



WE SUPPORT —
YOU GROW

ANNUAL REPORT

2017

1997



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LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS DAMU ENTREPRENEURSHIP DEVELOPMENT FUND JSC



President of the Republic of Kazakhstan Nursultan Nazarbayev is pursuing a strategy focusing on the comprehensive development of Kazakhstan through economic diversification, digitalization, modernization and boosting of export capacity. In this situation, promoting entrepreneurship becomes one of the major tasks.

Every year, the market environment becomes increasingly business friendly. In the past four years alone, as many as six packages of amendments to the legislation were passed in order to drastically improve the business environment and the regulatory system. On May 24, 2018, President Nazarbayev signed a law amending the legislation with a view to improving business regulation. This document has cut back the government's control functions by 30% and introduced a number of measures to create the most supportive environment for businesses. All these actions serve to achieve a goal set by the Strategy-2050, where the share of small and medium-sized enterprises in the economy has to rise to 50% by 2050.

The ongoing reforms to improve business climate received positive feedback from international experts: for example, in 2017 Kazakhstan ranked 36th in the World Bank's Doing Business index of 190 countries.

For years, the support that local businesses received from Kazakhstan's government and development institutions has been increasingly generous. In 2017, DAMU Entrepreneurship Development Fund, being the main driver of support for small and medium-sized enterprises, provided a total of KZT 549 billion to as many as 11,936 projects. Started in 2017 and spearheaded by President Nazarbayev, the Program to Support Productive Employment and Mass Entrepreneurship will be in effect until 2021 and provides unprecedented incentives to individuals, including the support through subsidized microloans. DAMU is one of the main actors in the implementation of the microcredit program.

A total of USD 3 million in grant funds was raised within the framework of a joint initiative between the United Nations Development Program, the Global Environment Fund and the Government of the Republic of Kazakhstan to support green and energy efficient projects through DAMU. In addition, DAMU continues to work actively with international financial institutions in order to expand support to local businesses. To provide funding to small and medium-sized enterprises, including female entrepreneurs, the European Bank for Reconstruction and Development and the Asian Development Bank provided a total of KZT 52 billion and KZT 179.2 billion respectively during the entire period, of which sums DAMU received

KZT 72 billion to allocate starting from late 2017. As a result, funding was provided to 14,985 local entrepreneurs for a total of KZT 304 billion worth of loans, whereby the supported businesses created 8,568 new jobs.

In 2017, DAMU showed a 15% improvement of its performance indicators. In 12 months, the number of financed projects exceeded 11,000 with loans totaling KZT 548 billion. In 2017, DAMU showed impressive results in the automation of government services related to the support of small and medium-sized enterprises, such as loan guarantees and subsidized entrepreneur loans. Thanks to beating the targets set by the financial programs, DAMU achieved the goal announced in 2016, which was to extend the reach of entrepreneur loans.

The achievements of 2017 have demonstrated that DAMU has the necessary resources to fulfil its objectives efficiently. DAMU will continue its work focusing on maximizing the effect from incentives to small and medium-sized enterprises and improving the quality of its services.

Yerbolat Dossayev
Chairman of the Board of Directors
Deputy Prime Minister of the Republic
of Kazakhstan

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“ The achievements of 2017 have demonstrated that DAMU has the necessary resources to fulfill its objectives efficiently.



LETTER FROM THE CHAIRMAN OF THE MANAGEMENT BOARD DAMU ENTREPRENEURSHIP DEVELOPMENT FUND JSC



We are pleased to present you this annual report of DAMU Entrepreneurship Development Fund.

DAMU's current strategy sets direction for growth until 2023. In the past year, we determined focus areas for the Fund to give its strategy contemporary relevance. Firstly, by continuing to provide financial support to the SME sector as a whole, we will focus our efforts on micro and small businesses, expanding the scope of our financial programs available to entrepreneurs. Secondly, in order to ensure sustainable development of the Fund, we will raise more funds from non-governmental sources, achieve financial targets, implement full automation of key business processes and maintain high standards of corporate governance.

Already back in 2017 the Fund began to fulfil the tasks outlined in the updated strategy. Since last August, in addition to providing credit guarantees, the Fund has been allocating KZT 14.2 billion put up by the national and regional budgets under Enbek program in order to grant micro-loans to first-time and experienced entrepreneurs.

To obtain external funding, the Fund signed a loan agreement with the Asian Development Bank for KZT 72 billion. In 2017, the European Bank for Reconstruction and Development lent a total

of KZT 11.1 billion to Forte Bank JSC and Kassa Nova Bank JSC under the guarantee of DAMU Fund. Furthermore, in the past year, UNDP provided USD 3 million to the funding under the project "Sustainable Cities for Low-Carbon Urban Development in Kazakhstan" (includes measures to mitigate the impact of climate change on country specific low-carbon urban development) to subsidize interest rates and provide credit guarantees to Kazakhstani entrepreneurs.

In addition, we continue to implement programs of conditional allocation of funds into banks, leasing companies and microfinance institutions. In 2017, as many as 8,305 entrepreneurs received a total of KZT 230 billion worth of loans under these programs.

In the past year, 2,287 projects received support in the form of subsidized interest rates and 1,065 projects in the form of credit guarantees under 2020 Business Road Map program. Another 122 agreements were concluded under our own guarantee program Damu-Optima.

To promote business process automation, a number of initiatives were implemented such as selection of DAMU's products using Digital Damu online supermarket, automatic collection and record-

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ing of data on operational risks, decision-making by authorized bodies of the Fund (from preparation of materials to the execution of orders), HR administration, transition to electronic invoices.

In December 2017, DAMU adopted its Corporate Governance Code based on the OECD standards and Kazakhstan's best practices.

All in all, thanks to successful realization of financial incentive programs for SMEs and management of the funds, in 2017 DAMU achieved a positive financial result of KZT 4.1 billion.

In the following years, we will continue to concentrate on the effective implementation of government programs to support entrepreneurs by using financial instruments throughout the country, as well as on the development of new products and automation of business processes.

We are facing great challenges. I have no doubts that DAMU's team of committed professionals will achieve all targets, promoting and supporting entrepreneurship in Kazakhstan.

Sarkulov A.S.
Chairman of the Management Board
DAMU Entrepreneurship Development Fund JSC

2,287 PROJECTS

“ All in all, thanks to successful realization of financial incentive programs for SMEs and management of the funds, in 2017 DAMU achieved a positive financial result of KZT 4.1 billion.



SIGNIFICANT CORPORATE EVENTS IN 2017

14.1 BLN TG

DAMU has become the financial operator of Enbek program aimed at promoting productive employment and mass entrepreneurship during 2017–2021. In 2017, the Fund raised a total of KZT 14.183 bln across 16 regions of Kazakhstan, of which nearly KZT 11.9 bln were deposited into nine second tier banks/microfinance institutions.

3.5 BLN TG

A total of USD 11 mln (KZT 3.585 bln) provided by the European Bank for Reconstruction and Development to Kassa Nova Bank JSC under the guarantee of DAMU.

THIRD EXHIBITION OF KAZAKHSTANI PRODUCERS

On July 28-30, 2017, Astana hosted the 3rd exhibition of Kazakhstani manufacturers "Made in Kazakhstan" (businesses that received support from the government). As many as 210 clients of the Fund participated in the exhibition. In three days, the exhibition was attended by more than 6,000 people. Under the framework of the exhibition -forum, four free workshops were held focusing on business development and sales boosting skills. During the event, the 3rd Uly Dala Yeli forum of local producers was conducted in cooperation with Atameken national chamber of entrepreneurs.

MOODY'S RATING AGENCY

Based on the results achieved in 2017, Moody's Investors Service affirmed DAMU's global scale credit rating at "Baa3," financial sustainability outlook "Stable." At the same time, Moody's affirmed DAMU's national long-term rating at "Aa1.kz."

DOCUMENTS SIGNED IN 2017:

- Memorandum of understanding between SME Corp. Malaysia and DAMU;
- Memorandum of understanding between BPI France and DAMU;
- Agreement on mutual cooperation in non-financial support programs between Small and Medium Business Corporation (Korea) and DAMU;
- Cooperation agreement between nonprofit microcredit company Entrepreneurship Support Fund of the Republic of Tatarstan (Tatarstan, Russian Federation) and DAMU.

«FINANCING SMES AND ENTREPRENEURS – AN OECD SCOREBOARD»

DAMU took part in the preparation of the annual survey of the Organization for Economic Cooperation and Development (OECD) called "Financing SMEs and Entrepreneurs – an OECD Scoreboard." Thanks to the efforts of the Ministry of National Economy, Baiterek National Managing Holding and DAMU, starting from 2016 Kazakhstan has been among the countries participating in this study.

X ASTANA ECONOMIC FORUM

On June 16, 2017, the Fund held a panel session, "New opportunities for businesses to increase competitive capacity," as part of the 10th Astana Economic Forum. The session was attended by the Fund's partners including KOSGEB (Turkey), KODIT (South Korea), Small and Medium Enterprises Corporation (Malaysia), BPI France (France), PARP (Poland), Entrepreneurship Support Fund of the Republic of Tatarstan, etc.

1.0 BLN TG

In August 2017, the Ministry for Investment and Development of the Republic of Kazakhstan and DAMU signed a cooperation agreement concerning a grant from the Global Environment Facility with participation of the United Nations Development Program for a total of USD 3 mln (KZT 1 bln) to promote investment in energy efficiency of the urban infrastructure of the Republic of Kazakhstan by attracting grant funding within the framework of the project "Sustainable Cities for Low-Carbon Development in Kazakhstan".

72 BLN TG

A credit line agreement for KZT 72 bln (USD 200 mln) signed with the Asian Development Bank.

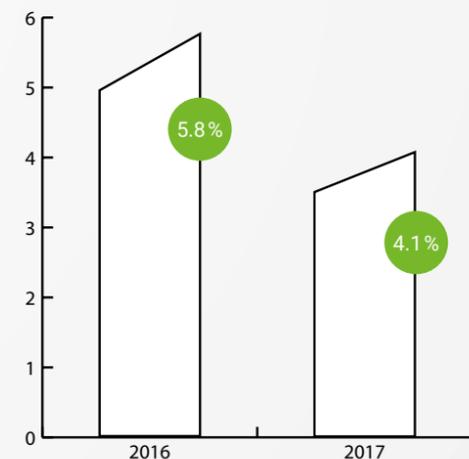


OPERATING HIGHLIGHTS

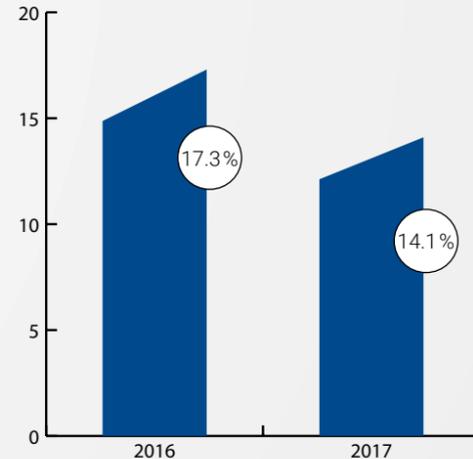
Graphic 1
ROA*



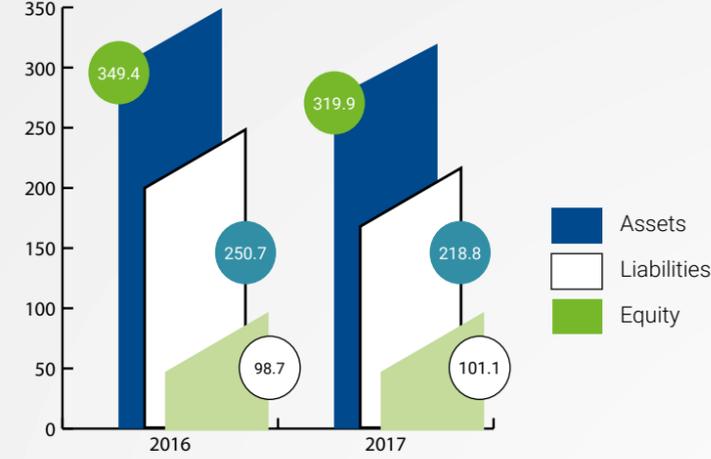
Graphic 2
ROE



Graphic 3
Profitability*



Graphic 4
Balance indicators (KZT bln)



Performance indicator	UoM	2015	2016	2017		
		actual	actual	target	actual	% of target
Spending on entrepreneurship development through financial programs*	KZT bln	523.7	606.0	630.0	548.49	87%
Participants in financial programs	entities	6,186	13,217	5,626	11,936	212%
Jobs created	persons	25,900	23,415	24,987	25,059**	100%
Percentage of supported SMEs in the total number of SMEs in the market	%	6.4%	5.3%	4.8%	5.1%	106%
Number of customers:	persons	71,786	90,923	71,000	74,132	104%
Number of clients who used distance services	persons	59,705	54,765	63,875	3,829	100%

* Decline in the loan portfolio in 2017 was caused by the lack of budget funds allocated for subsidized grants of a general nature. Additionally, the reach of subsidized loans increased thanks to micro and small businesses with a small share of the loan portfolio made up by single borrowers.

** Estimated projections of the Fund.

548.5 BLN TG

A total of KZT 548.49 billion have been invested in promoting entrepreneurship under financial programs.

* Decline in ROA and Profitability in 2017 compared with 2016 was caused by a fall in net profit (net profit in 2017 – KZT 4.1 bln compared with KZT 5.6 bln in 2016). Profit levels were affected by recognizing the currency swap revaluation as loss at fair value under the ADB's third tranche in connection with the default of Kazinvestbank JSC and Delta Bank JSC, as well as changes in USD/KZT exchange rate. The SWAP revaluation turned out negative and was recognized as loss.

ABOUT THE FUND

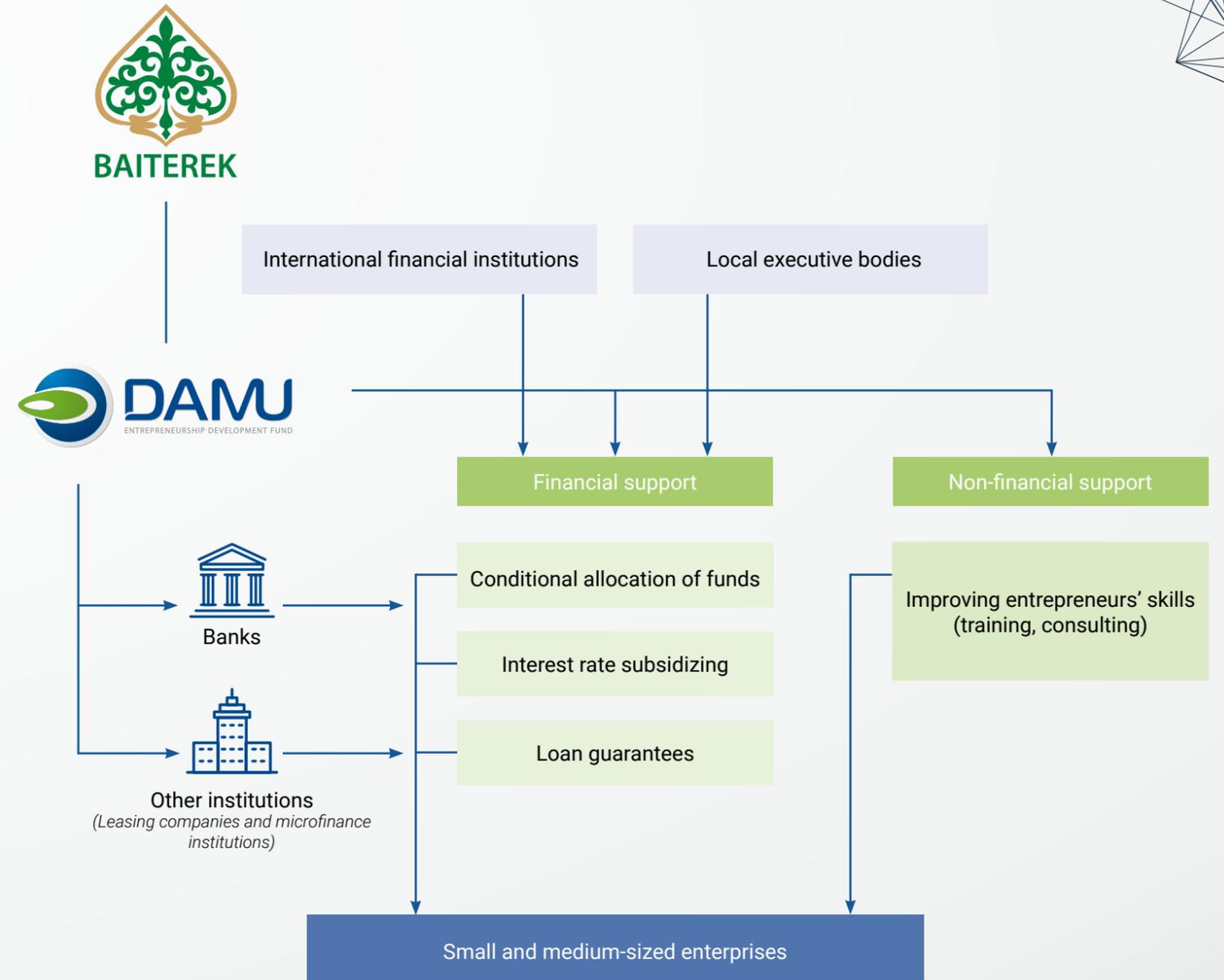
DAMU Entrepreneurship Development Fund JSC is a national development establishment whose goal is to promote first-class development of entrepreneurship in Kazakhstan by providing financial support.

The Fund provides a wide range of products and services for entrepreneurs such as lending through second tier banks, microfinance and leasing companies, subsidized interest rates, guarantees, consulting, providing information and analytical materials.

Our support tools

Tools	Projects supported	Loans issued:
Providing funds to second tier banks and microfinance institutions at the rate of 6% in KZT	36,000	KZT 1,671 bln
Guarantees for loans issued by second tier banks to entrepreneurs covering up to 85% of the loan amount	3.7 thous.	KZT 130 bln
Subsidized interest rates of 7% to 10%	11.2 thous.	KZT 2,068 bln

BUSINESS MODEL



HISTORY OF DAMU

1997 – 2007

- Acting as an agent in small business support programs of ADB and EBRD
- Direct lending to SMEs
- Creating a branch network

Results of the Fund's programs:

- over 2,600 projects supported
- KZT 27.5 bln worth of loans granted

SME statistics:

- 643,000 SMEs
- 2.1 million people employed by SMEs
- 10.7% share of SME sector in GDP

2008 – 2009

Conditional allocation programs:

- SME stabilization program
- Damu-Ondiris
- Damu-Regions

Results of the Fund's programs:

- over 10,000 projects supported
- KZT 521 bln worth of loans granted

SME statistics:

- 662,000 SMEs
- 2.6 million people employed by SMEs
- 17.7% share of SME sector in GDP

2010 – 2015

2020 Business Road Map

- subsidized interest rates
- loan guarantees

Conditional allocation of funds:

- support of SMEs in the Processing sector (6%)
- support of female entrepreneurs
- tools for SMEs financed by ADB, EBRD
- Non-financial support

Results of the Fund's programs:

- over 27,000 projects supported
- KZT 2.1 bln worth of loans granted

SME statistics:

- 1.2 mln SMEs
- 3.2 mln people employed by SMEs
- 24.9% share of SME sector in GDP

As of 2016

2020 Business Road Map

- Conditional allocation of funds: regional funding (8.5%), micro loans, factoring, franchising
- New approaches to entrepreneur services: Damu Blitz technology
- Automated receipt/processing of applications for guarantees

Results of the Fund's programs:

- over 45,000 projects supported
- KZT 3.3 bln worth of loans granted

SME statistics:

- 1.2 mln SMEs
- 3.1 mln people employed by SMEs
- 26.8% share of SME sector in GDP

As of 2017

- Enbek program
- Nurly Zher program

Results of the Fund's programs:

- over 50,000 projects supported
- KZT 3.9 tln worth of loans granted

SME statistics:

- 1.1 mln SMEs
- 3.1 mln people employed by SMEs
- 25.6% share of SME sector in GDP

GEOGRAPHY OF OPERATIONS

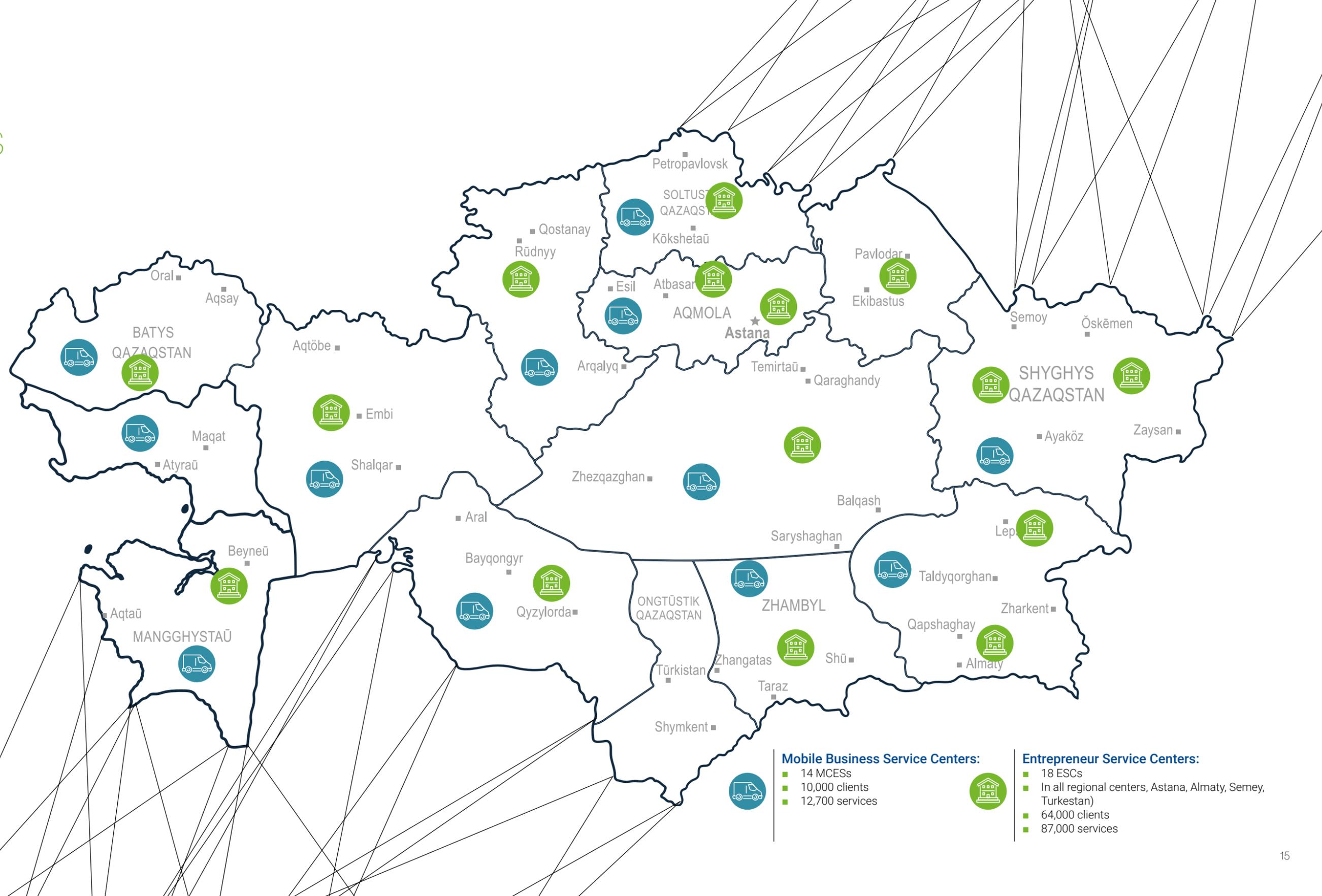
The Fund operates in all the regions of Kazakhstan. Regional network consists of 16 branches in all regional centers as well as in the cities of Astana and Almaty. In addition, the entrepreneur support infrastructure includes 18 Entrepreneur Service Centers and 14 Mobile Centers of Entrepreneur Service. Within the frameworks of its consulting programs, the Fund offers its services in all 204 cities and districts of Kazakhstan.

SHARE CAPITAL STRUCTURE

Type of securities	Simple shares
NIN	KZ1C49420017
Date of issue registration	09.04.2012
Nominal value*	KZT 100,000
Authorized shares	27,462,244
Issued shares	27,462,244
Shares owned by the shareholder	27,462,244
Shareholder information	Baiterek National Managing Holding JSC
Shareholder's share of issued shares	100%
Shareholder's share of voting shares	100%

* Cost of the last issue of shares

The Fund only issues common shares. Common shares grant the Sole Shareholder the right to make decisions on all matters submitted. Common shares also make the Sole Shareholder entitled to dividends in case the Fund has net earnings and to a part of the Fund's assets in case of its liquidation in accordance with the legislation of the Republic of Kazakhstan.



Mobile Business Service Centers:

- 14 MCEs
- 10,000 clients
- 12,700 services

Entrepreneur Service Centers:

- 18 ESCs
- In all regional centers, Astana, Almaty, Semey, Turkestan)
- 64,000 clients
- 87,000 services



1 DEVELOPMENT STRATEGY

MISSION AND VISION

Mission of the Fund

The Mission of the Fund is to play an active role in the sustainable development of micro, small and medium-sized enterprises (MSMEs) in Kazakhstan through implementation of complex and effective support mechanisms.

Vision of the Fund

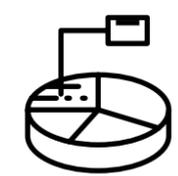
By 2023 to become a national development establishment, initiator and implementer of MSME support programs.

DEVELOPMENT STRATEGY

The Fund promotes development of the MSME sector in Kazakhstan and relies on successful and effective implementation of the government's and its own MSME support programs. The Fund has 20 years of experience supporting MSMEs and a number of other strengths that will be used to help effectively implement the development strategy and achieve goals and targets.

MAJOR STRATEGIC DIRECTIONS OF THE FUND UP UNTIL 2023

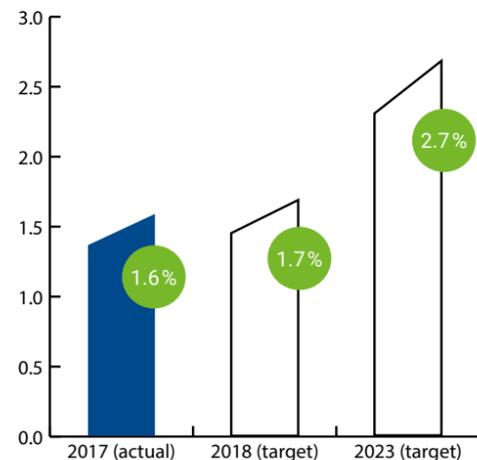
No.	Strategic directions	Strategic goals
1.	Support and development of first-time and experienced entrepreneurs	<ul style="list-style-type: none"> Increase lending to micro businesses, development and implementation of tools to support microfinance institutions and credit associations Extend the reach of the existing MSME financial support programs Ensure greater business efficiency of supported MSMEs
2.	Sustainable institutional development of the Fund	<ul style="list-style-type: none"> Attract additional sources of funding Achieve financial performance targets Automate the business processes Raise the standards of corporate governance



THE MICROFINANCE SECTOR

The microfinance sector is one of the most dynamically growing sectors in Kazakhstan. Microfinance institutions are a popular source of financing for micro and small businesses. However, the microfinance sector faces a number of challenges related to high interest rates, availability of credit, solvency of borrowers, etc.

Graphic 5
MFIs in the Fund's credit portfolio, %



MAJOR STRATEGIC GOALS

Support and development of first-time and experienced entrepreneurs

1. Increase lending to micro businesses, development and implementation of tools to support micro-finance institutions and credit associations

The microfinance sector is one of the most dynamically growing sectors in Kazakhstan. Microfinance institutions (MFIs) are a popular source of financing for micro and small businesses. However, the micro-finance sector faces a number of challenges related to high interest rates, availability of credit, solvency of borrowers, etc. The government needs to take action to resolve these issues.

The Fund will focus on attracting external funding for further lending to the microfinance sector and credit associations, as well as on the search for strategic partners who could provide professional expert advice to potential microfinance institutions (who will become borrowers in the Fund's programs) (Graphics 5, 6).

2. Extend the reach of existing MSME financial support programs

■ Financing MSMEs through second tier banks, leasing companies and MFIs

DAMU is officially responsible for managing public funds under the programs of conditional allocation of funds to financial institutions for subsequent lending to MSMEs. These programs are one of the tools of providing the government's financial support to MSMEs in Kazakhstan.

Further implementation of the programs for conditional allocation of funds to financial institutions will improve the availability of credit resources for MSMEs through additional funding of second tier banks, leasing companies and MFIs and limiting interest rates, as well as reduce a disproportion in credit allocation between regions and sectors of the economy.

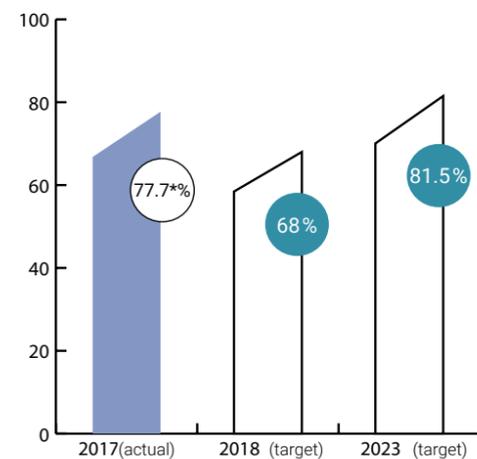
■ Partially subsidizing interest rates for new/existing loans/financial leasing contracts issued to implement new efficient investment projects, as well as projects aimed at production modernization and expansion

Subsidized interest rates are provided under 2020 Business Road Map, a uniform program to support and promote business development. In the course of 2020 Business Road Map program, subsidized loans have become popular among entrepreneurs, proving to be an effective tool for channeling loans to priority sectors of the economy.

■ Loan guarantees for MSMEs

The Fund plans to continue to work actively to implement guarantees as one of the Fund's popular products which provide MSMEs access to credit facilities. The Fund will continue to work as a credit guarantor under 2020 Business Road Map program, while also implementing its own program called Damu-Optima.

Graphic 6
Micro and small entrepreneurs in the total number of supported entrepreneurs, %



* In 2017, the target for this KPI was surpassed.

■ New programs

DAMU will develop and implement new programs to support entrepreneurs, as well as a number of other projects in this area, including the Portfolio Guarantee Program for 2020–2023, financing and guaranteeing of loans/micro loans under Enbek, a funding program for intellectual property acquisitions, for e-commerce, digital platforms and their ecosystems, cooperation with crowdsourcing/crowdfunding platforms, introduction of Digital DAMU marketplace, realization of the distance learning project, package solutions for first-time entrepreneurs, rethinking the services provided by consultants.

Operating highlights

	2017 (actual)	2018 (target)	2023 (target)
MSMEs that received financial support vs. the total number of MSMEs on the market (programs of the Government/Fund), %	3.2	3.5	10
The number of new projects and projects for modernization and expansion of existing capacities in order to increase productivity and expand markets (programs of the Government/Fund)	36,533	44,200	128,000
The amount of housing used by the Fund to provide support, thous. sq. m.	–	50**	–*
Private sector in the Fund's loan portfolio, %	100	100	100

* KPI targets for 2018–2019

** In accordance with the Decree no. 922 of the Government of the Republic of Kazakhstan of December 31, 2016

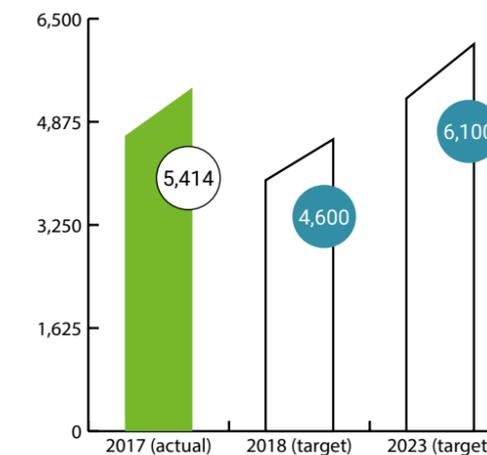
3. Ensuring greater business efficiency of supported MSMEs

Being the principal operator of the government's financial support mechanisms for small and medium-sized enterprises, the Fund focuses on imposing stricter eligibility requirements for the applicants.

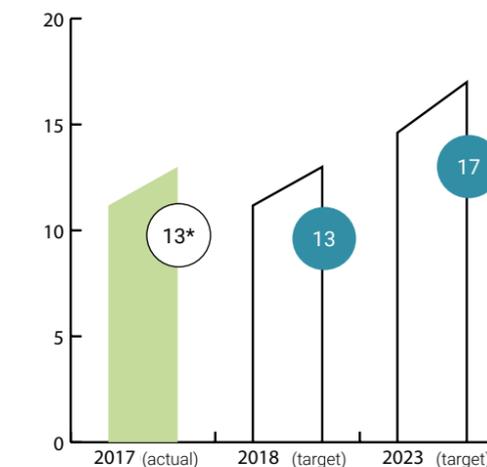
Manifested in 2020 Business Road Map initiative and the Program for Conditional Allocation of Funds, the government's support plays an important role in driving private sector growth in Kazakhstan. Under the framework of the new programs, the Fund plans to introduce a requirement for improved performance of the participants and to automate accounting and monitoring of business indicators of entrepreneurs supported through the Fund's programs (Graphics 7, 8).

Up until 2023 the Fund will continue to act as an operator of the government programs, including 2020 Business Road Map, Nurly Zher and Enbek programs. During 2017–2023, it is expected that the number of MSMEs supported through government programs will grow from 16,900 to 32,000. The Fund will also increase the share of its own programs in the product line, including MSME funding and microfinance in cooperation with international financial institutions, using its own capital and co-financing with banks and local authorities, as well as through loan guarantees. During 2017–2023, it is expected that the number of MSMEs supported through the Fund's own programs will grow from 15,700 to 96,000.

Graphic 7
Value of products produced by entrepreneurs supported by the Fund, KZT bln

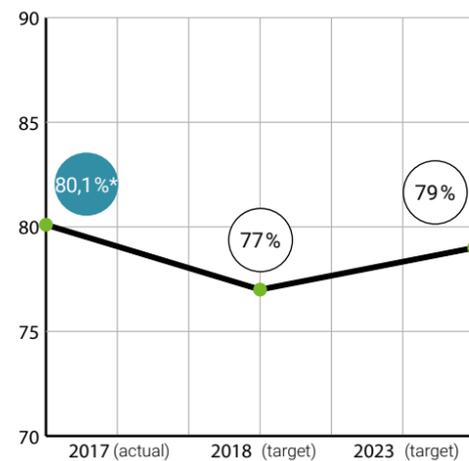


Graphic 8
Increase in taxes paid by entrepreneurs supported by the Fund, KZT bln



* Estimated projections of the Fund

Graphic 9
Private sources of funding in total borrowings for the reporting year, %



* Figures are based on the signed loan agreements.

SUSTAINABLE INSTITUTIONAL DEVELOPMENT OF THE FUND

1. Attract additional sources of funding

Under the framework of promoting growth in the MSME sector in Kazakhstan and providing access to funding, in 2017–2023 the Fund will continue to actively implement current and new financial programs using both public funds and non-governmental sources of funding. The Fund will continue to work with its current partners which include international financial institutions, such as ADB, EBRD and the European Investment Bank, and it will develop cooperation with new potential investors among international financial institutions and investment funds. The Fund will also develop tools to reduce the cost of funding, specifically using a corporate guarantee of Baiterek National Managing Holding JSC and the available tools to reduce currency risks (Graphics 9, 10).

2. Achieving financial performance targets

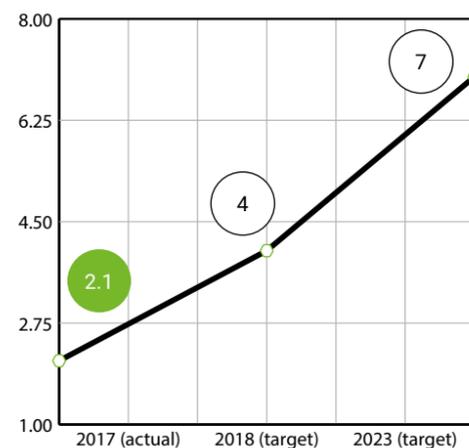
To implement this task, the Fund will implement uniform approaches to planning and budgeting, create a management accounting system and determine key performance indicators. There are plans to introduce a system of separate accounting of revenues, expenses and utilized assets, as well as to improve the risk management system (Graphics 11, 12).

3. Automate the business processes

With a view to achieve maximum efficiency and effectiveness of business processes, the Fund is building a business process management system through business process engineering and management. This system will help to align business processes with Fund's Strategy, ensuring its implementation. The Fund will continue to automate front-office and back-office business processes.

Operating highlights	2017 (actual)	2018 (target)	2023 (target)
Automation of key business processes of the Fund, %	62.5	not less than 60	100

Graphic 10
Debt/Equity



4. Raise the standards of corporate governance

In order to implement this task, the Fund plans to introduce the evaluation system to gauge the quality of rendered services. In addition, the Fund will work to ensure transparency of its operations, maintaining communication through partnerships, NGOs and mass media, participating in the surveys of international organizations in the field of MSMEs (OECD, etc.), as well as in the field of human resources development.

Operating highlights	2017 (actual)	2018 (target)	2023 (target)
Assessing the Fund's credibility from the point of view of MSMEs and their satisfaction levels, %	-*	not less than 80	not less than 80

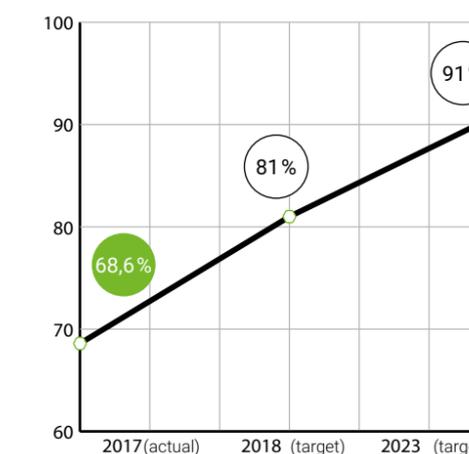
* Data is expected in late June 2018.

Graphic 11
ROA (not below the minimum positive value), %



* KPI targets were exceeded in 2017.

Graphic 12
Loan portfolio in total assets, %



2

SME SECTOR OVERVIEW IN KAZAKHSTAN. MARKET OUTLOOK

In 2017, the number of registered SMEs in Kazakhstan rose 2.3% to 1,601 thous. entities. They currently account for 96.8% of all business entities operating in the country. Industry-wise, the largest growth occurred in Services, Processing, other Manufacturing sectors, Education and Construction. Reduction in the number of registered SMEs occurred in Transport and Warehousing.

The number of active entrepreneurs fell by 3.3% (Graphic 13).

According to the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, as of the end of 2017, there were 8,585 thous. employed individuals in the country. At the same time, as of January 1, 2018, SMEs employed 3,145 thous. people (36.6% of employed population). Compared to the previous year, SME employment declined 0.7% (Graphic 14).

During the recent six years, Kazakhstan's GDP has been growing steadily. In 2017, Kazakhstan's GDP grew 4% reaching KZT 51,967 bln. Goods account for 36.4% of GDP (including 26.5% for Manufacturing), while Services, and Product Taxes account for 57.5% and 6.5% respectively.

According to the Statistics Committee of the Ministry of National Economy, in 2017, SME output was valued at KZT 21,148 bln. This is a year-on-year increase of 0.4% (at basic prices). In 2017, SMEs accounted for 68.2% of the products produced, medium-sized enterprises made up 18.9%, while sole proprietors and farms accounted for 7.3%. The gross value added of SMEs in GDP in 2017 was 25.6% (Graphic 15).

Loans to entrepreneurs and the Fund's share in lending

Despite the fact that in 2017 lending rose 1% to KZT 10.8 tln, there was a 3.6% decline in loans for business purposes and a 23.2% decline in lending to SMEs (Graphic 16).

In 2017, DAMU continued to implement its programs of conditional allocation of funds to second tier banks, leasing companies and MFIs, providing subsidized interest rates to entrepreneurs and loan guarantees.

At the end of 2017, under the framework of Enbek program, the Fund started to support micro-enterprises and deposited a total of KZT 11.9 bln of the Governors' offices' funds into second tier banks and microfinance institutions. At the end of the year, 453 projects received financial support for a total of KZT 4.8 bln.

Overall, in the past year private entities participating in the Fund's programs received KZT 549 bln in loans. Loans issued by the Fund make up just 7% of bank lending for business-related purposes. This is because the Fund's programs are limited to priority sectors of the economy which do not include Trade and Construction accounting for 50% of lending by second tier banks.

Looking at priority sectors of the economy alone, we will see that the Fund's contribution has increased to 16.6%, which is 0.2 points higher compared to the previous year (Graphic 17).

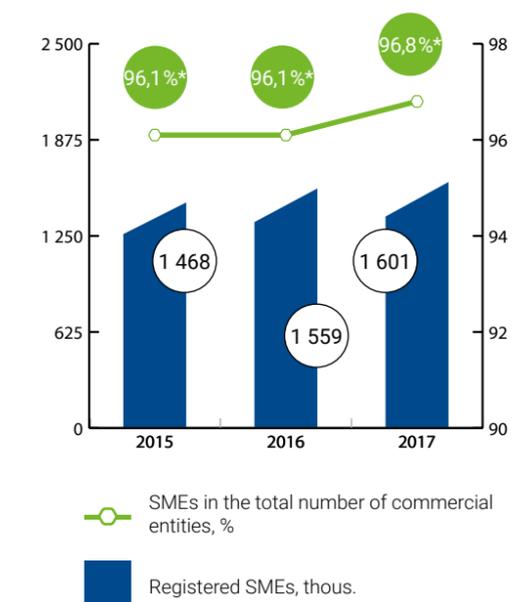
The Fund's share of loans in the Processing sector fell from 21% in 2016 to 17% in 2017.

The decline occurred because the money supplied by the National Fund in 2014–2015 to support SMEs in the Processing sector has been used up (Graphic 18).

Businesses supported through the Fund's programs make up 17% of second tier banks' borrowers.

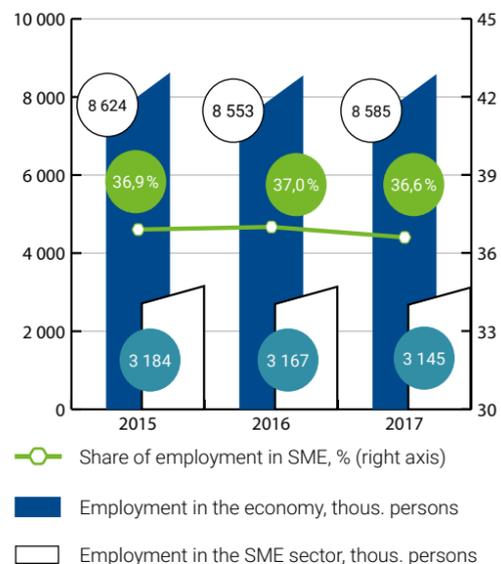
Along with financial support programs in 2017, the Fund continued a large-scale campaign offering training and advice to entrepreneurs.

Graphic 13
Number of registered SMEs in Kazakhstan



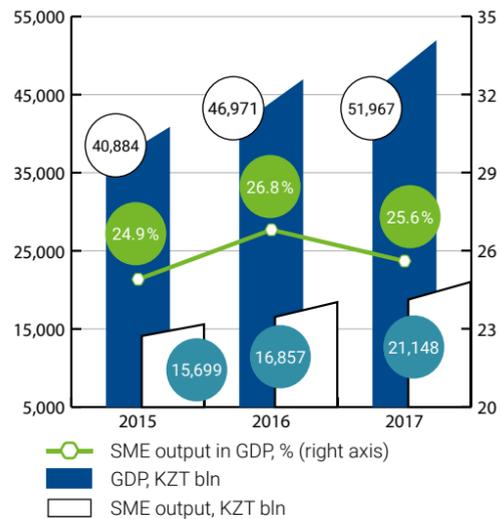
Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan (www.stat.gov.kz).

Graphic 14
Dynamics of employed population in Kazakhstan



Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan (www.stat.gov.kz).

Graphic 15
Dynamics of GDP and SME output in Kazakhstan



Source: Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan (www.stat.gov.kz).

In 2017, the Fund launched a project "Remote Support for Entrepreneurs" based on edu.damu.kz web platform which was used to provide training to 3,337 individuals.

At the end of the reporting period, there were 2,525 entrepreneurs (including 421 individuals in 2017) who took the "SME Top Management Training" course implemented as a part of 2020 Business Road Map initiative.

During 2017, 18 Entrepreneur Service Centers (ESCs) had 64,000 visitors who received over 87,000 consultations. Mobile Centers of Entrepreneur Service operate on the district level in 14 regions: they had nearly 10,000 visitors and provided 12,700 consultations.

In 2017, Entrepreneur Service Centers facilitated 2,581 projects up until the moment when SME applications for joining the Fund's programs were

approved by a particular second tier bank / leasing company / MFI.

In 2017 within the framework of the project "Support for Startups," 1,401 individuals attended training and 189 people eventually started their own businesses. Of those who attended training, 22 projects were qualified to participate in the Fund's financial incentive programs.

In 2017 as part of the Startup Academy project, 419 individuals attended training and received support. 56 persons of them started their own businesses creating 97 new jobs. 47 of them became participants in the Fund's financial programs and 49 persons received support in the form of private investment and grants.

In 2017, as part of the project "Supporting female entrepreneurs with disabilities," 307 women with disabilities were trained, of whom 45 found jobs and 5 started their own businesses.

ECONOMIC OUTLOOK AND SMES IN KAZAKHSTAN FOR 2018

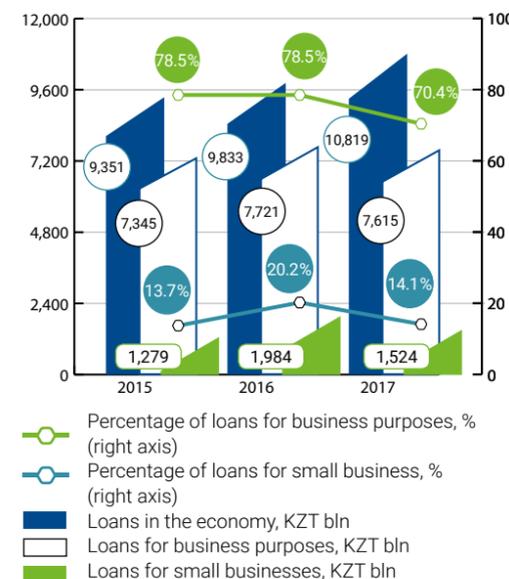
According to the Ministry of National Economy, in the period from 2018 to 2022 Kazakhstan's economy will show annual growth of 3.1%–4.2%. The Ministry also expects a 3.1% annual economic growth in 2018.

Kazakhstan's economy will be growing at the same rate as the global economy, which is 3.9% in 2018–2019 according to the updated estimate of the International Monetary Fund. The growth will continue thanks to a gradual recovery in demand and high commodity prices. At the same time, steady and progressive economic dynamics are expected due to a higher increase in gross capital formation (5.0%–8.4%), moderate and sustainable growth of household spending (2.0%–2.5%) and net exports (2.2%–2.6%).

The monetary policy in 2018–2022 will help to create an environment promoting growth of the investment market and lending by second tier banks. For the coming period it is expected to grow 3.7% per annum on average, while personal savings accounts in the same period will grow at 8%. Money supply will be commensurate with economic growth, while the average monetization is expected to be 42.1%.

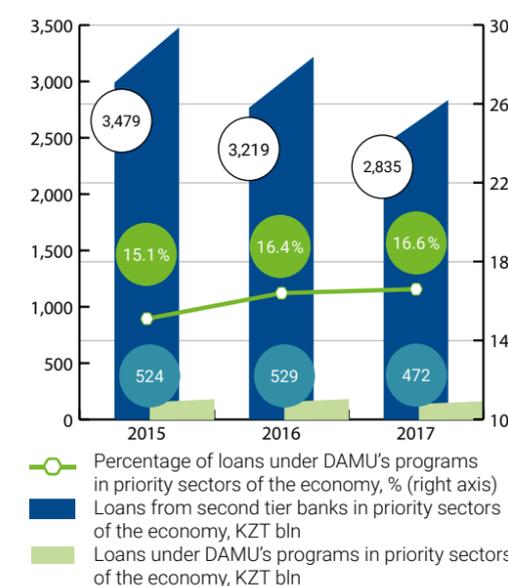
Kazakhstan's return to economic growth and increased attention from the government create new prospects for the SME sector. The government will continue to use its incentive programs to achieve increased SME output and higher SME employment numbers. Enbek program will boost entrepreneurship among the unemployed and unproductively employed individuals by pro-

Graphic 16
Lending to economy and small businesses by year



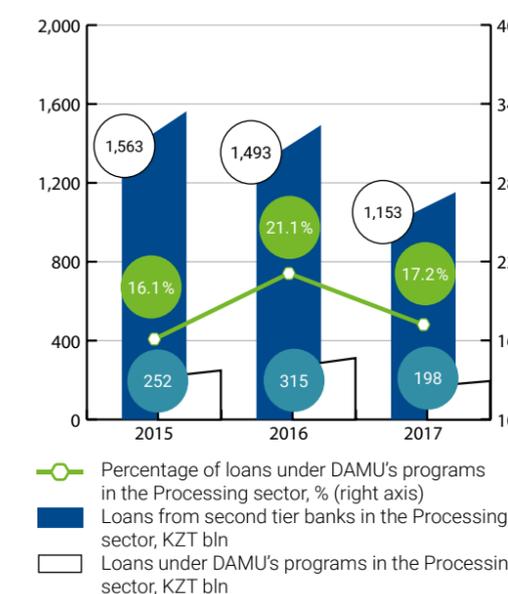
Source: National Bank of the Republic of Kazakhstan (www.nationalbank.kz).

Graphic 17
Loans for projects in priority sectors of the economy



Source: National Bank of the Republic of Kazakhstan (www.nationalbank.kz), the Fund (www.damu.kz).

Graphic 18
Loans for projects in the Processing sector



Source: National Bank of the Republic of Kazakhstan (www.nationalbank.kz), the Fund (www.damu.kz).

viding easier access to micro-loans in urban areas, promoting subsidized microfinance in villages and teaching basic entrepreneur skills. In 2018, the President increased the Program's budget by KZT 20 bln to support five social initiatives.

At the regional level, a number of measures will be taken to promote mass entrepreneurship, reducing

all types of costs for businesses. Cities and regions will be ranked in terms of ease of doing business with a special prize for the winner.

Under the framework of 2020 Business Road Map program, the government will continue to take support measures such as providing subsidized loans, offering partial guarantees for bank loans, building

the required infrastructure, providing government grants, training and consulting to entrepreneurs. Additional support will include further measures within the joint action plans of the government and the National Bank with funding coming from the National Fund. To maintain additional liquidity in the lending market, more credit lines will be obtained from international financial institutions.



3

MAIN ACTIVITIES

CONDITIONAL ALLOCATION OF FUNDS

In 2017, loans for a total of KZT 230.5 bln were provided to 8,305 borrowers through conditional allocation of funds to second tier banks, MFIs and leasing companies.

In 2017, a total of KZT 59,415.7 mln was deposited into second tier banks and financial institutions under conditional allocation programs/products, including KZT 593.9 mln in MFIs.

Here, a serious challenge is to raise funds, including from sources other than the government, and deposit them into financial institutions with further lending to micro, small and medium-sized enterprises.

On October 13, 2017, DAMU signed a credit line agreement for KZT 72 bln with the Asian Development Bank under the guarantee of the Kazakhstani Government for the implementation of project "Financing micro, small and medium-sized enterprises through second tier banks and micro-finance institutions with funding provided by the Asian Development Bank." In 2017, DAMU received the first tranche of the loan: as a result, KZT 6.511 bln were deposited into Bank CenterCredit JSC (December 2017) and another KZT 1.574 bln were deposited into Nurbank JSC (February 2018).

A total of USD 11 mln (KZT 3.585 bln) were provided by the European Bank for Reconstruction

and Development to Kassa Nova Bank JSC under the guarantee of DAMU.

In December 2016, the Government of Kazakhstan passed a resolution no. 919 launching Enbek program which was selected as its financial operator. In 2017, under the framework of Enbek program, the Fund raised a total of KZT 14.183 bln across 16 regions of Kazakhstan, of which nearly KZT 11.9 bln were deposited into nine second tier banks/MFIs. As of January 1, 2018, a total of KZT 4.8 bln worth of loans were granted to 453 MSMEs under Enbek program.

In 2017, a total of KZT 6.7 bln of public funds were raised from the Governors' offices to implement the Regional SME Financing Program: the money was deposited into second tier banks on co-financing terms with the money from Samruk-Kazyna sovereign wealth fund and DAMU's own funds totaling KZT 17 bln. In 2017 within the framework of this program, a total of KZT 21 bln were lent to 533 MSMEs, including revolving disbursements related to the funds earlier provided under this program.

According to DAMU's Strategy, in Q4 2017 targets were adjusted in a number of products such as "Conditional allocation of funds to microfinance institutions for subsequent lending to micro- and small businesses and individuals involved in commercial activities," "Financing of leasing transactions of small and medium-sized enterprises," "Islamic financing of small and medium-sized enterprises," all of which are expected to be fulfilled in 2018.



BUSINESS ROAD MAP-2020

In 2017 under the Unified program of support and development of business "Road map of business 2020" 2 287 projects were signed under the subsidizing the rate of remuneration for a total loan amount of KZT 248,6 billion and KZT 36,13 billion of subsidies were delivered.

Subsidies

In 2017, under the framework of 2020 Business Road Map program, a total of KZT 248.6 bln worth of loans were granted to 2,287 projects in the form of subsidized interest rates, while another KZT 36.13 bln were provided in the form of subsidies.

As an agent of Nurlı Zher project, the Fund will partially subsidize interest rates for loans issued by second tier banks to private businesses for residential construction. In 2017, under the framework of Nurlı Zher program, a total of KZT 27 bln was provided by the Regional Coordination Council (RCC) to 23 projects in the form of subsidized interest rates. A total of KZT 0.192 bln worth of subsidies were paid with a commitment to pay another KZT 0.977 bln during the course of the program.

Guarantees

The Fund continues to work actively to establish guarantees as one of its popular products giving MSMEs access to credit facilities.

In 2017, a total of 1,321 loan guarantee agreements were signed for KZT 42.8 bln. This includes 1,065

agreements for KZT 37.7 bln under 2020 Business Road Map program, 86 agreements for KZT 3.2 bln under Damu-Optima program and 170 agreements for KZT 1.8 bln under Enbek program.

The guarantee program of Damu-Optima was amended as follows:

- target segment expanded;
- guarantee types and conditions changed;
- risk management limits specified;
- simpler monitoring of loans guaranteed by the Fund and issued under Damu-Optima program;
- added ability to replace the guarantee provided under one of the government's guarantee programs with a guarantee under Damu-Optima program.

Thanks to these changes Damu-Optima program has become a viable product on the market attracting entrepreneurs and second tier banks, which resulted in a three-fold increase in issued guarantees compared with 2016.

In 2017, guarantees under Enbek program became available. Under the terms of Enbek program, the maximum loan amount per participant is 8,000 statutory minimum rates (SMR) with the annual

interest rate of not more than 6%. Enbek program gives entrepreneurs without sufficient collateral a chance to get the Fund's guarantees: up to 85% for first-time entrepreneurs and up to 50% for experienced entrepreneurs.

In November 2017, four regional branches launched a trial run of preliminary guarantee letters provided to entrepreneurs under Damu-Optima program before applying for a loan from second tier banks. In the course of this trial run, an entrepreneur will get a pre-guarantee letter before he or she applies for a loan from a second tier bank. So far, the Fund provided such letters to three entrepreneurs who then applied for a loan from one of second tier banks.

The Fund was named an operator of the complimentary grant of USD 3 mln (KZT 1 bln) from the Global Environment Facility in cooperation with the United Nations Development Program to partially subsidize interest rates and provide loan guarantees to SMEs implementing "green" projects under the initiative "Sustainable Cities for Low-Carbon Development in Kazakhstan."

RESULTS OF FINANCIAL PROGRAMS

	Actual 2015	Actual 2016	Target 2017	Actual 2017	% of target reached
Loans granted to entrepreneurs through conditional allocation of funds to second tier banks/MFIs/leasing companies					
Number of participants	3,650	10,145	2,856	8,305*	291%
Amount of financing, KZT mln	236,629	247,275	186,000	230,469	124%
Subsidized interest rates					
Number of participants	1,595	2,121	1,670	2,310	138%
Loan amount, KZT mln	260,131	331,879	412,000	275,660*	67%
Loan guarantees					
Number of participants	941	951	1,100	1,321	120%
Loan amount, KZT mln	27,029	26,903	32,000	42,783	134%

* There has been a considerable increase in this indicator due to a wider coverage of entrepreneurs funded by KazMicroFinance MFI under the framework of the Fund's joint program with the EBRD to provide micro-loans to female entrepreneurs (under the Fund's guarantee).

** In 2017, Nurlı Zher program had a target of KZT 152 bln, yet the Government of Kazakhstan passed a resolution no. 674 of October 23, 2017 reducing the target for "Subsidized loans to real estate developers" in 2017 from KZT 152 bln to KZT 15 bln. As a result, the target was exceeded by 180% as a total of KZT 27 bln was provided.

FINANCIAL PROGRAM MONITORING

Information on monitoring projects within the framework of the Fund's financial programs, as well as through agency agreements and other contracts, where the Fund performs monitoring functions.

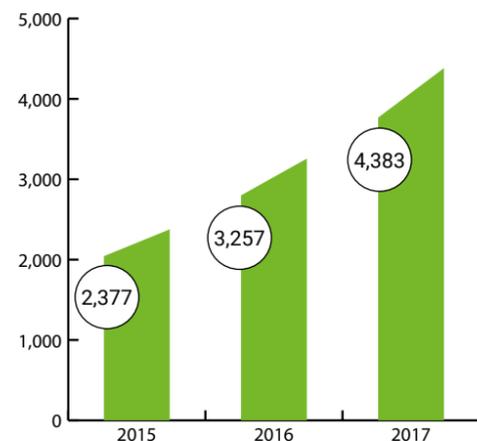
Monitoring description	Actually checked (number of projects)			
	2014	2015	2016	2017
Monitoring projects under the Conditional allocation programs of the Fund (17 programs)	1,021	947	226	2,334
Monitoring projects under the Programs for supporting SMEs in the Processing sector (funding provided by the National Fund of Kazakhstan)	0	606	725	576
Agency agreements on monitoring projects of the Unified Accumulative Pension Fund, or UAPF (NB, DBK)	0	0	0	777
Monitoring of subsidized projects	1,576	1,792	3,068	2,595
Monitoring of guaranteed projects	51	440	1,170	989
Monitoring of grants	397	193	406	183
TOTAL	3,045	3,978	5,595	7,454

Action taken on warnings/violations

Monitoring description	Number of warnings/violations	Fines accrued, KZT mln		Fines collected, KZT mln		Warnings regarding the targeted use of funds, KZT mln		Substitution, KZT mln		
		number	amount	number	amount	number	amount	number	amount	
Monitoring of projects under the Conditional allocation programs of the Fund (17 programs)	46	11	23.9	11	23.9	35	7,048	35	7,048	
Monitoring of projects under the Programs for supporting SMEs in the Processing sector (National Fund of Kazakhstan)	29	16	90.5	13	25.8	29	1,462.8	17	357.3	
Monitoring of projects of the UAPF (NB, DBK)	45	Monitoring results submitted to the NB of Kazakhstan and DBK								
Monitoring of subsidized projects	58	Subsidies terminated for 37 projects, subsidies resumed for 15 projects, 3 projects awaiting decision by the RCC?, loan repaid early for 3 projects								
Monitoring of guaranteed projects	8	8 guarantees cancelled								
Monitoring of grants	18	Proposals for action submitted for review by the RCC								
TOTAL:	204	27	114.4	24	49.7	64	8,501.8	52	7,405.3	

MONITORING PROGRAM EFFECTIVENESS

Graphic 19
Output of participants of 2020 Business Road Map program, KZT bln



* based on preliminary data

2020 Business Road Map unified program for business support and development

According to the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan (hereinafter, the Committee), enterprises and entrepreneurs participating in 2020 Business Road Map program as of January 1, 2018 had their combined output valued at KZT 13.5 tln, including KZT 4.4 tln for 2017.

Interest rate subsidies and loan guarantees under 2020 Business Road Map program have a positive impact on the financial performance of enterprises, especially in the current economic situation. On the other hand, thanks to better performance, the government gets more tax revenues, making the program more commercially and fiscally viable. As of January 1, 2018, participants of 2020 Business Road Map program have paid a total of KZT 845 bln in taxes, including KZT 214 bln for 2017 (Graphic 19, 20).

The broad scope of 2020 Business Road Map program and the growing interest of SMEs signify a social impact of this initiative expressed in the creation of jobs. Specifically, as of January 1, 2018,

REDUCING NON-PERFORMING ASSETS

As of January 1, 2017, non-performing assets totaled KZT 16.8 bln.

Structure of the Fund's non-performing assets as of January 1, 2017:

- direct lending – KZT 11.48 bln (projects that received direct financing from the Fund in the form of loans or leasing contracts during 2004–2008);
- other receivables – KZT 5.41 bln (receivables from financial and business activities, overdue payments under the Fund's guarantees).

Reducing non-performing assets in the direct financing portfolio

Every year, the Fund takes the measures to reduce non-performing assets in the existing direct financing portfolio. This includes the sale of pledged property, control of the enforcement proceedings, measures to acknowledge debtors' insolvency (bankruptcy), writing off uncollectible debts, selling the collateral on the Fund's balance sheet.

From January 1, 2017 to January 1, 2018, bad assets in the portfolio were reduced by KZT

participants of 2020 Business Road Map program kept approximately 283,000 jobs and created over 95,900 new jobs (Graphic 21).

Support program for SMEs in the Processing sector funded by the National Fund of the Republic of Kazakhstan

Enterprises received various amounts of revenue coming from participants of the Support Program for SMEs in the Processing sector with funding from the National Fund of the Republic of Kazakhstan: specifically, KZT 417,703 mln in 2015, KZT 748,406 mln in 2016 and KZT 1,031,517 mln in 2017.

According to the preliminary estimate, entrepreneurs who received financing under this Program in 2017 paid a total of KZT 52,000 mln in taxes (and KZT 49,189 mln in taxes in 2016).

According to second tier banks, entrepreneurs who received financing from the National Fund have created and/or intend to create 18,800 new jobs (including 2,723 jobs in 2017), which is approximately 9 jobs per enterprise.

1,466 mln, and debts for a total of KZT 711 mln were repaid. A total of KZT 755 mln of bad debts was written off. The total number of debtors for the period fell by 130.

Item	As of Jan 1, 2014	As of Jan 1, 2015	As of Jan 1, 2016	As of Jan 1, 2017	As of Jan 1, 2018
Direct loan portfolio (share of overdue debts, %, penalty), KZT mln	18,514	18,183	15,164	11,485	10,124
Overdue debts, KZT mln	9,274	8,633	8,121	6,634	5,958
Number of debtors	1,059	959	896	752	622
Debts repaid during the period, KZT mln	510	672	840	717	711
Debts written off, mln KZT	–	–82	–	–677	–755*
Total	510	754	1,736	1,394	1,466*

* KZT 755 mln worth of write-offs is not included in the figure, because this work was not part of the KPI.

Recovery of other bad debts:

In 2017, Astana-Finance JSC repaid a debt of KZT 1,215.8 mln, including KZT 318.8 mln in cash

and KZT 897.04 mln in 14 capital asset items transferred to the Fund's balance sheet.

Litigation and enforcement proceedings against other debtors are underway.

Item	As of Jan 1, 2017	As of Jan 1, 2018
Increase in receivables	5,957	5,630
Number of debtors	100	121*
Debts repaid during the period, KZT mln	0	1,216*

* Amount increases as the Fund fulfils its guarantees. From this amount, KZT 1,215 mln was repaid by Astana-Finance JSC for the debt back from 2006.

Actions taken regarding the portfolio of Delta-Bank JSC as of January 1, 2018

On April 28, 2017, the Fund put on its balance sheet the loan portfolio of DeltaBank JSC (hereinafter, the Bank), specifically 148 borrowers and KZT 15,697.44 mln worth of loans: this includes 29 borrowers with a total debt of KZT 1,262.8 mln without collateral (money will be received in the future). From April 28, 2017 to January 1, 2018, a total of KZT 9,274 mln was recovered from 61 borrow-

ers, including KZT 6,405 mln repaid by 16 borrowers without collateral. In 2017, 13 lawsuits were filed to recover a total of KZT 3,147 mln. In March and October 2017, charges were pressed against 29 debtors for a total of KZT 12,626 mln with cases reported to the Office of Economic Investigations of the Ministry of Finance and the Office of the Prosecutor General of Kazakhstan: criminal proceedings were instituted with partial repayment of loans by the borrowers.

Item	As of Apr 28, 2018	As of Jan 1, 2018
Loan portfolio of DeltaBank put on the Fund's balance sheet	15,697	7,296
Number of debtors	148	87
Debts repaid during the period, KZT mln	0	9,274*

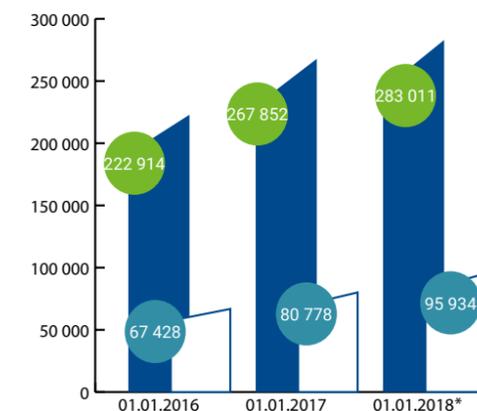
* Of which KZT 6,405 mln from 16 borrowers without collateral.

Graphic 20
Taxes paid by participants of 2020 Business Road Map program, KZT bln



* based on preliminary data

Graphic 21
Number of jobs created and supported



■ Saved jobs
□ New jobs

* based on preliminary data



Outcome

No.	Non-performing asset	Target	Actual	Interest
1.	Direct lending portfolio and receivables	946.1 (call)	1,926.4	203.6%
2.	Portfolio taken from DeltaBank JSC*	0	9,274	
Total		946.1	11,198	

* Receivables from DeltaBank portfolio were not part of the 2017 targets, as the projects were received after April 28, 2017 and this work was carried out by the Fund as a side job.

In 2017, a total of KZT 1,926.4 mln were recovered with the target being KZT 946.1 mln (by KPIs). (KZT 1,029.4 mln in cash and KZT 897 mln in property), which is 11.4% of the combined non-performing assets as of the beginning of 2017.

The rate of 11.4% was calculated as the ratio of recovered bad assets during the reporting period of the total bad assets at the beginning of the reporting period, i.e.: 160 million (maturity in Q1) + 210 million (maturity in Q2) + 160.4 million (maturity in Q3) + 181 million (maturity in Q4) + 159 million (repaid by Astana-Finance JSC in May 2017) + 159 million (repaid by Astana-Fi-

nance JSC in November 2017) + 897 million in the form of property of Astana Finance put of the Fund's balance sheet = 1,926.4/16,896 = 11.4%.

Thus, the target for bad debt recovery in 2017 was exceeded at 203.6%.

In addition, KZT 9,274 mln of DeltaBank's loan portfolio was recovered.

Total recovered bad assets stand at KZT 11,198 mln.

Furthermore, a total of KZT 4,518 mln in provisions was recovered, including:

- KZT 689 mln – from the debt of Astana-Finance JSC;
- KZT 3,829 mln – from the debt of end borrowers of DeltaBank JSC.

ASSET STRUCTURE

List of companies where the Fund has an equity stake, but does not have significant influence on their operations:

No.	Item	Equity, KZT mln	Equity share	Main area of business
1.	MCO ADAL-INVEST LLP	7	28.5%	Microcredit
2.	MCO Econom LLP	12	16.6%	Microcredit
3.	MCO West Finance LLP	5.06	39.5%	Microcredit
4.	MCO Zhaynar LLP	5.5	36.4%	Microcredit

Currently, the Fund continues to take measures to ensure voluntary liquidation of the MCOs in accordance with the decisions of the Fund's

Board of Directors no. 72 of July 20, 2016 and no. 77 of February 24, 2017 on the liquidation of the said MCOs, appointment of the liquidation com-

mission and approval of the action plan. In 2018–2019, liquidation of those MCOs is expected to be completed.

DEVELOPING SME COMPETENCIES

The Fund's Unified Entrepreneur Skills Improvement Program for 2015–2018 (the Unified Program) has been implemented in five areas:

- 1) Support for novice businesses
- 2) Support for existing businesses
- 3) Promoting and supporting entrepreneurship among people with disabilities
- 4) Monitoring of business support servicing and training SME top management under 2020 Business Road Map program
- 5) Creating a proper environment promoting local entrepreneurship

Each area of the Unified Program includes projects aimed at enhancing entrepreneurship competencies.

In 2017, as part of the Unified Program's first focus area ("Support for novice businesses"), a number of projects were fulfilled, including "Assistance to startups" and "Startup Academy," in the second area ("Support for existing businesses), such project as "Asyldar Support of Existing Businesses;" in the third area, "Supporting entrepreneurs with disabilities" (Damu-Komek) and "Supporting female entrepreneurs with disabilities." Monitoring the quality of business support services and training of SME top management are part of the fourth focus area of the Unified Program.

In 2017, the following projects of the fifth focus area were implemented: "Supporting the Fund's entrepreneur services infrastructure (ESCs and MCEs)," "Improving the skills of ESC and MCEs consultants," "Promoting entrepreneur support programs and ideas," as well as the project "Remote support of entrepreneurship."

Project "Support to startups" is designed to encourage the public and novice entrepreneurs to start business projects, to promote innovation and entrepreneurship among the public and novice entrepreneurs by forming and developing skills required to start a business. In 2017, 1,401 individ-

uals took training courses, and 189 of them started their own business.

In 2017 under the Startup Academy project, Startup Academies opened in Almaty, Astana, Atyrau and Taldykorgan to provide on-the-go support to startups. In 2017, 419 people took training courses and 56 of them started their own businesses creating 97 jobs.

Fifteen companies received support under the project "Asyldar Support for Existing Businesses" designed to help businesses by unlocking their growth potential and providing a set of interrelated financial and non-financial incentives.

Project "Supporting entrepreneurs with disabilities" (Damu-Komek) aims to support entrepreneurs with disabilities by raising the public awareness about their problems and needed resources, and by creating an environment encouraging disabled individuals to become entrepreneurs and achieve financial well-being and professional growth. The Project is open to associations of people with disabilities, as well as citizens of the Republic of Kazakhstan who are officially disabled and are entrepreneurs wishing to expand the scope of their activities, or potential entrepreneurs who wish to start their own business.

The Fund has a web portal at www.damu-komek.kz serving as an online bulletin board for posting information by both Project participants and sponsors. Sponsors under the Program may be second tier banks or private businesses.

As of January 1, 2018, 2,116 entrepreneurs with disabilities received support, including 1,229 women (58%).

Project "Supporting female entrepreneurs with disabilities" was developed as part of the Unified Program. The target audience are women with disabilities and employers: the former receive psychological and professional help through training courses and counselling during employment; the latter get help in reducing the risks associated with hiring a disabled person by obtaining advice and practical information.

In 2017, the following was accomplished under the project "Supporting female entrepreneurs with disabilities"

- 1) 216 women with disabilities received training during Stage I;
- 2) 91 women with disabilities received training during Stage II;
- 3) 3-day trainings for trainers were held in October;
- 4) On 19 September, Khabar TV channel aired a talk show Zhana Kun where women with disabilities were invited as guests;
- 5) On December 22, Almaty hosted a round table on the topic: "Promoting employment, entrepreneurship and other forms of income-generating activities among socially vulnerable women;"
- 6) 45 women with disabilities found jobs and 5 women started their own business.

The project "Supporting the Fund's entrepreneur services infrastructure (ESCs and MCEs)" includes the provision of information and advisory services by Entrepreneur Service Centers and Mobile Business Service Centers, as well as project oversight services to make sure that entrepreneur projects relying on the Fund's financial instruments get approval from second tier banks, leasing companies and/or microfinance institutions.

In 2017, Entrepreneur Service Center and Mobile Business Service Centers provided 99,000 services to 74,132 customers.

In 2017 under the program "Improving the skills of ESC and MCES consultants" the Fund provided training to 71 consultants working in ESCs and MCES's.

As part of Damu-Komek project, the Fund held a joint event with ShinhanBank Kazakhstan, started implementation of Nurly Zher program and arranged a number of events such as: a panel session "Entrepreneurship in the global economy" within AEF-2017, "Made in Kazakhstan" exhibi-

tion showcasing local products, the 3rd Forum of Kazakhstani manufacturers Uly Dala Eli; in addition, the Fund signed an agreement with ATFBank JSC within the framework of Damu-Regions program, a guarantee agreement and a memorandum of understanding with the EBRD to establish a special training center affiliated with the Fund; the Fund also launched the UNDP-GEF program "Sustainable Cities for Low-Carbon Development" to support business projects aimed at energy savings in urban development, signed a loan agree-

ment with the ADB to support lending to micro, small and medium-sized businesses in all sectors of the economy through second tier banks.

The project "Remote support of entrepreneurship" aims to encourage entrepreneurship, improve business competences of the public in the regions of Kazakhstan, provide broader access to entrepreneurship support programs, including those sponsored by the Fund. In 2017, 3,337 people received training under this project.

The table below shows the performance of the Unified Program against targets.

Projects of the Unified Program	2016	2017
Support for Startups, number of participants	1,562	1,401
Startup Academy	-	419
Asyldar Support of Existing Businesses	-	15
Damu-Komek	301	249
Supporting female entrepreneurs with disabilities	-	307
Monitoring the quality of business support services	Four quarterly reports submitted to the HQ	Four quarterly reports submitted to the HQ
SME top management training, number of participants	421	421
Supporting the Fund's entrepreneur services infrastructure (ESCs and MCESS)	78,617	74,132
Improving the skills of ESC and MCES consultants	101	71
Promoting entrepreneur support programs and ideas	A total of 6,774 materials about the government's incentive programs for entrepreneurs appeared in mass media, 41 press tours were held to showcase successful SME projects.	A total of 4,280 materials about the government's incentive programs for entrepreneurs appeared in mass media, 5 press tours were held to showcase successful SME projects.
Remote support of entrepreneurship	817	3,337
Call Centre, number of consultations by phone	36,757	51,836
DAMU's online resources (offline and online consultations available at www.business.gov.kz, www.damu.kz and www.damu-komek.kz)	13,896	11,993

On July 3, 2017, DAMU's Board of Directors adopted a new strategy, which no longer included figures related to the development of SME competencies.

In 2017, the Fund developed a new vision of Entrepreneur Service Centers and Mobile Business

Service Centers, amending the job responsibilities of ESC consultants. In accordance with the new vision, the major responsibility of ESC and MCES consultants is facilitate SME projects and make sure that loan applications under the Fund's projects are approved by second tier

banks, microfinance institutions and/or leasing companies. In 2017, a total of 2,581 projects was facilitated and received approval from second tier banks, microfinance institutions and/or leasing companies.

INFORMATION TECHNOLOGIES IN THE FUND

In accordance with the new strategy approved in July 2017, the Fund has set a task to automate 100% of all its business processes by 2019, and 60% by the end of 2017. To accomplish this, in August 2017 the Project Office of the Department of Guarantees was transformed into a separate business unit called Department of Business Technologies responsible for optimization and automation of the Fund's business processes.

In 2017, the main focus of information technology development was on automating internal business processes. By the end of 2017, automation level reached 62.5%, with key being as follows.

- The launch of Stage I of Digital DAMU online supermarket for small and medium-sized enterprises. Stage I introduced the following functionality:
 - Product catalogue management;
 - Product selection management;
 - Customer segmentation;
 - Conversation transcript management;
 - Survey management;
 - SMS newsletter management;
 - event management, incoming and outgoing calls (call-center).
- Operations of the Fund's authorized bodies was automated, allowing the transition to a paperless decision making process. Online

voting using a digital signature. Now members of the Fund's authorized bodies can remotely join meetings and participate in voting. Introduction of tighter deadlines for writing and signing of the minutes and extracts of the Fund's authorized bodies. Introduction of automatic control over decision execution.

- Operational risk management is now an automated process. Proper management of its own operational risks by the Fund is a fundamental factor of dynamic development. Yet, operational risks were managed manually which is bad practice. Automation brought structure to operational risk management with better risk monitoring and control.
- Automation of human resources administration helped the Fund streamline its HR-related document workflow (this process used to be labor-intensive with a large number of different applications and a lot of time wasted on collecting approvals). Processing times for HR-related documents were reduced considerably.
- Publishing of official statements is now done automatically: all the statements are now in electronic format and are signed using digital signature. Earlier the Fund's official statements had to be printed and that took a lot of time.

- Filing and processing of applications related to the Fund's administrative matters have been automated, which helped to make the whole process more structured, reliable and using less paper.

In 2018, the following projects are expected to be implemented:

- Stage II of Digital DAMU online supermarket;
- Automation of approval and signing of procurement contracts and further monitoring of their execution;
- Automation of conditional allocation of funds and borrowing;
- Automation of the government service "Subsidized interest rates for loans under the Unified Business Support and Development Program 2020 Business Road Map" on the e-Government's website, as well as in bpm'online???
- Automation of monitoring processes;
- Automation of the rating model;
- Introduction of the electronic archive;
- Automation of recruitment, training and assessment of employees;
- Introduction of BI-system;
- Automation of communicating and monitoring of strategic KPIs;
- Automation of management accounting for projects financed by the Fund's partners.

PERFORMANCE OVERVIEW

No.	Item	2017 (target)	2017 (actual)	% execution
STRATEGIC AREA 1. Support and development of first-time and experienced entrepreneurs				
Increased lending to micro businesses, development and implementation of tools to support microfinance institutions and credit associations				
1.	MFIs in the Fund's loan portfolio, %	1.1%	1.6%	145
2.	Micro and small entrepreneurs in the total number of supported entrepreneurs, %	67.5%	77.7%	115%
Extending the reach of the existing MSME financial support programs				
3.	MSMEs that received financial support in the total number of MSMEs on the market	2.6%	3.2%	123%
4.	The number of new projects and projects for modernization and expansion of existing capacities in order to increase productivity and expand markets since 2014 (programs of the Government/Fund)	32,600 projects	36,533 projects	112%
5.	Housing area used by the Fund to provide support, thous. sq. m.	-	Value calculated since 2018	

No.	Item	2017 (target)	2017 (actual)	% execution
6.	Private sector in the Fund's loan portfolio, %	100%	100%	100%
Ensuring greater business efficiency of supported MSMEs				
7.	Value of products produced by supported entrepreneurs	KZT 4,300 bln	KZT 5,414 bln	126%
8.	Increase in taxes paid by entrepreneurs supported by the Fund	KZT 13 bln	KZT 13 bln*	100%
STRATEGIC AREA 2. Sustainable institutional development of the Fund				
Attracting additional sources of funding				
9.	Private sources of funding in total borrowings for the reporting year, %	78%	80.1%	103%
10.	Debt/Equity	3.5	2.1	Within the limit
Achieving financial performance targets				
11.	ROA (not below the minimum positive value)	0.6%	1.2%	192%
12.	Loan portfolio in total assets	77%	68.6%	89%
Automation of business processes				
13.	Automation of the Fund's key business processes	not less than 60%	62.5%	104%
Raising the standards of corporate governance				
14.	Assessing the DAMU's credibility from the point of view of MSMEs and their satisfaction levels	not less than 80%	Rate is measured on an annual basis. Data is expected in late June 2018.	

* This is an estimate. Actual data will be received in Q2 2018 year from the State Revenue Committee of the Ministry of Finance.

EFFECTIVE ASSET MANAGEMENT

The Fund's asset and liability management aims to form and maintain a certain structure of assets and liabilities that ensures achievement of strategic targets, profitability and minimization of unnecessary risks. The main objective of asset and liability management is to keep the Fund's revenues within specific ranges, also maintaining liquidity within reasonable limits.

In the asset and liability management, the Fund's major work includes:

- Loan portfolio management;
- Raising funds (also setting time frames and interest rates) for subsequent deployment to support small and medium-sized businesses;

- Allocation of temporarily free funds;
- Investment in fixed assets;
- Maintaining equity, etc.

The main tasks of the Fund with respect to asset management are to maintain the IRR, the capacity to pay interest on current liabilities, the ability to finance emerging investment opportunities and a sufficient level of IRR returns to the level of accepted risk.

As of January 1, 2018, the Fund's assets totaled KZT 319.9 bln, which is a decline of KZT 29.5 compared to 2016 because a partner bank in the ADB loan paid off its debt (third tranche).

Loans account for most of the assets (69%). Cash makes up 17% of total assets. The Fund's securities are recorded on the balance sheet at market value and make up 1% of the assets.

At the end of 2017, the Fund's liabilities totaled KZT 218.8 bln, which at KZT 32 bln less compared to the previous period. Decrease in liabilities occurred as the Fund has fulfilled its obligations to the ADB under the third tranche.

As of January 1, 2018, the Fund's equity was KZT 101.1 bln.



4

FINANCIAL HIGHLIGHTS

In 2017, the Fund's combined revenues reached KZT 34.3 bln, including KZT 28.3 bln as income from core business, and KZT 6 bln as income from non-core business.

In 2017, the Fund's expenditures totaled KZT 29.1 bln. The biggest cost items include costs of SWAP revaluation (37%), creation of provi- Profitability indicators

Item	2015 (actual)	2016 (actual)	2017 (target)	2017 (actual)
ROA, return on assets	5.4%	1.6%	0.6%	1.2%
ROE, return on equity	17.6%	5.8%	2.2%	4.1%
Average IRR	10.59%	14.23%	8%	9.66%
Profitability of activities	35.1%	17.3%	10.6%	14.1%
NI margin	25.5%	19.6%	11.5%	20.7%

Thanks to net revenue being above the target, profitability indicators for 2017 exceeded targets.

Rating

Based on the results achieved in 2017, Moody's Investors Service affirmed DAMU's global scale credit rating at "Baa3," financial sustainability outlook "Stable." At the same time, Moody's affirmed DAMU's national long-term rating at "Aa1.kz."

Development plans

To achieve financial targets, the Fund will implement uniform approaches to planning and budgeting, create a management accounting system and determine key performance indicators.

In 2018, in order to ensure the transparency of revenue and cost accounting by type of services (pro-

sions (26%), costs associated with received loans and other financial expenses (19%), administrative costs (15%).

In 2017, the Fund's financial result was KZT 4.1 bln, which is almost double the target (KZT 2.2 bln), which affected profitability.

grams), to make project outcome reports complete and comprehensive with enough detail to facilitate decision making by the management, the Fund plans to introduce a system of separate accounting of revenues, costs and assets involved.

The Fund will continue to work consistently with a view to incorporating international best practices into its enterprise risk management system. In the future, the Fund will undertake regular tests of the quality of its enterprise risk management system.

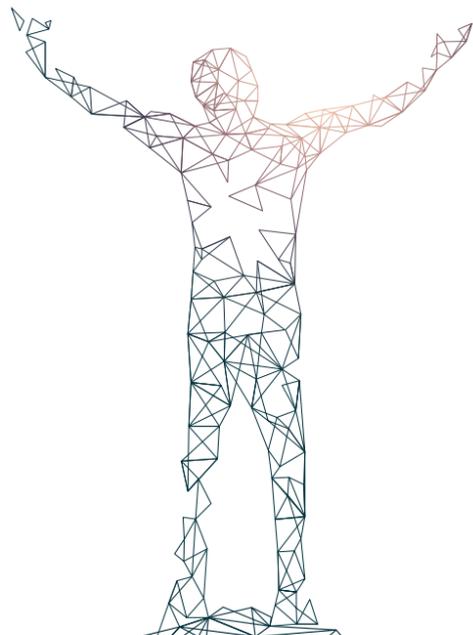
Significant business transactions

Information about the Fund's non-arm's length transactions, large transactions and related-party transactions concluded in 2017 is presented in the Appendix.

4.1

BLN TG

Financial result of Fund as of 2017 amounted to KZT 4,1 billion, almost twice the planned figures (KZT 2,2 billion) influencing on profitability index.



5

THE FUND'S INFORMATION POLICY

The Fund pays great attention to the transparency of decisions related to the implementation of government programs, as well as certain internal procedures that are of particular interest to the stakeholders.

Carried out in accordance with the current trends and based on the market analysis and needs of target audiences, the Fund's information policy enhances the public confidence, helps to find negative factors and includes preventive measures manifested in anti-crisis communications.

For better customer service, every year the Fund offers training courses for employees of the front-office, the entrepreneur service center and the call center; plus there is constant exchange of information, including through social surveys.

The Fund's designated unit studies the media market to determine the optimal time and place for communicating information about the Fund, the scope and timing of advertising campaigns for the target groups by age, gender, business size, etc.

To increase brand awareness and trust, the Fund supports internal connection between its divisions, as well as the relationship between the Fund and the Sole Shareholder in the course of development and implementation of promotional activities. Moreover, the Fund uses celebrity endorsement by inviting opinion leaders and successful entrepreneurs to participate in the Fund's programs, while external consultants and communications professionals help to resolve strategic challenges faced by the Fund. Visual coherence of promotional materials and front-offices of the Fund plays an important role in increasing the awareness.

In order to ensure a high level of transparency, the Fund arranges press conferences, briefings, press tours and interviews with the Fund's top executives on a regular basis. For example, in 2017 there were 4,280 materials in mass media about the government's entrepreneurship incentive programs, activities of the Fund, or materials with a reference to the Fund. The Fund organized five press tours to display successful SME projects financed through its program in the regions (Sough-Kazakhstan regions, Kyzylorda,

Taldykorgan, Aktau and Kostanay), there were 106 appearances on regional TV channels to discuss the progress of the Fund's programs, including 2020 Business Road Map Unified Program, Enbek and Nurly Zhol programs.

DAMU's corporate website (www.damu.kz) and business portal (www.business.gov.kz) are among the most important mass communication channels allowing to inform entrepreneurs and the public about the achieved results, changes or new incentive programs of the Fund, as well as to collect feedback on critical issues.

The Fund uses website traffic trackers to get accurate traffic data. Today, the Fund's corporate website is the 13th most visited website among 135 websites in the Finance category of zero.kz website traffic ranking service.

The Fund operates a specialized call center launched in March 2017. This call center processes requests and calls, and provides detailed information about entrepreneur incentive programs of Baiterek National Management Fund. The call-center allows to target specific audiences. It can fulfil a very wide variety of tasks ranging from automated processing of applications from the public to product promotion, advertising and market research.

In 2017, nearly 63,800 requests were processed remotely through the call-center, including 11,900 requests submitted via the Fund's online resources (www.business.gov.kz, www.damu.kz, www.damu-komek.kz). Most of the questions were about the Fund's entrepreneur incentive programs.

The Fund's information policy focuses on building a positive reputation and image of the Fund through effective communications and a two-way dialogue with the stakeholders. In order to monitor the effectiveness of its information policy, the Fund implements a set of special communication activities to convey a message describing the Fund as professional, open, helpful and a major SME knowledge base.

63.8

THOUS. REQUESTS

In 2017, nearly 63,800 requests were processed remotely through the call-center, including 11,900 requests submitted via the Fund's online resources (www.business.gov.kz, www.damu.kz, www.damu-komek.kz).

GOALS FOR FUTURE PERIODS

In 2018, the Fund plans to consider the engagement of a strategic investor (an international financial institution) by selling a 25% stake in DAMU Entrepreneurship Development Fund JSC.

Work in the main areas of business will continue.

Conditional allocation of funds

In 2018, the Fund will continue attracting funds from the local authorities to implement spot regional programs giving entrepreneurs in the regions access to affordable and long-term credit. In 2018, the Fund expects to lend a total of KZT 14 bln via the spot regional program (KZT 7 bln coming from the Fund and KZT 7 bln coming from local budgets).

In 2018, under Enbek program the Fund expect to raise at KZT 16 bln from local authorities.

Within the framework of the product "Financing micro, small and medium-sized enterprises using the loan from the Asian Development Bank through second tier banks and MFIs (4th tranche of the ADB's loan), no less than KZT 40 bln will be deposited into second tier banks/MFIs.

Within the framework of the program Damu-Regions III, the Fund will continue placing nearly KZT 18 bln from its own funds. At the same time, the Fund plans to amend this Program to align it with the targets set by the Fund's Strategy.

Within the framework of the product "Conditional allocation of funds to microfinance institutions for subsequent lending to micro- and small businesses and individuals involved in commercial

activities," the Fund plans to deposit around KZT 1.5 bln from its own funds in MFIs.

Within the framework of the product "Financing of leasing transactions of small and medium-sized enterprises," the Fund plans to deposit approximately KZT 2 bln from its funds into second tier banks/leasing companies.

The incentive programs financed by the National Fund of the Republic of Kazakhstan (1st, 2nd and 3rd tranches) include plans to deposit a total of KZT 23.5 bln into second tier banks (which were earlier withdrawn from these banks by the National Fund) based on the decision of the State Economic Modernization Commission.

In 2018, the Fund expects to take two loans from the European Investment Bank (EIB) totaling EUR 200 mln (in KZT) under the guarantee of Baiterek National Managing Holding to finance SME projects with a positive environmental impact via lending through second tier banks.

In 2018, the Fund expects to raise funds under its own guarantee from the European Bank for Reconstruction and Development (EBRD) for further lending to SMEs.

In 2018, the Fund plans to raise USD 40 mln (in KZT) from the Islamic Corporation for the Development of the Private Sector (ICD) to promote growth in the SME sector in Kazakhstan through Islamic financing. Funds will be raised on competitive terms and as long as second tier banks and leasing do not have capacity limitations.

Next year, DAMU plans to conclude a memorandum of understanding and cooperation with the Eurasian Development Bank and a memorandum of understanding with the Islamic Corporation for the Development of the Private Sector (ICD).

In 2018, DAMU will continue to optimize the terms of its conditional allocation programs in order to ensure greater access of micro/small businesses and to diversify the risks of the loan portfolio. There are plans to introduce express processing of loan applications from micro- and small entrepreneurs for all of the Fund's own conditional allocation programs. In addition, DAMU will develop a product with a view to providing funding to credit associations via conditional allocations.

Guarantees

Within the framework of 2020 Business Road Map Unified Program, DAMU plans to improve the guarantee terms for entrepreneur loans and to provide irrevocable guarantees as of 2018.

For the convenience of entrepreneurs, the processing of applying for and receiving guarantees via www.egov.kz portal for loans over KZT 180 mln will be further automated.

DAMU will continue to promote alternative ways for obtaining guarantees via Damu-Optima program for SMEs which are outside the focus of 2020 Business Road Map or Enbek programs or fail to meet their terms.

Subsidies

In 2018, DAMU will plans to automate the service "Subsidized loans for SMEs" under 2020 Business Road Map program in bpm'online and on the E-Government's web portal.

Non-financial support

In 2018, the focus will be on facilitating private projects to ensure approval by second tier banks / microfinance institutions / leasing companies for the provision of financial support under the Fund's instruments.

In 2018, DAMU will develop new training courses for novice and experienced entrepreneurs under the project "Remote support of entrepreneurship" under the Unified Entrepreneur Skills Improvement Program for 2015–2018. The project is supposed to give a boost to entrepreneurship and improve business skills of aspiring enterprisers, as well as novice and experienced entrepreneurs in the regions of Kazakhstan. The project provides distance training courses focusing on the basics of doing business or on specific business-related topics.

In 2018, changes will be made to the Startup Academy which is part of the Unified Program. Specifically, the curriculum will be adjusted to give more hours to mentors, provide stronger support to startups and increase training times.

6

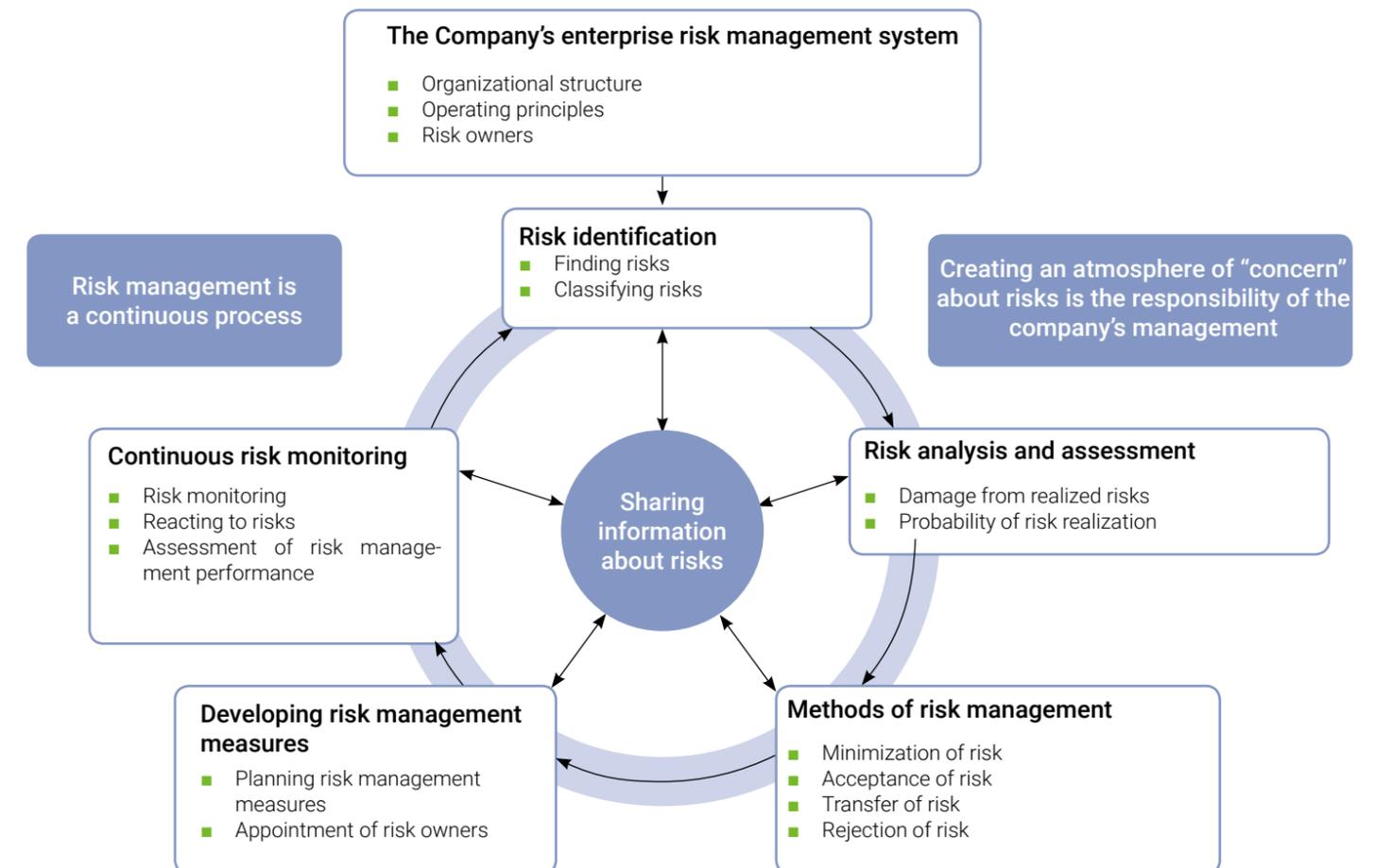
RISK MANAGEMENT

RISK MANAGEMENT SYSTEM

The Fund's risk management system includes processes and procedures to ensure that the Executive Body and the Management Body of the Fund receive timely information about risks and risk mitigation measures.

The main element of the risk management process of the Fund is its alignment with the organizational specifics, main principles and business processes, as well as employee engagement in the risk management process.

Consistency and continuity of DAMU's enterprise risk management system is shown in the diagram below.



Currently, the enterprise **risk management structure** has four levels of risk management: Board of Directors, Executive Board, Department of Risk Management (DRM), subdivisions (risk owners).

Identification and assessment of risks are aimed at providing a common vision of existing risks and their scale through basic ranking to determine the most serious vulnerabilities. This process allows the evaluation of methods and procedures of managing the major risks.

Risk management is the process of formulation and implementation of measures to reduce the negative effects and probability of losses, or to get a financial compensation upon the occurrence of losses associated with risks arising from the Fund's work.

The Fund **monitors** the risk management system's effectiveness (including the existing management and risk control tools) and, if necessary, modifies and improves it.

In 2017, the risk management system focused on implementing the principles of integrated analysis of credit risks within the frameworks of *2020 Business Road Map* program with respect to guaranteeing SME projects. Given the importance of the program, every year DAMU improves the methodology of project risk assessment, which makes it possible to minimize credit risks at an early stage.

When deciding whether to provide or deny guarantees, DAMU relies on the results of its own comprehensive methodology of credit risk assessment. This methodology is based on a comprehensive

analysis of interrelated risk factors that may adversely affect the financial performance of the project and augment the Fund's credit risk in its guarantee portfolio.

In 2017, the financial risk management traditionally focused on three risk areas: conditional loans of second tier banks, securities portfolio and temporarily available funds in second tier banks. To minimize these risks, the Fund limited active operations with banks and conducted remote analysis of credit risks faced by second tier banks, leasing companies and corporate issuers.

Limiting was possible thanks to the Department of Risk Management's work to improve the methodological and technical side of financial risk management.

Since the introduction of the risk management system, the Fund has done a lot to implement the basic methodological documentation on risk management. In particular, Baiterek National Managing Holding JSC in cooperation with PWC, the external auditor, implemented a risk management system developed in accordance with the best international practice based on the requirements of the Basel Committee on Banking Supervision. It includes management and evaluation of all types of risks separately (credit, market, operational, business and real estate risks), determining the aggregate risks, taking into account normal and stress scenarios, sufficiency of equity and risk appetite (in terms of equity adequacy, profitability and liquidity).

In accordance with the Risk Management Policy, the Executive Board of the Fund provides the Board of Directors with a consolidated quarterly Risk Report containing an overview and analysis of the key risks, information on compliance with risk limits and the current status of key risk minimization programs and plans.

In 2017, the Fund continued to manage operational risks. All of the Fund's divisions participate in this work and related documentation has been approved including the following:

- Updated risk register, risk map and risk management plans.

All the identified and assessed risks are shown on the risk map. The risk map helps to assess the relative importance of each risk (compared with other risks), as well as to highlight critical risks which require risk management activities.

The Fund's enterprise risk register and risk map contain risks in the following groups: strategic, financial (credit, market, liquidity), legal and operational risks. Risks in the "red" zone show the Fund's greatest exposure. Risks in the "yellow" zone are an acceptable risks. Risks in the "green" zone signify the lowest level of exposure.

For each risk there is an **action plan / risk mitigation procedures**:

- Key risk indicators (KRIs) approved;
- Continuous database of realized and potential risks implemented;
- Disaster recovery and crisis management plans developed as part of the Fund's continuity management system.

KEY RISKS

Key risks of the Fund fall into the following categories.

1. Strategic risk means existing or potential risk to earnings and equity which results from errors in management decisions, improper implementation of decisions and inadequate

response to changes in the business environment.

2. Financial risk is the likelihood of unforeseen financial losses.
3. Operational risk is the risk that leads to losses resulting from inadequate or incorrect internal processes, employee actions, functioning

of the system, as well as to losses caused by external events, including legal risks (except strategic and reputation risks).

4. Legal risk is the potential risk due to breach or failure to comply with the legislation, regulations, agreements, accepted practices or ethical standards.

Risk register approved for 2018 (shows significant risks)

Risk group	Risk name
Strategic risks:	Risk of failure to achieve the Fund's key performance indicators
	Lack of effective interaction with external organizations (second tier banks/leasing companies/MFIs, international financial institutions, potential investors), including under the government's and the Fund's programs
	Risk of mismanagement of funds received from the National Bank and the National Fund
Financial risks	Counterparty risk, as well as the risk of impairment of securities that serve as the pledged facility
	Foreign exchange risk (for financing in foreign currency)
	Liquidity risk
	Credit risk related to deterioration in financial performance of partner banks (deposits, securities and other requirements to second tier banks and legal entities)
	Market risk related to the pledge value, risk of overestimating the pledge
Operational risks	Credit risk related to the direct borrower/guarantee recipient
	Risk of demand concentration per one borrower
	Risks associated with inadequate, irrelevant and/or distorted information or its misuse
	Risk of corruption, internal fraud, theft
Legal risks	Risk of external fraud and theft
	Risk of changes in the legislation affecting the Fund
	Risk of litigation

For effective operational risk management in 2018, the Fund will take the following measures:

- Timely automation of the operational risk management process for collecting qualitative and quantitative data;

- Periodic development of control measures for all operational risk events in cooperation with business process owners in order to minimize operational risks and/or prevent similar incidents in the future;

- Raising the motivation of risk coordinators through incentives;
- Periodic distance training for the Fund's employees;
- Review of operational risk management tools.

INTERNAL CONTROLS

The system of internal control is an integral part of corporate governance ensuring the efficiency of business processes.

The following measures are taken on order to improve the Fund's internal controls system:

- In accordance with the COSO model (Committee of sponsoring organizations of the Treadway Commission), the procedures described in the Internal Controls Policy (approved by the decision no. 73 of the Fund's Board of Directors on September 20, 2016) are being changed/added to make the internal controls system more effective;
- The concept of "internal control system" is explained in greater detail, describing the three lines of defense in internal controls specifying the actors of the internal controls system, their responsibilities and scope of authority;
- Five interrelated components of the internal controls system are described in detail (according to the COSO model), including:
 - 1) control environment;
 - 2) risk assessment;
 - 3) control procedures;
 - 4) information support and information exchange;
 - 5) monitoring and effectiveness assessment of the internal control system.

In order to identify risks and deficiencies in the internal controls system, comprehensive measures are taken to rectify identified violations/observations and to improve internal controls.

On a regular basis the Department of Risk Management does the following:

- Monitoring the implementation of recommendations of the Office of Internal Audit (OIA) related to all of the Fund's structural units;
- Monitoring the implementation of recommendations of the external auditor;
- Monitoring the implementation of recommendations of Baiterek National Managing Holding (the Fund's sole shareholder) and the Fund's independent directors.





DECISION MAKING

In accordance with the Fund's Charter, its management bodies include:

- 1) the Sole shareholder as the supreme body;
- 2) the Board of Directors as the management body;
- 3) the Executive Board as the executive body;
- 4) the Office of Internal Audit as the body overseeing financial and business operations of the Fund;
- 5) Credit Committee as the body responsible for the internal credit policy;
- 6) Assets and Liabilities Committee as the body responsible for enhancing the Fund's assets and liabilities management with a view to their diversification, optimization of financial risks and ensuring financial sustainability;
- 7) Committee for Non-Performing Assets as the body responsible for recovering receivables arising from lending, leasing, documentary (guarantees), investment and administrative operations;
- 8) Other bodies established in accordance with legislation of the Republic of Kazakhstan.

Board of Directors

The Board of Directors is responsible for the overall management of the Fund's operations. The Board of Directors approves the Fund's Development Strategy, ensures the effectiveness of the risk management system, oversees the financial and business operations of the Fund, etc.

The Board of Directors operates in accordance with the Joint-Stock Companies Act and other regulations of the Republic of Kazakhstan, the Fund's Charter of the Fund, the Corporate Governance Code, decisions of the Sole Shareholder, the Board of Directors Bylaws and other internal documents of the Fund.

Decisions of the Board of Directors within its scope of authority are mandatory for the executive body, structural divisions, officers and employees of the Fund.

The Board of Directors acts in accordance with the principles of efficiency and accountability, respect for and pursuit of the interests of the Sole

Shareholder and the Fund, as well as the protection of the rights of the Sole Shareholder.

The Board of Directors ensures full transparency of its activities to the Sole Shareholder.

Executive Board

The Executive Board is the collegial executive body of the Fund accountable to the Board of Directors and the sole Shareholder, formed in accordance with the Charter and responsible for the management of day-to-day operations of the Fund in the interests of the Fund and its Sole Shareholder.

The Executive Board can make decisions regarding any matters pertaining to the activities of the Fund, except the matters in the scope of authority of other bodies and officials of the Fund according to the legislation of the Republic of Kazakhstan and the Fund's Charter, including matters within its scope of authority according to the legislation and the Fund's Charter.

The Executive Board may, if necessary, create collegial working bodies (committees, boards) from members of the Board of Directors, employees of the Fund and other persons for the preparation of recommendation for the CEO and members of the Executive Board on certain aspects of the Fund's operations, including preparation and preliminary review of issues in the scope of authority of the Executive Board, and also to invite independent experts to address issues requiring special expertise, or to resolve urgent problems faced by the Fund.

Corporate Governance Code compliance report is available at the Fund's website.

A corporate governance audit conducted by the Office for Internal Audit found that during 2015–2016 the Fund had an 80.1% match rate between its corporate governance and best practices.

The Fund's corporate governance performance will be audited in 2019.

Organizational structure

Its organizational structure helps the Fund effectively achieve strategic goals and objectives. The Fund has 21 departments, 2 offices and 16 regional branches.

Sole shareholder

Baiterek National Managing Holding JSC (hereinafter, the Holding) is the Fund's sole shareholder.

The Holding was founded in 2013. Its main purpose is to manage shares or equity stakes (as an asset owner or a fiduciary) in national development institutions, state-owned companies and other legal entities. The Holding was created by the President's Decree no. 571 of May 22, 2013 for more efficient management of development and financial institutions and to promote economic growth. As of the end of 2014, the Holding includes 11 subsidiaries.

One of the key tasks of the Holding is to ensure the effective and complementary operation of the Holding's group of companies.



Member of the Board of Directors, Independent Director

Zhannat Dzhurgaliyevna Yertlessova

(born in 1956, first elected to the Board of Directors on March 26, 2012, elected to the current Board of Directors on April 15, 2013).

- In 1978, graduated from Kirov Kazakh State University with a degree in Mathematics. Ph.D. in Economics, professor, author of more than 50 scientific works.
- She held senior positions in the Ministry of Finance of the Republic of Kazakhstan (Vice Minister, 1st Vice Minister), was Deputy Head of the President's Administration. Worked as Vice President of Kazakhtelecom JSC, First Deputy Chairman of the Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies and Protection of Competition, Managing Director for Corporate Development of KazMunayGas NC JSC. From June 2007 to September 2007, she served as Deputy CEO of Kazyna Sustainable Development Fund JSC; from February 2007 she was a member of the Board of Directors of Kazyna Sustainable Development Fund JSC. As of February 2007, she is a part-time Adviser to the Prime Minister of the Republic of Kazakhstan. Chair of the Management Board of the Taxpayers Association of Kazakhstan.
- Nationality: Republic of Kazakhstan



Member of the Board of Directors, Independent Director

Oraz Alievich Zhandossov

(born in 1961, first elected to the Board of Directors on September 24, 2012, elected to the current Board of Directors on April 15, 2013).

- In 1983, he graduated with honors from Lomonosov Moscow State University with a degree in Economics & Cybernetics.
- He worked in the Institute of Economics of the Academy of Sciences of Kazakhstan. Over the years, he was CEO of the National Bank of the Republic of Kazakhstan, First Deputy Prime Minister/Chairman of the State Committee of the Republic of Kazakhstan for Investments, Deputy Prime Minister/Minister of Finance of the Republic of Kazakhstan, President of KEGOC OJSC, Assistant to the President of the Republic of Kazakhstan, Chairman of Agency of the Republic of Kazakhstan for Regulation of Natural Monopolies and Protection of Competition.
- As of 2008, he is Director of RAKURS Economic Analysis Center, Member of the Presidium of the National Chamber of Entrepreneurs of the Republic of Kazakhstan.
- He is an independent director and member of the Board of Directors of Kazpost JSC, Batys Transit JSC and Golden Compass Capital JSC.
- Nationality: Republic of Kazakhstan



Member of the Board of Directors, Independent Director

Serikbai Zholdybayevich Bisekeyev

(born in 1971, elected to the Board of Directors on July 31, 2014).

- Graduated from the Leningrad Polytechnic Institute.
- Founder and President of Arman Holding, manufacturer and supplier of integrated solutions for the Energy and Telecom sectors.
- As of 2000, President of Arman Holding. In 2013, he became Vice President for Cooperation with South-East Asian Countries of the Association "Eurasian Economic Club of Scientists."
- Nationality: Russian Federation



Member of the Board of Directors

Abai Serikovich Sarkulov

(born in 1981, elected to the Board of Directors on February 23, 2017).

- Graduated from Zhubanov Aktobe State University.
- In the 2007–2017, held various positions in Development Bank of Kazakhstan JSC, including Managing Director/member of the Executive Board (2015–2016), Deputy CEO (2016–2017). He was a member of the Board of Directors of BRK-Leasing JSC.
- As of February 2017, he is CEO of DAMU Entrepreneurship Development Fund JSC.

In 2017, the following changes occurred in the composition of the Board of Directors.

1. By the decision of the Sole Shareholder of January 5, 2017 (no. 01/17), Tuleushin K.A. was removed from office as CEO and member of the Board of Directors effective from January 5, 2017.
2. By the decision of the Sole Shareholder of February 8, 2017 (no. 06/17):
 - Ibragimova L.E. was removed from office as member of the Board of Directors and representative of the Sole Shareholder;
 - Arifkhanov A.A. elected member of the Board of Directors as a representative of the Sole Shareholder for the duration of the Board's tenure.
3. By the decision of the Sole Shareholder of February 23, 2017 (no. 08/17), Abai Serikovich Sarkulov was elected CEO and member of the Board of Directors effective from February 27, 2017 for the duration of the Board's tenure.
4. By the decision of the Sole Shareholder of April 5, 2017 (no. 15/17), the Board of Directors consists of 8 persons and the Board's

tenure is 5 years. The following persons were elected members of the Board of Directors for the duration of the Board's tenure: Mamin A.U., Dossayev E.A., Arifkhanov A.A., Sarkulov A.S. elected members of the Board of Directors: Bisekeyev S.Z. (independent director) with tenure ending on July 30, 2020, Yertlesova Z.D. (independent director) with tenure ending on March 25, 2018, Zhandossov O.A. (independent director) with tenure ending on September 23, 2018, Dzholdybaeva G.T. with tenure ending on September 23, 2018.

5. By the decision of the Sole Shareholder of February 4, 2017 (no. 38/17):
 - members of the Board of Directors Mamin A.U. and Dossayev E.A. were removed from as representatives of the Sole Shareholder.
 - Dossayev E.A. was elected a member of the Board of Directors for the duration of the Board's tenure.
 - The Board of Directors was advised to elect Dossayev E.A. as Chairman of the Board of Directors.

6. By the Decision of the Board of Directors of October 5, 2017 (Minutes no. 81), following a secret ballot and in accordance with Article 56 of the Joint-Stock Companies Act of the Republic of Kazakhstan, Dossayev E.A. was elected Chairman of the Board of Directors of Damu Entrepreneurship Development Fund JSC.

Selection of independent directors is governed by the Guidelines for Selection, Remuneration and Reimbursement of Expenses of Independent Directors in subsidiaries of the Holding (2014).

In particular, these Guidelines specify requirements for independent directors in subsidiaries of the Holding, including selection of an independent Director in accordance with the Joint-Stock Companies Act of the Republic of Kazakhstan, special requirements for candidates, e.g. expertise in finance, control & audit, remuneration/social affairs/corporate culture, investment management, enterprise development.

MEMBERS OF THE MANAGEMENT BOARD



Chairman of the Management Board

Abai Serikovich Sarkulov

Chairs the Executive Board of the Fund. Responsible for the general oversight, coordination and management of all departments and employees of the Fund, directly oversees, co-ordinates and directs the activities of the Executive Board members, Assistant to the Chairman of the Board, Security Service, Department of Risk Management.



Deputy Chairman of the Management Board

Nurlan Sagyndykovich Akshanov

Supervises and coordinates the work of the Department of Subsidies within the framework of the Business Road Map Entrepreneurship Support and Development Unified Program, 2020 Business Road Map program, special entrepreneurship development plan for the town of Zhanaozen during 2012–2014, Nurly Zher program, Department of Guarantees, Department of Program Tools and Customer Service Department.



Deputy Chairman of the Management Board

Daulet Maksutovich Abilkairov

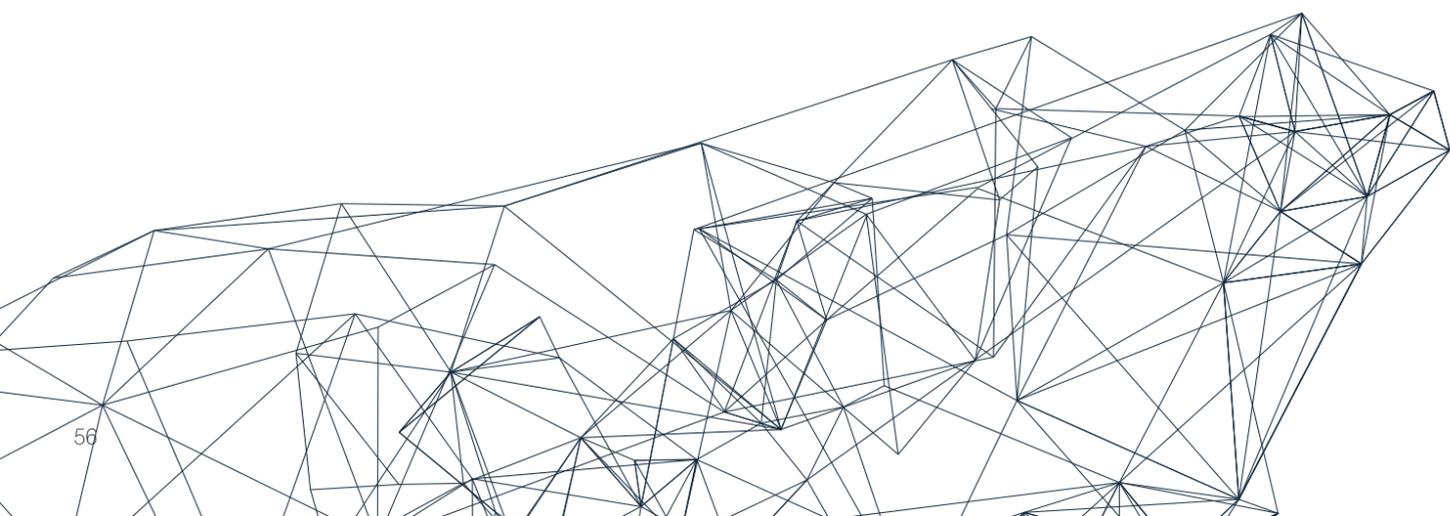
Supervises and coordinates the work of the International Cooperation Department, Marketing Department and Borrowing Department.



Deputy Chairman of the Management Board

Galym Nurgazievich Nurgaziev

Supervises and coordinates the work of the Managing Director, Government Relations Department, regional branches, Information & Analytics Department and the Press Secretary.





Managing Director – Member of the Management Board

Kuanysh Serikovich Ulasbekov

Supervises and coordinates the work of the Managing Director, Strategy and Corporate Development Department, Business Technology Department, Department of Information Technologies.



Managing Director – Member of the Management Board

Alyona Valeryevna Finogenova

Oversees the financial matters of the Fund, including the Accounting and Reporting Department, Budget Planning Department and Treasury Department.



Managing Director – Member of the Management Board

Aset Bulatovich Sharipov

Supervises and coordinates the work of the Monitoring Department, Non-Performing Assets Department and Legal Department.

Members of the Executive Board of the Fund are citizens of the Republic of Kazakhstan; they do not own shares in the Fund, its suppliers or competitors.

In 2017, the following changes occurred in the composition of the Executive Board.

1. By the Decision of the Board of Directors of December 20, 2016 (No. 76/16), Akshanov N.S. was appointed Deputy CEO and a member of the Executive Board effective from December 20, 2016.
2. By the decision of the Sole Shareholder of January 5, 2017 (no. 01/17), Tuleushin K.A. was removed from office as CEO and member

of the Board of Directors effective from January 5, 2017.

3. By the decision of the Sole Shareholder of February 23, 2017 (no. 08/17), Sarkulov A.S. was elected CEO and member of the Board of Directors effective from February 27, 2017 for the duration of the Board's tenure.
4. By the decision of the Board of Directors of July 3, 2017 (no. 80/17), the following persons were appointed Managing Directors/members of the Executive Board effective from July 3, 2017: Sharipov A.B., Ulasbekov K.S.
5. By the Decision of the Board of Directors of December 14, 2017 (no. 83/17), Nurgaziev G.N. was appointed Deputy CEO and a member

of the Executive Board effective from December 15, 2017.

6. By the decision of the Board of Directors of April 7, 2017 (no. 78/17), Beysembayev M.B. was removed from office as Deputy CEO.
7. By the decision of the Board of Directors of July 3, 2017 (no. 80/17), Kozhabekov A.K. was removed from office as Managing Director and member of the Executive Board.
8. By the decision of the Board of Directors of December 14, 2017 (no. 83/17), Lesbekova G.A. was removed from office as Managing Director and member of the Executive Board.

REPORT OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

In 2017, the Board of Directors held 7 face-to-face meetings. A total of 100 topics were discussed. In the reporting year, the Board Committees held 24 meetings. All of these were face-to-face meetings.

In addition, at the initiative of the independent directors, there were two strategic sessions held

in 2017 which addressed the issues of updating the Fund's Development Strategy, the draft map of key performance indicators for senior management in 2017 and other topics.

Also at the request of the independent directors, a joint meeting of the committees was held

in November 2017 which focused on such issues as fulfilment of contractual commitments, quality of the loan portfolio of second tier banks, information security, etc.

Participation in the meetings of the Fund's Board of Directors in 2017

No.	Full name	Participation in the Board of Directors:	%
1.	Askar Uzakpaevich Mamin	4/4	100%
	Yerbolat Askarbekovich Dossayev (from October 5, 2017)	3/3	100%
2.	Galiya Tagiberdievna Dzholdybaeva	6/7	86%
3.	Yerbolat Askarbekovich Dossayev	7/7	100%
4.	Aidar Abdrazakhovich Arifkhanov	7/7	100%
5.	Oraz Alievich Zhandossov	7/7	100%
6.	Zhannat Dzhurgaliyevna Yertlessova	5/7	71%
7.	Serikbai Zholdybayevich Bissekeyev	5/7	71%
8.	Abai Serikovich Sarkulov (from February 27, 2017)	6/7	86%

Activities of the Board Committees

The Board of Directors of the Fund has committees which are Strategic and Budget Planning, Audit, and Nomination, Remuneration and Social Affairs. In accordance with the best practices of corporate governance, the Board Committees are headed by independent directors.

The Board Committees operate in accordance with the bylaws adopted by decisions of the Fund's Board of Directors.

Strategic and Budget Planning Committee prepares recommendations and proposals on the matters pertaining to the development and adjustment of the Fund's Development Strategy, approves the Fund's development plans and monitors their implementation, submits proposals to improve budgeting, etc.

In 2017, the Committee held 8 face-to-face meetings and reviewed more than 40 topics, including preliminary review of the following: 2016 Annual Report, 2016 Strategy Implementation Report,

Draft Strategy of the Fund (new edition), 2017–2021 Development Plan, 2017–2019 Action Plan to Implement the Fund's Strategy, Map of the Fund's Key Performance Indicators for senior management with targets for 2018 (corporate KPIs), etc.

The Audit Committee submits recommendations to the Board of Directors about ways to establish effective oversight of financial and business operations of the Fund, and to ensure independence and effectiveness of internal and external audit and risk management, compliance with corporate governance protocols.

In 2017, the Committee held 7 face-to-face meetings and one meeting in absentia during which more than 60 topics were reviewed, including preliminary review of quarterly reports of the Office of Internal Audit, quarterly risk reports, corporate governance reports, financial statements of the Fund for 2016, changes and additions to the Fund's Charter, new edition of the Corporate Governance Code, etc.

Nomination, Remuneration and Social Affairs Committee was established to submit recommendations to the Board of Directors on matters pertaining to the appointment of highly qualified specialists to the Board of Directors and the Executive Board, proposals to the Sole Shareholder regarding remuneration of the Board of Directors and proposals to the Board of Directors regarding remuneration for the Executive Board, Corporate Secretary, etc.

In 2017, the Committee held 8 face-to-face meetings and reviewed a number of topics including maps of key performance indicators for senior management of the Fund for 2017 (functional KPIs), new organizational structure of the Fund, changes in the composition of the Executive Board, a map of key performance indicators for senior management of the Fund in 2018 (functional KPIs), etc.

As of January 1, 2018, the Board Committees had the following members:

Membership of and participation in meetings of the Board Committees in 2017

No.			Participation	%
Strategic & Budget Planning Committee				
1.	Chairman of the Committee	Zhandossov O.A., independent director	8/8	100%
2.	Member of the Committee	Arifkhanov A.A. (since February 24, 2017), representative of the Sole Shareholder	6/8	75%
3.	Member of the Committee	Dzholdybaeva G.T., member of the Board of Directors	5/8	62%
4.	Member of the Committee	Bissekeyev S.Z., independent director	6/8	75%
Audit Committee				
1.	Chairman of the Committee	Yertlessova Z.D., independent director	8/8	100%
2.	Member of the Committee	Arifkhanov A.A., representative of the Sole Shareholder	7/8	87%
3.	Member of the Committee	Bissekeyev S.Z., independent director	5/8	62%
Nomination, Remuneration and Social Affairs Committee				
1.	Chairman of the Committee	Bissekeyev S.Z., independent director	8/8	100%
2.	Member of the Committee	Zhandossov O.A., independent director	7/8	87%
3.	Member of the Committee	Arifkhanov A.A., representative of the Sole Shareholder	5/8	62%

Some members of the Board of Directors submitted the following recommendations with respect to the performance of the Fund's Board of Directors in 2017.

1. Overall, the structure and composition of the Board of Directors in 2017 were balanced and optimal. One of the independent directors suggested that the Board of Directors should include 5 independent directors to follow the international best practice.

OVERSIGHT OF THE FUND

The Office of Internal Audit (OIA) is responsible for the organization and implementation of internal audit and oversight of the Fund.

The OIA reports to the Fund's Board of Directors and has a mission to provide the necessary assistance to the Board of Directors and the Executive Board in performing their responsibilities with respect to the achievement of the Fund's strategic goals.

The OIA is supervised by the Board's Audit Committee. The work of the OIA is guided by the legislation of the Republic Kazakhstan, the Charter, decisions of the Fund, the OIA bylaws and other internal policies of the Fund, as well as international best practice in internal audit of the Institute of Internal Auditors.

According to 2017 Annual Audit Plan approved by the decision no. 76 of the Board of Directors on December 20, 2017, the OIA completed 17 audit assignments, including effectiveness assessment of the enterprise risk management, internal controls and corporate governance (monitoring the limits of certain administrative costs; checking the KPI performance, as well as functional KPI performance of the Executive Board; auditing the following structural units of the Fund: Department of Non-Performing Assets, Department of Security,

2. The performance of the Chairman and members of the Board of Directors was rated as "good" and "excellent" respectively. In this case, the directors believe there is a need to improve a number of competencies such as business acumen, strategic vision, knowledge of the industry, specialization and review of materials, signing of the minutes of the Board meetings.
3. Furthermore, there is a need to improve skills and knowledge of the members of the Board

Department of Guarantees, Department of Program Tools, Accounting Department, Department of Subsidies, Administrative Department, business process auditing of the Risk Management Department: credit risk management assessment; audit of regional branches in the city of Astana, Kostanay region and Zhambyl region).

Assessment of the effectiveness of enterprise risk management, internal controls and corporate governance was conducted by the Office of Internal Audit in accordance with the protocols approved by the decision of the Board of Directors. The following scores were achieved based on the assessment: Enterprise risk management (81.31%), Internal controls (93.2%) and Corporate governance (80.1%).

Based on the results of the audit assignments, a total of 110 recommendations were issued aimed at reducing risks, improving internal controls, further improvement of corporate governance and enterprise risk management. Action plans with corrective and/or preventive measures were developed based on each of the recommendations issued.

On a quarterly basis, the OIA reviews the progress of implementation of its own and external auditors' recommendations. The results of these reviews

- of Directors in such areas as strategic management, corporate governance, financial analysis and risk management.
4. The independent directors also suggested a number of changes to the performance assessment of the Board of Directors.

are submitted to the Audit Committee and the Board of Directors of the Fund.

In accordance with internal audit standards, the OIA team took advanced training courses on the following topics: "Enterprise risk management," "Corporate law: advanced course" and the workshop of the CIA program (part I).

The OIA performs regular internal assessment of the its effectiveness against key performance indicators approved by the decision of the Board of Directors of the Fund.

In 2017, under the advisory services contract between the Holding and KPMG Tax & Advisory LLP, an external party conducted independent assessment of the efficiency and quality of the Offices of Internal Audit of the Holding and the Fund. According to the results of the external assessment, the OIA's performance was rated as "compliant" with the principles of internal audit, Ethical Code and Standards of the Institute of Internal Auditors. Based on the recommendations KPMG Tax & Advisory LLP, the OIA developed an action plan to further improve its performance which was approved by the Board of Directors.



EXTERNAL AUDITOR

The Fund hires a professional audit firm (an external auditor) through competitive tendering in order to validate and verify the annual financial statements and assess risk management and internal controls systems. Selection of the audit firm in accordance with the established guidelines for auditing the financial statements is the exclusive responsibility of the Sole Shareholder.

Pricewaterhouse Coopers LLP audited the financial statements for 2017. Pricewaterhouse Coopers LLP was paid KZT 10,640,000 incl. VAT for auditing the financial statements for 2017.

In 2017, Pricewaterhouse Coopers LLP provided a number of various services:

- Providing training workshops for a total fee of KZT 343,000 incl. VAT;
- Analysis of discrepancies (gap analysis) and evaluation of the impact from the introduction of a new methodology in accordance with IFRS-9. The fee paid was KZT 22,142,000 incl. VAT.
- Developing approaches to the methodology of the impairment of financial instruments under IFRS-9, as well as updating accounting policies and documentation on the classification and evaluation of financial instruments. The fee paid was KZT 48,160,000 incl. VAT.

No former employees of audit firms who had audited the financial statements were hired by the Fund.

REPORT OF THE EXECUTIVE BOARD

Executive Board of the Fund

The Executive Board is the executive body of the Fund and consists of 7 members and the Fund's managing directors. The Fund's Executive Board holds weekly meetings and makes decisions on the Fund's operational management. In 2017, the Executive Board held 106 meetings and reviewed a total of 1,290 topics. The main topics reviewed by the Executive Board include financing of private businesses through conditional allocation of funds to second tier banks, subsidized interest rates, loan guarantees to entrepreneurs, monitoring the progress of incentive programs for businesses, etc. Also in 2017, the Fund implemented electronic document flow with subsequent changes and additions to the Fund's internal policies.

Activities of the Executive Board Committees

The Executive Board has a number of permanent committees working with various operational issues and advising the Executive Board on their effective resolution.

Credit Committee

A collegial body responsible for the Fund's internal credit policy and decisions about guarantees and subsidies. In 2017, the Committee reviewed 1,772 projects.

Assets and Liabilities Committee

A collegial body responsible for improving the Fund's assets and liabilities management for the sake of their diversification, optimization of financial risks and ensuring financial sustainability. In 2017, the Committee held 65 meetings.

Non-Performing Assets Committee

A collegial body responsible for recovering receivables arising from lending, leasing, documentary (guarantees), investment and administrative operations of the Fund. In 2017, the Committee held 24 meetings and reviewed 149 topics.

Human Resources Committee

The Committee ensures implementation of the human resources policy, develops and implements professional standards regarding the work content

and working conditions, qualifications and competences of the employees, develops an integrated human resources planning system meeting the needs of the business areas, their rational distribution and efficient utilization, increases the professionalism of the employees at all levels of management based on the development of the corporate continuous education system, ensures social protection and improves working conditions for employees, plans the work in line with the Fund's Development Strategy, oversees the performance of planned activities by structural units of the Fund and other topics outside the scope of responsibilities of other bodies of the Fund/committees of the Executive Board.

In 2017, the Committee held 32 meetings and reviewed 238 topics.

Budget Committee

The goal of the Committee is to develop the Fund's budget structure for a particular fiscal year, to develop adjustments to the current budget based on the budget progress, to verify the need for changes and additions to the annual purchasing plan for goods, works and services based on data provided by divisions / regional branched of the Fund, to review matters pertaining to the property records of the Fund and its administrative activities outside the scope of responsibility of other bodies of the Fund / committees of the Executive Board.

In 2017, the Committee held 27 meetings and reviewed 125 topics.

Change Management Committee

The goal of the Committee is to improve, automate and streamline existing/new business processes of the Fund, as well as to review and pre-approve new products.

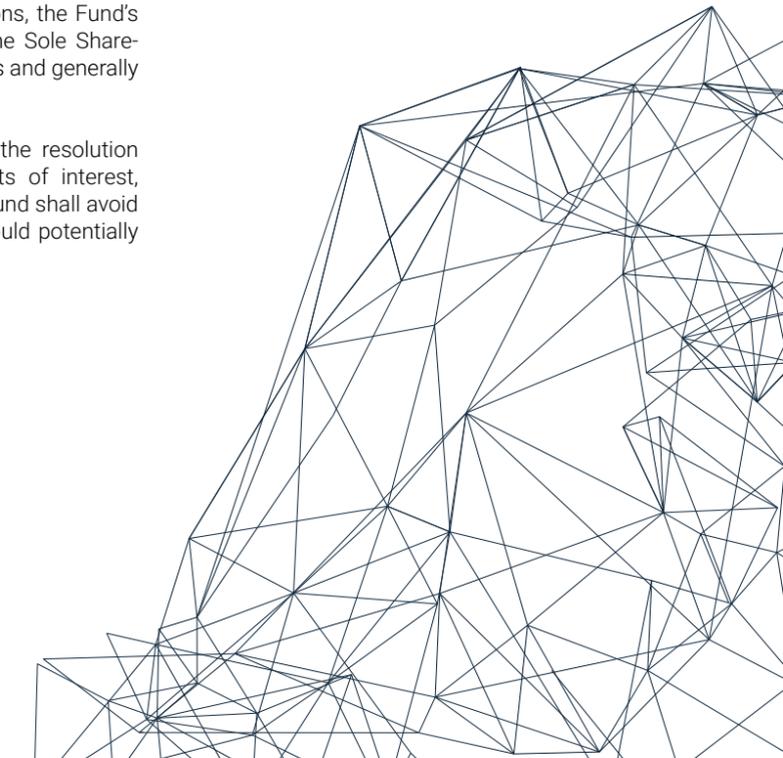
In 2017, the Committee held 15 meetings and reviewed 101 topics.

Corporate Conflict and Conflict of Interest Resolution Policy

The purpose of the Fund's Corporate Conflict and Conflict of Interest Resolution Policy is to make the decisions of the Fund's bodies more effective by ensuring fair, objective and independent decision making in the interests of the Fund and its Sole Shareholder.

In order to avoid conflict, the Fund's officers and employees shall carry out their duties in good faith and sensibly in the interests of the Fund and its Sole Shareholder avoiding conflicts, and ensure full compliance with laws and regulations, the Fund's internal policies and procedures, the Sole Shareholder's guidelines, ethical standards and generally accepted norms of business ethics.

In accordance with the Policy on the resolution of corporate conflicts and conflicts of interest, the officers and employees of the Fund shall avoid any actions or relationships that could potentially cause a conflict of interest.



REMUNERATION POLICY

Members of the Board of Directors of the Fund, except for independent directors, work without compensation. Procedures for payment of remuneration to independent directors shall be determined in accordance with the Rules for selection, remuneration and reimbursement of expenses for independent directors of subsidiaries of the Holding.

Independent directors shall have the following types of remuneration:

- 1) a fixed annual fee for membership in the Board of Directors;
- 2) a fixed annual fee for membership in a Committee of the Board of Directors as Chair of the Committee;

- 3) a fixed annual fee for membership in a Committee of the Board of Directors.

In 2017, independent directors/members of the Board of Directors of the Fund were paid a total of KZT 13,725,000.

KZT

Name of the Independent Director	Work in the Board Committees	Remuneration Total actual	including (remuneration structure) for working in the Committee			Amount paid
			for working in the Board of Directors	as the Committee Chair	as the Committee Member	
Oraz Aliyevich Zhandossov	Chairman of the Strategic & Budget Planning Committee, member of the Nomination, Remuneration and Social Affairs Committee	5,083,334	4,444,444	416,667	222,223	4,575,001
Zhannat Dzhurgaliyevna Yertlessova	Chairman of the Audit Committee, Member of the Strategic & Budget Planning Committee	4,861,111	4,444,444	416,667		4,375,000
Serikbai Zholdybayevich Bissekeyev	Chairman of the Nomination, Remuneration and Social Affairs Committee, member of the Audit Committee, member of the Strategic & Budget Planning Committee	5,305,555	4,444,444	416,667	444,444	4,774,999

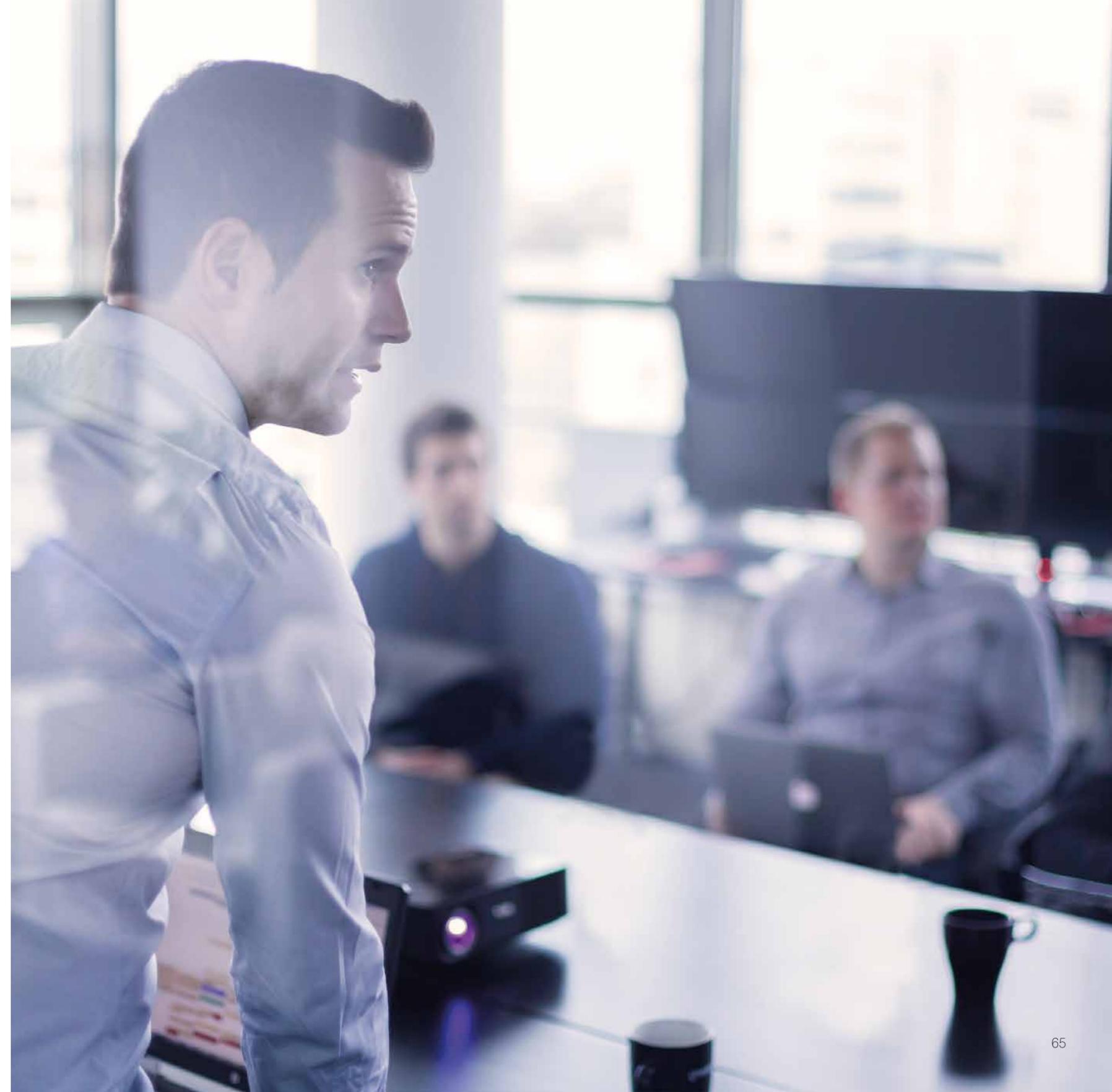
Rules for remuneration, performance review and compensation for the Fund's executives include the following principles of the remuneration system:

- Correlation between the remuneration and the achievement of targets and goals in the interests of the Fund and its Sole Shareholder;

- Simplicity and fairness in determining the remuneration amount;
- Correlation between the size of remuneration and the Fund's performance, as well as personal performance of the senior management.

A system of key performance indicators is used to assess the performance of senior management,

ensuring adherence to the above principles in the work and improves the financial and business performance of the Fund through effective planning and goal setting, reliable and fair evaluation of the performance of each member of the Management Board. These factors greatly improve corporate and personal KPI performance of the management.



8 SUSTAINABLE DEVELOPMENT

HUMAN RESOURCES MANAGEMENT

HUMAN RESOURCES POLICY

Human Resources Policy of the Fund focuses on the following strategic areas:

- developing a uniform model of human resource management;
- a policy for improving productivity;
- a policy for improving the quality of human capital;
- corporate culture development.

EMPLOYEE NUMBERS AND BREAKDOWN

As of December 31, 2017, the Fund employed 371 people. Over the past three years, the Fund's staff numbers remained unchanged.

Employee breakdown

Item	2015	2016	2017
Top management	7	7	7
<i>of them women</i>	2	1	1
Heads of structural divisions and regional branches	36	36	41
<i>of them women</i>	11	14	13
Administrative staff	328	328	323
<i>of them women</i>	188	171	155
Total	371	371	371
<i>of them women</i>	201	186	169

SUCCESSION POOL

In 2016, the Fund introduced a new principle of selection for the talent pool by adding individuals who can potentially become heads of structural units/regional branches. In 2017, the Fund continued to build and develop the talent pool. For example, employees in the talent pool attended

workshops conducted by the management from the head-office and met with an independent Director of the Board of Directors and the CEO.

In 2017, one employee from the talent pool was promoted to head of a structural unit.

632

The Fund's employees were trained 632 times by attending 47 workshops. Some workers took several training courses throughout the year, including in the corporate format. Thirteen employees completed MBA programs.

ROTATION

The Fund adheres to the policy of continuity and the maximum use of the internal potential of the employees. Rotation promotes more effective succession planning which is a continuous process of identifying future leaders and developing their professional, managerial and leadership skills. Tasks achieved by the Fund through employee rotation:

- Better human capital due to new knowledge and skills acquired by employees through rotation;
- Optimization of business processes and existing internal documents of the Fund thanks to a “fresh perspective” effect;

- Non-financial motivation of the employees;
- More effective talent pool development program.

This tool is widely used at work. The Human Resources Department identifies the employees with significant potential capable of taking an executive position if needed.

In 2017, a total of 43 employees went through rotation, including 3 employees promoted to executive positions and 5 senior executives transferred between the head-office and regional branches.

EMPLOYEE TRAINING AND DEVELOPMENT

The goal of training is to create an effective system of employee training and development, to improve management skills and leadership capacity of senior managers, to make sure employees acquire professional knowledge and skills in line with the Fund's interests and needs.

In order to implement this policy, the Fund is constantly working to attract and retain high performers, as well as to enhance employee professional-

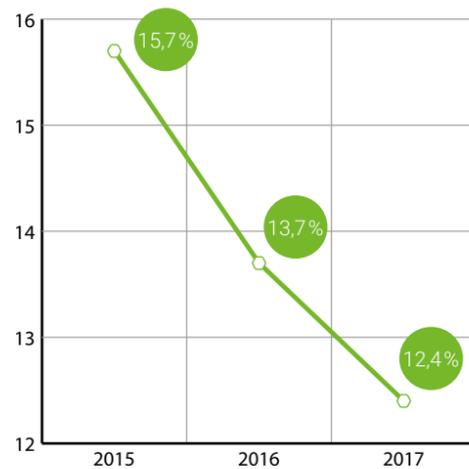
ism. The Training Plan for the Employees of Damu Entrepreneurship Development Fund JSC was approved in 2017 by the decision of the Fund's Executive Board (Minutes № 02/2017 of January 25, 2017). The Fund's employees were trained 632 times by attending 47 workshops. Some workers took several training courses throughout the year, including in the corporate format. Thirteen employees completed MBA programs.

EMPLOYEE TURNOVER

In 2017, the total employee turnover rate was 12.4% compared to the target of 20%. Over the past 3 years, the turnover rate has been trending downward.

In 2017, there were 44 new hires, including 18 women. Five of them were for top management jobs, 7 for heads of structural divisions and regional branches and 32 for administrative roles (*Graphic 22*).

Graphic 22
Employee turnover in Damu Entrepreneurship Development Fund JSC in 2015–2016



MOTIVATION AND REMUNERATION

The purpose of the Fund's productivity improvement policy is to link the Fund's strategic objectives, strategy and business plans with the evaluation, motivation and incentive policy.

All employees should work to achieve the goals and objectives aligned with the strategic objectives of the Fund. Employee performance assessment depends on the specific tasks supported by individual key performance indicators (KPIs): to this end, the Fund conducts quarterly performance review of administrative employees to determine if employees are qualified for their jobs and to calculate the percentage of target achieved. In 2017,

the Fund developed a system of position grades based on the assessment of contribution of each position and its relevance in the context of the entire Fund.

The Fund's employees have annual health insurance plans paid by the Fund's. In addition, the Fund provides financial aid to employees in the amount of two salaries in case of an annual leave, marriage (12 cases in 2017), child birth (41 cases), or death of a family member (7 cases).

The average salary (minus social contributions) is paid during pregnancy or maternity leave.

CORPORATE CULTURE DEVELOPMENT

Corporate culture implies promoting a team spirit among employees, a sense of connection with the Fund, building a team of like-minded people respecting corporate values and capable of finding effective solutions in the most complex situations. Every year, surveys are conducted to measure employee engagement, plus there are regular business meetings and meetings of the work groups and the Human Resources Committee of the Fund's Executive Board.

In 2017, the level of employee engagement and satisfaction compared with 2016 remained unchanged at 75%.

The Fund organized and carried out activities to promote team spirit, corporate identity and culture, such as the celebration of Nauryz-2017, a corporate teambuilding event, corporate training “Intellectual and emotional game” for employees of the head-office and regional branches.

OCCUPATIONAL HEALTH

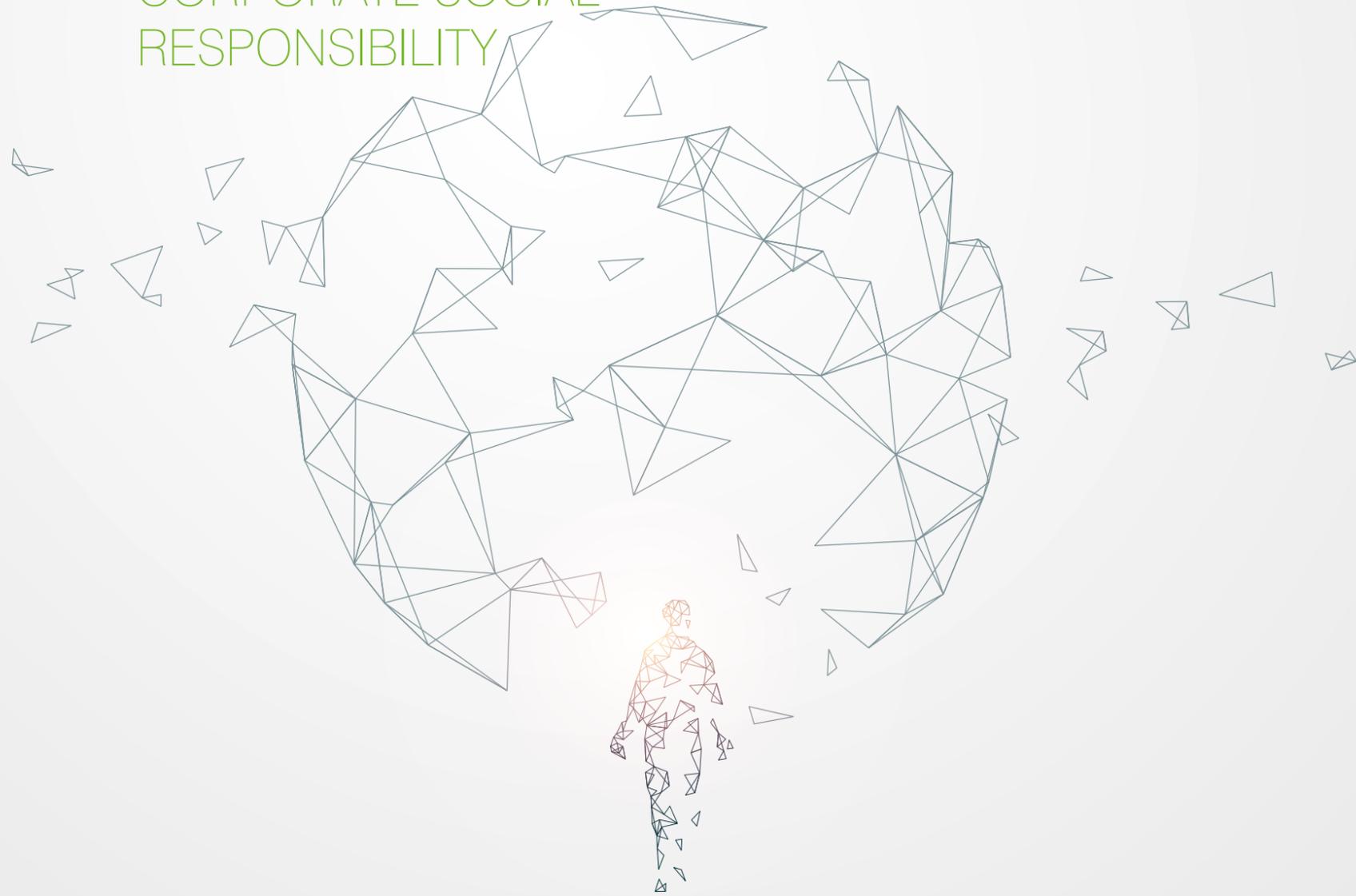
The Fund focuses on systematic work and incremental steps to enhance the workplace safety and to promote a safe working culture.

The Fund complies with the laws and regulations of the Republic of Kazakhstan in the area of occupational health, industrial and fire safety, and takes additional measures to minimize workplace accidents.

The Fund's employees are guided by the Occupational Safety Policy for the Fund's office workers. The Policy applies to all major activities of the Fund's employees during their work, in the Fund's offices, during business trips, as well as in emergency situations.

9

CORPORATE SOCIAL RESPONSIBILITY



As the principal operator and integrator of the government incentive measures to promote entrepreneurship in Kazakhstan, the Fund is giving priority to the factors of the society's sustainable development and considers social responsibility one of its key principles.

Together with the unconditional priority of observing the rights and interests of the Sole Shareholder, the Fund accepts voluntary obligations to behave in a socially responsible manner with a wide range of stakeholders affected by its activities, such as investors, partners, borrowers, employees, suppliers, business community and the public.

When implementing its corporate social responsibility initiatives, the Fund is guided by its Corporate Social Responsibility Policy (hereinafter, the Policy) approved by the Board of Directors.

The purpose of the Policy is to ensure the Fund complies with the corporate social responsibility (CSR) principles and to build a trustful relationship with all stakeholders.

The Policy is aimed at improving the effectiveness of the Fund's operations in the field of CSR, using the international norms of conduct stipulated by CSR and sustainable development standards.

In cooperation with stakeholders, the Fund is guided by the following basic principles of corporate social responsibility:

- 1) The principle of openness. The Fund seeks maximum openness and reliability of information about itself, its programs to support entrepreneurship, achievements and results of its activities. At the same time, the Fund does not disclose any information constituting trade secrets or other secrets protected by law.
- 2) The principle of partnership. The Fund's management and rank-and-file employees learn and evaluate the interests, expectations and concerns of stakeholders with whom they interact, seeking to establish new partnerships and strengthen the existing ones.
- 3) The principle of flexibility. The Fund reacts promptly to the expectations and requests of stakeholders, as well as to changes in the market situation, making the necessary adjustments to its activities and tools to support entrepreneurship.
- 4) The principle of an integrated approach. The Fund focuses on the entrepreneurship and the projects that bring the greatest benefit to the stakeholders, i.e. it takes into account the impact of their activities on the economic and social development.
- 5) The principle of responsibility to employees. The Fund seeks to provide jobs with competitive salaries and social guarantees, providing safe and comfortable working conditions. The Fund adheres to the norms of social and labor relations and promotes comprehensive professional development and training.

307

WOMEN WITH DISABILITIES

In 2017, as part of the project "Supporting female entrepreneurs with disabilities," 307 women with disabilities were trained, of whom 45 found jobs and five started their own businesses.

249

ENTREPRENEURS WITH DISABILITIES

In 2017, 226 applications were submitted through the Program's website, of which 249 entrepreneurs with disabilities received sponsorship and charity support.

When evaluating its CSR performance, the Fund is guided by economic and human resources indicators.

CSR performance in 2017

No.	Item	Results
Economic indicators		
1.	The sum in the Fund's budget for sponsorship / charity	No costs incurred in 2017
2.	Number of participants in training programs	5,578 persons
3.	Percentage of training program participants, who started their own business	5.1%
4.	Entrepreneur satisfaction with training	99.6%
5.	Number of clients who used distance services	63,829 persons
6.	Number of entrepreneurs with disabilities, who received support through Damu-Komek program	249 persons
7.	Share of local content in the Fund's procurement	75%
Human resources indicators		
1.	Employee engagement (emotional)	88%
2.	Employee engagement (practical)	72%
3.	Employee satisfaction	63%
4.	Aggregated engagement and satisfaction	75%
5.	Number of the Fund's employees who took training	The Fund's employees were trained 632 times by attending 47 workshops

Kazakhstani suppliers are among the stakeholders, and the Foundation is actively working to increase the percentage of local content in the procurement. In 2017, local content made up 75% of the Fund's procurement.

The Fund developed Damu-Komek Project providing the necessary assistance to people with disabilities in order to encourage them to become

entrepreneurs and improve their legal and business literacy to foster further employment.

The purpose of Damu-Komek Project is to provide support to entrepreneurs and people with disabilities by raising public awareness of the challenges facing them and the resources they need (financial aid, property, consulting, other services) through a special website www.damu-komek.kz. The Fund does not provide financing

but acts as a link between entrepreneurs with disabilities and potential sponsors and lenders. In 2017, 226 applications were submitted through the Program's website, of which 249 entrepreneurs with disabilities received sponsorship and charity support.

Project "Supporting female entrepreneurs with disabilities" is underway. As part of this project, women with disabilities take training courses and get psychological training to be prepared for job duties, and they also have an opportunity to have an internship and apply for counselling and support during employment. In addition, the project allows employers to reduce the risks of hiring a disabled person by providing them with advice and practical information.

In 2017, as part of the project "Supporting female entrepreneurs with disabilities," 307 women with disabilities took training courses, of whom 45 found jobs and five started their own business. In October 2017, 3-day training for trainers was held as part of the project "Supporting female entrepreneurs with disabilities." On September 19, 2017, Khabar TV channel started a talk show Zhana Kun for women with disabilities, and on December 20, 2017 Almaty hosted a round table on the topic: "Promoting employment, entrepreneurship and other forms of income-generating activities among socially vulnerable women."

On April 7, 2017, the Board of Directors adopted the Fund's Environmental Policy (hereinafter the Policy).

The purpose of the Policy is to enhance potential positive environmental effects and prevent or reduce negative environmental impacts in the course of preparation and implementation of programs, as well as to make sure the funded programs will facilitate sustainable development.

The objectives of the Policy are as follows:

- Reduce the potential negative environmental impacts and enhance potential positive environmental effects of the activities of the Fund;
- Encourage second tier banks/leasing companies/MFIs to develop and maintain proper environmental risk management systems;
- Take into account the interests of the public with respect to the programs' environmental impact when making decisions on the financing of the projects and their implementation.

Additionally, the Fund strives to promote efficient use of natural resources, protect the environ-

ment and facilitate socio-economic development in general.

The Policy defines the principles of and approaches to accounting and monitoring of environmental factors in the activities of the Fund.

By informing second tier banks/leasing companies/ MFIs and enforcing environmental guidelines on them, the Fund seeks to expedite measures preventing the negative environmental impact of the programs.

11

CHARITY

In 2017, the Fund arranged voluntary fund-raising for the benefit of WWII veterans and homefront workers: the proceeds were donated to the WWII Veterans Council who were transferred to the Almaty Council of WWII Veterans, Homefront Workers and Children of the War.

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ENVIRONMENTAL
PROTECTION

12

ANNUAL FINANCIAL STATEMENTS

Statement of financial condition

(KZT thous.)	December 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	44,074,930	44,027,014
Securities at fair value through profit or loss	2,659,323	6,069,581
Funds in financial institutions	225,578,278	242,464,446
Accounts receivable under subsidy programs	34,550	43,508
Loans and advances to clients	3,324,539	76,141
Investments available for sale	567,017	556,791
Fixed assets	2,497,187	2,739,107
Intangible assets	292,674	308,797
Prepayments under the current liabilities for income tax	13,721,713	11,054,657
Long-term assets for sale	1,360,967	–
Other assets	25,801,698	42,094,226
TOTAL ASSETS	319,912,876	349,434,268
LIABILITIES		
Borrowings	203,002,903	223,869,751
Liabilities under subsidy programs	3,177,338	14,341,822
Deferred tax liability	6,065,416	5,412,132
Deferred revenue and provision for credit-related commitments	5,263,531	5,263,218
Other liabilities	1,255,534	1,842,566
TOTAL LIABILITIES	218,764,722	250,729,489
EQUITY		
Shareholders' equity	72,920,273	72,920,273
Additional paid-in capital	834,527	834,527
Revaluation reserve of available-for-sale investments	70,337	61,588
Other provisions	316,430	316,430
Undistributed earnings	27,006,587	24,571,961
TOTAL EQUITY	101,148,154	98,704,779
TOTAL LIABILITIES AND EQUITY	319,912,876	349,434,268

Profit or loss and other comprehensive income statement

(KZT thous.)	2017	2016
Interest income	34,796,892	35,545,591
Interest expense	(7,629,888)	(8,772,625)
Net interest income	27,167,004	26,772,966
Provision for impairment of customers' loans and funds in financial institutions	(6,882,412)	(11,991,580)
Net interest income after loan loss provision	20,284,592	14,781,386
Fee income	4,158,138	2,784,928
Loss minus gain from financial derivative transactions	(12,492,609)	(7,776,854)
Gain minus loss on revaluation of securities held at fair value through profit or loss	292,507	343,775
Gain minus loss on foreign currency transactions	17,032	(57,851)
Gain minus loss on foreign currency revaluation	2,140,311	2,092,262
Net loss arising from the initial recognition of financial instruments at below-market rates	(4,278,421)	–
Provision for impairment of other assets	(34,850)	(5,103)
Recovery of provision for credit-related liabilities	207,212	283,234
Recovery of provision for impairment of available-for-sale investments	–	103,797
Recovery of provision for impairment of investments held to maturity	183,337	–
Other operating income	40,818	51,657
General and administrative expenses	(5,311,830)	(5,157,061)
Earnings before tax	5,206,237	7,444,170
Income tax expenses	(1,093,393)	(1,850,874)
PROFIT FOR THE YEAR	4,112,844	5,593,296
Other comprehensive income / (loss) for the year:		
<i>Items that may be reclassified subsequently to profit and loss:</i>		
Investments available for sale:		
– Income minus loss for the year	8,749	42,166
– Loss minus income reclassified to profit or loss due to retirement or devaluation	–	(103,797)
Other comprehensive income / (loss) for the year:	8,749	(61,631)
TOTAL AGGREGATE INCOME FOR THE YEAR	4,121,593	5,531,665

Statement of changes in equity

(thous. KZT)	Shareholders' equity	Additional paid-in capital	Provision for available-for-sale investments	Other provisions	Undistributed earnings	Total
Balance as of January 1, 2016	72,920,273	834,527	123,219	316,430	20,978,740	95,173,189
Profit for the year	–	–	–	–	5,593,296	5,593,296
Other aggregate loss	–	–	(61,631)	–	–	(61,631)
Total aggregate (loss)/income for the year	–	–	(61,631)	–	5,593,296	5,531,665
Dividends paid	–	–	–	–	(2,000,075)	(2,000,075)
Balance as of December 31, 2016	72,920,273	834,527	61,588	316,430	24,571,961	98,704,779
Profit for the year	–	–	–	–	4,112,844	4,112,844
Other aggregate income	–	–	8,749	–	–	8,749
Total income for the year	–	–	8,749	–	4,112,844	4,121,593
Dividends paid	–	–	–	–	(1,678,218)	(1,678,218)
Balance as of December 31, 2017	72,920,273	834,527	70,337	316,430	27,006,587	101,148,154

Cash flow statement

(KZT thous.)	2017	2016
Statement of cash flow from operating activities:		
Interest received	13,855,520	21,318,878
Interest paid	(3,383,249)	(4,268,908)
Fees received	3,941,384	4,199,835
Income from financial derivative transactions	4,702,293	–
Revenues from other operating activities	894,000	91,867
Labor costs, paid	(1,876,279)	(1,774,666)
General and administrative costs, paid	(4,012,811)	(4,865,365)
Cash received from operating activities prior to changes in operating assets and liabilities	14,120,858	14,701,641
<i>Net decrease/(increase) in:</i>		
– securities held at fair value through profit or loss	3,808,000	779,741
– funds in financial institutions	6,854,215	10,405,411
– loans and advances to clients	8,618,886	493,822

(KZT thous.)	2017	2016
– other assets	(2,820,108)	(1,464,409)
<i>Net (decrease)/increase in:</i>		
– other financial commitments	(10,531,427)	(918,826)
– other liabilities	(154,785)	138,404
Net cash flow from operating activities	19,895,639	24,135,784
Cash flow from investment activities		
Proceeds from sale and maturity of investment securities available for sale	–	2,000,000
Acquisition of fixed assets	(64,372)	(156,102)
Loss on disposal of fixed assets	1,499	425,233
Acquisition of intangible assets	(97,363)	(130,432)
Net cash flow from / (used in) investment activities	(160,236)	2,138,699
Cash flow from financial activities		
Loans taken	28,969,693	9,300,000
Loans repaid	(51,909,898)	(22,777,233)
Dividends paid	(1,678,218)	(2,000,075)
Net cash used in financial activities	(24,618,423)	(15,477,308)
Effect of changes in foreign exchange rates on cash and cash equivalents	4,930,936	(23,147)
Net increase in cash and cash equivalents	47,916	10,774,028
Cash and cash equivalents at beginning of period	44,027,014	33,252,986
Cash and cash equivalents at end of period	44,074,930	44,027,014

The full set of financial statements of Damu Entrepreneurship Development Fund JSC, including the auditor's report, is available on the Fund's website.

RELATED-PARTY TRANSACTIONS

Parties are considered to be related if they are under joint control, or if one of them has the ability to control the other party or may exercise significant influence on the other party's financial and operating decisions. When considering the relationships with all related parties, the commercial side of such relationships should be taken into account rather than the legal form alone.

Below are the balances as of December 31, 2017 on transactions with the related parties:

(KZT thous.)	Sole shareholder	Jointly controlled companies	Associated companies	Other related parties
Cash and cash equivalents	-	-	-	18,692,460
Securities at fair value through profit or loss	-	-	-	1,479,517
Funds in financial institutions	-	-	-	-
Prepayments under the current liabilities for income tax	-	-	-	13,721,713
Other assets	-	-	8,000	62,847
Borrowings	71,948,648	-	-	58,581,573
Liabilities under subsidy programs	-	273	-	1,758,695
Deferred tax liability	-	-	-	6,065,416
Deferred income and provision on credit-related liabilities	-	-	-	-
Other liabilities	-	-	-	560,427

Income and expense items on operations with related parties as of 2017:

(KZT thous.)	Sole shareholder	Jointly controlled companies	Other related parties
Interest income	-	202,222	212,286
Interest expense	(4,468,358)	(146)	(1,186,239)
Gain minus loss on revaluation of securities held at fair value through profit or loss	-	-	330,496
Fee income	-	107,910	-
Administrative and other operating expenses	-	(6,987)	(33)
Income tax expenses	-	-	(1,093,393)

Below is information on remunerations paid to senior executives:

(KZT thous.)	2017	2016
<i>Short-term payments:</i>		
- Salaries	157,925	172,955
- Short-term bonus payments	6,829	57,125
- Non-cash payments	9,384	13,533
Total	174,138	243,613

Related-party transactions – unsecured.

Provisions for doubtful debts were not created due to lack of related parties with doubtful debts.

APPENDIX 1

NON-ARM'S LENGTH TRANSACTIONS AND LARGE TRANSACTIONS OF THE FUND IN 2017

Non-arm's length transactions

Counterparty under the contract	Contract number and date	Subject of the contract
Technopark Sary-Arka LLP	no. 37 on March 7, 2017	Acquisition of lease services for non-residential premises

Large transactions

Counterparty under the contract: Asian Development Bank

Number and date of the contract: no. 3447-KAZ of October 13, 2017

Subject: raising a loan

Essence of the contract:

1. ADB's loan amount is KZT 2 billion (equal to USD 200 million).
2. ADB's loan term is 36 months.
3. The interest rate on the loan is the sum of the following two components: ½ of the base rate of the NB RK (but not less than 7% per annum, adjusted quarterly); effective contract coverage for sovereign guaranteed loans of ADB (0.50% per annum).
4. The loan is provided under the guarantee of the Government of the Republic of Kazakhstan, so entrepreneurs could benefit from subsidized loans funded by the loan.

Date and number of the resolution of the Fund's authorized body which approved the transaction: decision no. 76 of the Board of Directors of December 20, 2016.

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