uses Colvir banking system to record and maintain the process of Project implementation. When processing transactions of issuing loans to borrowers by a credit administrator, the system assigns a funding source code (code 66) to loans, which identifies the loans issued under the program of Project funding. However, there are no special sub-ledger accounts in accounting system that could help identify the loan in terms of its belonging to any financing program, i.e. issuing loans and further accounting for financial assets is performed in regular course.

**Article 3 of Section 3.06 states:**

**A) BCC shall**

**(i) Maintain separate accounts and records related to the Project.**

We reviewed the BCC's operating chart of accounts and loan portfolio downloaded from the banking system.

**Conclusion:** There are no special sub-ledger accounts in the accounting system that could help identify the loan in terms of its belonging to any financing program, i.e. issuing loans and further accounting for financial assets is performed in regular course. See explanations above to Section 3.03.

**(ii) Prepare annual Report on the Utilization of Funds for the Project in accordance with the International Financial Reporting Standards.**

We have received the annual Report on the Use of Funds for the Project, prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

**Conclusion:** The report has been prepared in accordance with the international conceptual framework; however, the report has been prepared in accordance with IPSAS, but not IFRS.

(iii) Perform an annual audit of the Report on the Utilization of Funds by independent auditors, whose competencies and experience are acceptable to ADB.

The Report on the Utilization of Funds has been audited by independent auditors, whose competencies and experience are acceptable to ADB.

**Conclusion:** The requirements of this paragraph are met.

(iv) As part of each audit, BCC shall require from auditors to prepare a report that includes an audit opinion on the Report on the Use of Funds, the use of funds of the BCC's Subloan and application of procedures for reporting expenditures, and a written report to management which specifies the issues of internal controls of the Project identified in the course of audit, if any.

**Conclusion:** The requirements of this paragraph are met.

(v) Submit to ADB through DAMU (the Borrower) copies of the audited Report on the Utilization of Funds, auditors' report and management letter within 6 months following the end of each fiscal year, to which such reports relate; all the above documents shall be executed in English; BCC shall also provide other information related to these documents and audit thereof, which ADB will reasonably request from time to time.

**Conclusion:** at the time of release of this report, the information requested was at the stage of submitting.

**B) ADB shall publish on the ADB site an audited annual Report on the Use of Funds and the auditors' opinion on the Report within 30 days from the date of its receipt by the auditors.**

**Conclusion:** at the time of release of this report, the information requested was at the stage of submitting.

**C) In addition to the annual audited Report on the Use of Funds as specified in Section A) above, BCC shall:**

(i) Provide its annual consolidated and non-consolidated financial statements prepared in accordance with IFRS.

We requested and received copies of annual consolidated and non-consolidated financial statements prepared in accordance with IFRS.

**Conclusion:** The requirements of this paragraph are met.

(ii) Conduct annual audit of consolidated and non-consolidated financial statements by independent auditors whose competencies and experience are acceptable to ADB, in accordance with the International Standards on Auditing or equivalent national standards acceptable to ADB.

We have read the minutes of the annual general meeting of the shareholders of BCC dated 25 April 2014 on the approval of the audit firm to audit the financial statements of BCC for 2016 and the independent auditors' reports on the consolidated and non-consolidated financial statements dated 7 March 2017 and 18 March 2017 respectively prepared in accordance with the requirements of ISAs.

**Conclusion:** According to the minutes of the annual general meeting of shareholders of BCC, the Chief Accountant proposed to engage an independent audit firm Deloitte LLP. The decision was based on the good results of annual audits, and other independent audit firms were not considered.

(iii) As part of such audit of the consolidated and non-consolidated financial statements, BCC shall require auditors to prepare a letter that should include the opinion of the auditors on compliance with the eligibility criteria set out in subparagraphs 2 (c), (d), (e) of Annexes to this Project Agreement, provided that such a letter should be requested only in respect of any of the

eligibility criteria, which are not disclosed in the audited non-consolidated financial statements or notes thereto.

We reviewed the disclosures to non-consolidated audited financial statements for the year ended 31 December 2016. We have requested the management of BCC to provide the letter from the auditors in respect of the criteria that are not disclosed in the non-consolidated financial statements.

**Conclusion:** At the time of preparing this report, a letter including the opinion of the auditors on compliance with eligibility criteria, has not been provided. The audited non-consolidated financial statements contain the disclosure of the ratio of total equity to risk weighted assets (paragraph (e)), and information on the profitability for the last financial year (paragraph (c)). Information on the level of NPL is missed (paragraph (d)). See calculations below.

(iv) Prepare and submit to ADB through the Borrower the copies of the audited consolidated and non-consolidated financial statements and the letter referred to in section C) (iii) above, within one month following their approval by the relevant authority of BCC; each document shall be executed in English; BCC shall also provide other information related to these documents and audit thereof, which ADB will reasonably request from time to time.

We have received and reviewed the Minutes of the general meeting of shareholders of BCC dated 19 May 2017, which states that they approved audited consolidated and non-consolidated financial statements of BCC for the year ended December 31, 2016. We have requested from BCC a confirmation of submitting to ADB through DAMU the copies of the statements and letters of auditors in English.

**Conclusion:** at the time of release of this report, the information requested was at the stage of submitting.

D) BCC shall allow ADB, upon its request, to discuss the Report on the Use of Funds and the consolidated and non-consolidated financial statements of BCC, as well as its financial matters relating to the Project, with the auditors appointed by BCC under subsection A) (iii) and C) above, and shall authorise the representative of such auditors and require him to participate in any discussions initiated by ADB. And there is a condition that such discussions should be held only in the presence of an authorised officer of BCC, unless BCC decides otherwise.

We have requested BCC management to provide information whether there were any discussions with ADB, and if they were, why were we not involved in the discussions.

**Conclusion:** At the time of preparing this report, no discussions were held upon ADB's requests.

***Eligibility criteria applicable to BCC:***

2. BCC must meet the following eligibility criteria. In the event of non-conformity of BCC to any of the following eligibility criteria, BCC notifies ADB through the Borrower of such non-conformities. Such notice shall be given within 30 days from the date when BCC becomes aware of any non-conformity:

C) Is BCC profitable based on the results for the last ended fiscal year, or has BCC an agreed action plan to become profitable (profitability means operating income after taxes)?

Based on the audited non-consolidated financial statements, we analysed the profitability for the last fiscal year.

**Conclusion:** According to the audited non-consolidated financial statements, operating income after tax for 2016 amounted to 2 629 million tenge, which conforms to the established criteria.

D) Is the NPL lower than 10%, or is there any agreed action plan to reduce NPL to this level (non-performing loans mean loans that overdue for more than 90 days and include the principal and accrued interest)?

Based on the file of loan portfolio downloaded from the banking system of BCC, we assessed the rate of NPL as at 31 December 2016.



**Conclusion:** as at 31 December 2016, the NPL rate was 11% (according to the requirements of the National Bank of the Republic of Kazakhstan (NBRK) the rate was 8.92% as only the principal amount should be taken for the assessment of this rate). In confirmation of the implementation of the action plan to reduce the NPL rate to the required level, there is a letter (No. 13-1-09 / 429-dated 01.03.2017) from the NBRK confirming the execution of the action plan to reduce the NPL rate by the NBRK methodology to the level less than 10%. The Action Plan to reduce NPL rate agreed with ADB was also provided.

**E) Is the ratio of total capital to risk weighted assets maintained at the level of 12%, or is there an agreed action plan to achieve such a ratio (such ratio is to be calculated in accordance with the legislative requirements of Kazakhstan)?**

We have analysed the disclosures to the audited non-consolidated financial statements for the year ended 31 December 2016, which contain information on the adequacy of capital.

**Conclusion:** The BCC's ratio of total capital to risk weighted assets (k2) as at 1 January 2017 is 16.6%. According to the disclosures to the audited non-consolidated financial statements for the year ended 31 December 2016 the minimum required ratio of total capital to risk weighted assets is 8.5% (requirements of NBRK), it means that BCC complies with the required capital adequacy established by NBRK and ADB.

**3) Compliance with the expenditures reporting procedures: to confirm whether supporting documents in respect of liquidations submitted to DAMU, that are required in accordance with ADB's Handbook on disbursement of the loan, and the documents confirming coverage of the costs under the loan agreement are properly provide.**

We have requested monthly Expense Reports. As part of the procedures for testing internal controls using the BDO methodology, we selected borrowers, and checked their Expense Reports submitted to DAMU against total amounts from credit files of the borrowers based on the analysis as described in paragraph 1), we also checked the availability of required supporting documents.

**Conclusion:** The audit did not detect any deviations.

#### Use of the report

The present report has been prepared solely for the use and confidential treatment by Bank CenterCredit JSC and Asian Development Bank for the purposes of reporting to Asian Development Bank as required by the Project agreement dated 29 October 2014.

As at the time of preparing this report, there were no signs of any conflict of interest between the Auditor and BCC.

The report is based on information provided to us by BCC management, and information contained in the banking and accounting systems of BCC.

Our report is intended for the purposes referred to in the first paragraph of this report, solely for your information and shall not be used for any other purpose or transferred to any third party. This report covers only the items specified above, and does not cover any financial statements of BCC as a whole.

#### Audit opinion

In our opinion, the statement of BCC that the requirements of the Project criteria have been complied with in all material respects is fair, except for the aspects described in the paragraphs above.

BDO Kazakhstan LLP

State license No.15003448 dated 19 February 2015 for audit activities issued by the Committee on Financial Monitoring of the Ministry of Finance of the Republic of Kazakhstan

26 июня 2017

Almaty

T.A. Omarov

Director



E. Kalinina

Auditor

Auditor qualifying certificate No.0000085  
issued by the Qualification Commission for  
Auditors Certification on 13 June 1994