

Audited Project Financial Statements

Project Number: 44060-025
Loan Numbers: 3231/3261
Period covered: 01 January 2016 to 31 December 2016

KAZ: Small and Medium Enterprise Investment Program – Tranche 3

Prepared by: Tsesna Bank

For the Asian Development Bank
Date received by ADB: 28 June 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 Tsesna Bank.

Joint Stock Company "Tsesnabank"

Independent auditor's 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 2016



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2015 concluded between the Bank and the ADB (the "Project Agreement"), in relation to the use of proceeds of the loan withdrawn from the ADB for the purpose of the Small and Medium Enterprise Investment Program – Tranche 3 (the "Project"); and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with the specific provisions of the Project Agreement in relation to the utilisation of proceeds of the loan withdrawn from the ADB for purposes of the Project; and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



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Summary of the work performed

The scope of our work included the following procedures as specified in the Section "Subject matter and criteria":

- ▶ Testing on a sample basis controls for authorization of loans disbursed during the year ended 31 December 2016 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;
- ▶ Checking on a sample basis whether responsible persons for the Project operations 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 2016 in accordance with the Project Agreement;
- ▶ Testing on a sample basis of compliance of the Bank's sub-borrowers and sub-projects with the ADB's required criteria for lending;
- ▶ Testing on a sample basis that the expenditures incurred under the Project were eligible for financing in accordance to the requirements of the Project Agreement;
- ▶ Tracing on a sample basis of 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 matter against the criteria (as specified in Section "Subject matter and criteria").



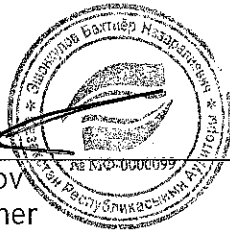
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Distribution of the report

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 related to 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. MΦ-0000099 dated 27 August 2012

050060, Republic of Kazakhstan, Almaty
Al-Farabi ave., 77/7, Esentai Tower

12 June 2017



Gulmira Turmagambetova
General director
Ernst & Young LLP

State audit license for audit activities on
the territory of the Republic of Kazakhstan:
series MΦЮ-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 Agreement and the ADB's Loan Disbursement Handbook

Joint Stock Company "Tsesnabank"

The Loan agreement No. 3231-KAZ/3261-KAZ between the 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-АБПІІ (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 the 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 the ADB (the "Project Agreement") was signed on 11 September 2015 to set out specific provisions which the Bank shall comply with in respect to its sub-borrowers, sub-projects and sub-loans.

Responsible persons for the Project operation comprising 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 the 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 controls, 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 2016.

Management's confirmation

Management confirms that all loans issued to sub-borrowers under the Project during the year ended 31 December 2016 for the total amount of KZT 22,554,418 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:

Tajiyakov Y.B.



Chairman of the Management Board

12 June 2017

**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**

Statement of utilization of funds

*with independent auditor's report
for the year ended 31 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**

Statement of utilization of funds

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Independent auditor's report

To the management of the 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 (№ 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 2016 and a summary of significant accounting policies and other explanatory information (the "Statement of utilization of funds").

The Statement of utilization of funds has been prepared by the management using the cash receipts and cash disbursements basis method as disclosed in Note 2 to the Statements of utilisation of funds.

Opinion

In our opinion, the Statement of utilisation of funds presents fairly, in all material respects, the cash receipts and disbursements of the Project for the year ended 31 December 2016 in accordance with the cash receipts and disbursements basis of accounting.

Management's responsibility for the Statement of utilization of funds

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

Auditors' responsibility for the Statement of utilization of funds

Our responsibility is to express an opinion on the Statement of utilization of funds 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 Statement of utilization of funds is free from material misstatement.



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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statements of utilization of funds. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement of utilization of funds, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the Statement of utilization of funds 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 Bank'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 Statement of utilization of funds.

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

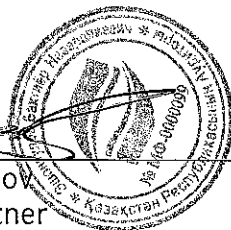
Basis of accounting of the Statement of utilization of funds

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

Ernst & Young LLP

Bakhtiyor Eshonkulov

Bakhtiyor Eshonkulov
Auditor / audit partner



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

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12 June 2017



Gulmira Turmagambetova
General director
Ernst & Young LLP

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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

Statement of utilization of funds

STATEMENT OF UTILIZATION OF FUNDS*

For the year ended 31 December 2016

Thousands of tenge

	Notes	2015	2016	Cumulative amounts
Opening balance		-	23,680,175	-
Received during the year from DAMU		23,690,420	-	23,690,420
Repaid during the year to DAMU		-	-	-
Loans to SMEs:				
Issued during the year		(10,245)	(22,554,418)	(22,564,663)
Repaid during the year		-	7,983,000	7,983,000
Ending balance		23,680,175	9,108,757	9,108,757

* Amounts in the Statement of utilization of funds represent gross principal amount and do not include interest and allowances for impairment.

Signed on behalf of the management of the Bank:

Tajiyakov Y.B.

Chairman of the Management Board

12 June 2017



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

NOTES TO THE STATEMENT OF UTILIZATION OF FUNDS

For the year ended 31 December 2016

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 multitranche 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 2016 and 2015 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 significant accounting policies described below were consistently applied in the reporting periods presented in the Statement of utilization of funds.

Cash basis of accounting in the Statement of utilization of funds

In the Statement of utilization of funds, cash receipts and cash disbursements are recognised when they are incurred.

Reporting entity

Tsesnabank JSC

The Statement of utilization of funds solely reflects the financial position and movements of the Project financed by the ADB as implemented by the Bank.

Reporting period

The reporting period is the year ended 31 December 2016.

Presentation currency of the Statement

This Statement of utilization of funds is presented in thousands of Kazakhstan tenge, unless otherwise indicated.

NOTES TO THE STATEMENT OF UTILIZATION OF FUNDS (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 2016 and 2015 are as follows:

Thousands of tenge

Participating financial institution	Total amount of financing	Total committed as of 31 December 2016	Available balance as of 31 December 2016
Tsesnabank JSC	23,690,420	23,690,420	9,108,757

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 2016
–	Loans issued to SMEs during 2016 in the framework of financing Tranche 3	22,554,418	22,554,418	7,983,000	14,571,418
Total		22,554,418	22,554,418	7,983,000	14,571,418

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	DNS-Cleaning LLP	2,245	2,245	–	2,245
Total		10,245	10,245	–	10,245

6. DATE OF ISSUE

The Statement of utilization of funds was approved for issue by the Management of the Bank on 12 June 2017.

Signed on behalf of the management of the Bank:

Tajiyakov Y.B.

Chairman of the Management Board

