

WE SUPPORT – YOU GROW  
**ANNUAL REPORT • 2018**

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



THE END OF 2018,  
THE CONTRIBUTION  
OF SMALL AND MEDIUM-  
SIZED BUSINESSES IN THE  
COUNTRY'S GDP WAS OVER  
**28%**

## Ladies and gentlemen!

In 2018, the Damu Entrepreneurship Development Fund JSC (hereinafter referred to as "Fund") successfully continued the process of implementing business support programs and demonstrated a high level of business process management.

First President of Kazakhstan, Elbasy N.A. Nazarbayev set a strategic task – to ensure the contribution of small and medium-sized businesses in a GDP of 50 % by 2050. In his turn, the President of the Republic of Kazakhstan K.K. Tokayev pronounced a medium-term outlook – 35–40 % by 2025.

We are confident that our potential will allow us to accomplish these tasks. Suffice to say that by the end of 2018, according to preliminary information the contribution of small and medium-sized businesses in the country's GDP was over 28 % and the total output of companies amounted to KZT26.5 trillion.

In addition, actual small and medium-sized businesses (1.2 million) employ more than 3.2 million people, which makes up 37 % of the employed population of the country. One of the effective tools for integrated

support of entrepreneurship in Kazakhstan is the State Program for Support and Business Development "Business Road Map 2020", which provides opportunities for entrepreneurs to receive support in the form of subsidizing interest rates on loans/leasing transactions, partial credit guarantees, and business support services.

Within the framework of improving the qualifications of labor forces, development of mass entrepreneurship and involvement of the self-employed and the unemployed in full and productive employment, the State Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021 "Enbek", which provides entrepreneurs with concessional financing, is being successfully implemented.

Work is continuing in connection with the implementation of the Housing Construction Program "Nurly Jer", which envisages the introduction of new approaches to stimulating housing construction in order to increase the affordability of housing for the public as well as close coordination with existing programs in the field of housing. In the framework of a Joint Project of United Nations Development Program, Global Environment Facility and the Government

IN THE WORLD BANK'S DOING BUSINESS RATING,  
KAZAKHSTAN IS RANKED **28th** AMONG **190** COUNTRIES  
ON THE EASE OF DOING BUSINESS

of the Republic of Kazakhstan "Sustainable Cities for Low-Carbon Development in Kazakhstan", the financing tool for investment projects in the field of energy conservation has been developed.

In accordance with the state program "Digital Kazakhstan", specific work has been carried out on the digitization of systemically important enterprises, automation of the Fund's business processes and digitalization of state support measures for small and medium-sized businesses.

The ongoing reforms to improve the business climate in the country are positively assessed by international experts. In the World Bank's Doing Business rating, Kazakhstan is ranked 28th among 190 countries on the ease of doing business. In comparison with 2017, Kazakhstan rose by 8 positions (from the 36th place) and outranked such countries as Switzerland, the Russian Federation, France, China, Japan, and others.

The Fund focuses in particular on studying international experience in the field of support and development of small and medium-sized businesses with a view to applying best international practices. Employees' training abroad allows the staff of the Fund

to maintain a high level of professionalism. In this regard, the Fund has reached agreements with the Korean KOSME, Polish PARP, Turkish KOSGEB and other leading foreign organizations supporting the business.

I am confident that the objectives set for the Fund to expand the financial and information support for small and medium-sized businesses will contribute to the further

development of the strong business sector in Kazakhstan.

First Deputy Prime Minister  
of the Republic of Kazakhstan  
Minister of Finance  
of the Republic of Kazakhstan  
Chairman of the Board of Directors  
Damu Entrepreneurship Development Fund JSC  
Smailov A.A.

ACTUAL SMALL  
AND MEDIUM-SIZED BUSINESSES  
EMPLOY MORE THAN  
**3,2**  
MILLION PEOPLE

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



IN 2018 MORE THAN  
22 THOUSAND  
ENTREPRENEURS RECEIVED  
SUPPORT UNDER THE  
FUND'S PROGRAMS  
IN THE AMOUNT OF  
**KZT 536.8**  
BILLION

## Ladies and gentlemen!

The year 2018 distinguished itself through sound events that were aimed at providing comprehensive support for domestic entrepreneurship, as well as at the creation of a climate favorable to business and foreign investment.

Improving support tools that provide simplified access to government support programs through second-tier banks and financial institutions and help promote the process of issuing loans for the development of micro and small businesses is one of the strategic objectives of the Fund.

In this regard, we have improved the conditions of support programs that allow introducing a floating loan rate, shortening the time frame for reviewing projects and providing the right to consider small projects without the participation of regional coordination councils.

In addition, uniform standards for the consideration of loan applications have been introduced, and lending procedures and a package of required documents have been optimized. Work was carried out on the introduction of new successful tools to support small and medium-sized businesses across borders, which contribute to the opening of additional opportunities for Kazakhstan's business in foreign markets.

Automation and optimization of public services provided by the Fund made the decision-making process on applications more transparent for entrepreneurs, increased the availability of services, reduced the time needed to provide services and the costs of collecting documents. In 2018, more than 22 thousand entrepreneurs received support under the Fund's programs in the amount of KZT536.8 billion. The Fund issued about two thousand guarantees for loans extended to entrepreneurs, for the total amount of KZT 65 billion, twice as many as in the previous year.

In 2018, the works for the automation of services were carried out with the further placement of other Fund's services on the E-Government Portal, which allows you to apply for guarantees in the framework of the State Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021 "Enbek". Following the results of 2018, since the beginning of the program, 1,764 borrowers were funded in the amount of KZT 19.3 billion.

1,470 loan projects for a total value of KZT 198.4 billion received subsidies for loan commission under the State Business Support and Development Program "Business Road Map 2020".

During the implementation of the Nurdy Jer housing construction program, the Fund has

provided the incentives for the private construction activity through subsidies on loan interest to entrepreneurs who are engaged in housing construction, thus reducing the cost of square meters of floor area for end-users. In 2018, Regional Coordination Councils approved 41 loan projects for a total value of KZT 28.4 billion.

Along with the state programs, through collaboration and the synergy of the Akimat of the Mangystau region, the Fund and corporate business, entrepreneurs of the Mangystau region were able to receive loans for the implementation of their projects and, thanks to subsidies, the preferential annual interest rate of 1% was provided. This project was the only one of its kind and provided the most favorable conditions for small and medium businesses. 42 loan projects for a total amount of KZT 818.87 million have been approved. It is expected that 410 new jobs will be created following the approved projects.

In 2018, the Fund continued to attract preferential funds from international financial organizations. In 2018, KZT 67.1 billion of investments was attracted. In 2018, our long-time business partners – the Asian Development Bank and the European Bank for Reconstruction and Development allocated KZT 34.1 billion to finance female entrepreneurship, micro, small and medium-sized businesses in Kazakhstan.

In addition, during the implementation of the Joint Project of the Government, UNDP and the GEF ‘Sustainable Cities for Low-Carbon Development in Kazakhstan’, a mechanism is being implemented to encourage investment in the energy efficiency of urban infrastructure by attracting funds from the GEF Grant of USD 3.0 million, under which the Fund undertakes the responsibilities of

the Grant Manager providing loan guarantees and interest rate subsidies for projects. During 2018, 68 grant projects totaling KZT 4.8 billion were approved.

The Fund has launched a new line of activities directed towards the introduction to Islamic Banking and Finance. In the past year, in partnership with the Islamic Corporation for the Development of the Private Sector (ICD), prerequisites for raising funds in the amount of up to USD 40 million were negotiated. The attracted funds are planned to be forwarded to the small and medium-sized businesses through Islamic financial instruments.

For 2019, the Fund has identified several key strategic goals: to promote growth in vibrant small and medium-sized businesses; to optimize programs to ensure greater access for microenterprises, including the gradual introduction of credit technologies and their digitization. So, for example, in order to support micro-enterprises within the framework of direct financing of Microfinance Organizations, the organizational structure of the Fund was modified and the Apex Department was created. The main tasks of the Apex Department are: the effective channeling of funds to micro and small businesses through Microfinance Organizations and the expansion of funding instruments range for Microfinance Organizations.

Along with this, within the framework of the so-called “simple things economy” and the program for allocation of the long-term tenge liquidity, initiated by Elbasy Nursultan Nazarbayev, the Fund will act as a financial agency.

The Fund also aims to attract additional non-state funds for the financing of mi-

cro, small and medium businesses. Possible non-state sources of financing include loans from international financial institutions, raising funds through issuing bonds, as well as corporate business funds. Sustainable institutional development of the Fund will be achieved through the automation of business processes, improving corporate governance and reaching the target of financial performance.

## ENBEK PROGRAM FUNDED

# 1764

## BORROWERS

Summarizing the above, I would like to note that the cohesive team of the Damu Entrepreneurship Development Fund JSC will continue professional work in providing support to the business with maximum effect in order to increase the entrepreneurial potential and the share of small and medium-sized businesses in the economy of Kazakhstan. The Fund also expresses its gratitude to partners and all interested parties for effective joint work. I am confident that in 2019 we will make further important progress on the development of domestic business.

Chairman of the Management Board  
DAMU Entrepreneurship  
Development Fund JSC  
Buribayeva G.A.

# SIGNIFICANT CORPORATE EVENTS IN 2018

1

Guarantee of Fund to the amount of USD 45 mln was provided to European Bank for Reconstruction and Development to perform obligations of the “Bank CenterCredit” JSC on the financing of small and medium enterprises and female entrepreneurs.

45  
USD MLN

347  
COMPANIES

2

On May 5–7, 2018, an annual exhibition of Kazakhstani manufacturers, which received government support “ULTTYQ ÓNIM” (hereinafter – the Exhibition), was held at “Korme” exhibition center, Astana c. The number of participants at the Exhibition was 347 companies that received government support, the number of visitors exceeded 8 000 people.

3

Pursuant to paragraph 117 of Assigning control over implemenetation of Activity Plan of the Republic of Kazakhstan for 2018 approved by order of the Prime Minister of the Republic of Kazakhstan as amended in accordance with order of the Prime Minister of the Republic of Kazakhstan dated March 30, 2018 No 35-p, as well as pursuant to paragraph 18 of the Action Plan for 2017–2019 for implementation of the Development Strategy of DAMU Entrepreneurship Development Fund JSC for 2014–2023, the Apex Department was established on November 2, 2018. The activities of the Apex Department are aimed at institutional development and financing of microfinance companies out of own funds and through raising credit lines of international financial institutions, which are currently an important funding source for business initiatives of micro and small enterprises.

4

On November 7, 2018, the Department for Administration of Financial Support Tools, which aims at conduct of administration (maintenance) activities of financial support tools (subsidies /guarantees / grant funding / program tools of conditional allocation of funds in second-tier banks, leasing companies, microfinance companies and institutions carrying out certain types of bank transactions). This activity was previously carried out by the Department of Program Tools and Subsidies Department. Thus, in order to avoid the conflict of interest, supervisory control over the Department for Administration of Financial Support Tools, Department of Program Tools and Subsidies Department is imposed on various members of the Management Board.

5

On December 21, 2018, Fund made a complete early repayment of loan funds to the Asian Development Bank, as part 2 and 3 tranches in the amount of USD 132.5 mln.

16

KZT BLN

6

In December 2018, Fund raised a bond loan by issue and allocation of bonds to the amount of KZT 16 bln at the market of "Kazakhstan Stock Exchange" JSC.

8,4

KZT BLN

7

In order to implement the Development Strategy of DAMU Entrepreneurship Development Fund JSC for 2014–2023 "Microfinance Organization KMF" JSC was included as participant of the Project for promoting sustainability of financing micro, small and medium-sized businesses: "Financing of micro, small and medium-sized businesses through second-tier banks and microfinance companies at the expense of the Asian Development Bank", implemented by Fund jointly with the Asian Development Bank. As part of the cooperation, KZT 5.87 bln was allocated to "Microfinance Organization KMF" LLP for lending to projects of micro and small businesses. During 2018, taking into account revolving disbursements, a total of KZT 8.4 bln of microcredits was provided to 13,205 borrowers.

8

At the end of 2018, two new programs of conditional allocation of funds were launched:

financing of second-tier banks for subsequent lending to small and middle-sized businesses carrying out entrepreneurial activity in the field of e-commerce, digital platforms, and their ecosystems;

financing of credit associations for subsequent lending to micro and small businesses.

9

In 2018, active programs of conditional allocation of funds were reoriented as part of work of Fund on optimization of the terms of programs of conditional allocation of funds to ensure greater access of micro/small businesses to the Fund's programs and diversification of the Fund's loan risks (such as Damu-Regions 3, Damu-Micro, Damu-Leasing programs, the State Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021 "Enbek").

10

In 2018, as part of the "Agency Network" project, Agreements for Cooperation were signed with "Eurasian Bank" JSC, "Capital Bank" JSC, "Alfa Bank" JSC and "RBK Bank" JSC.

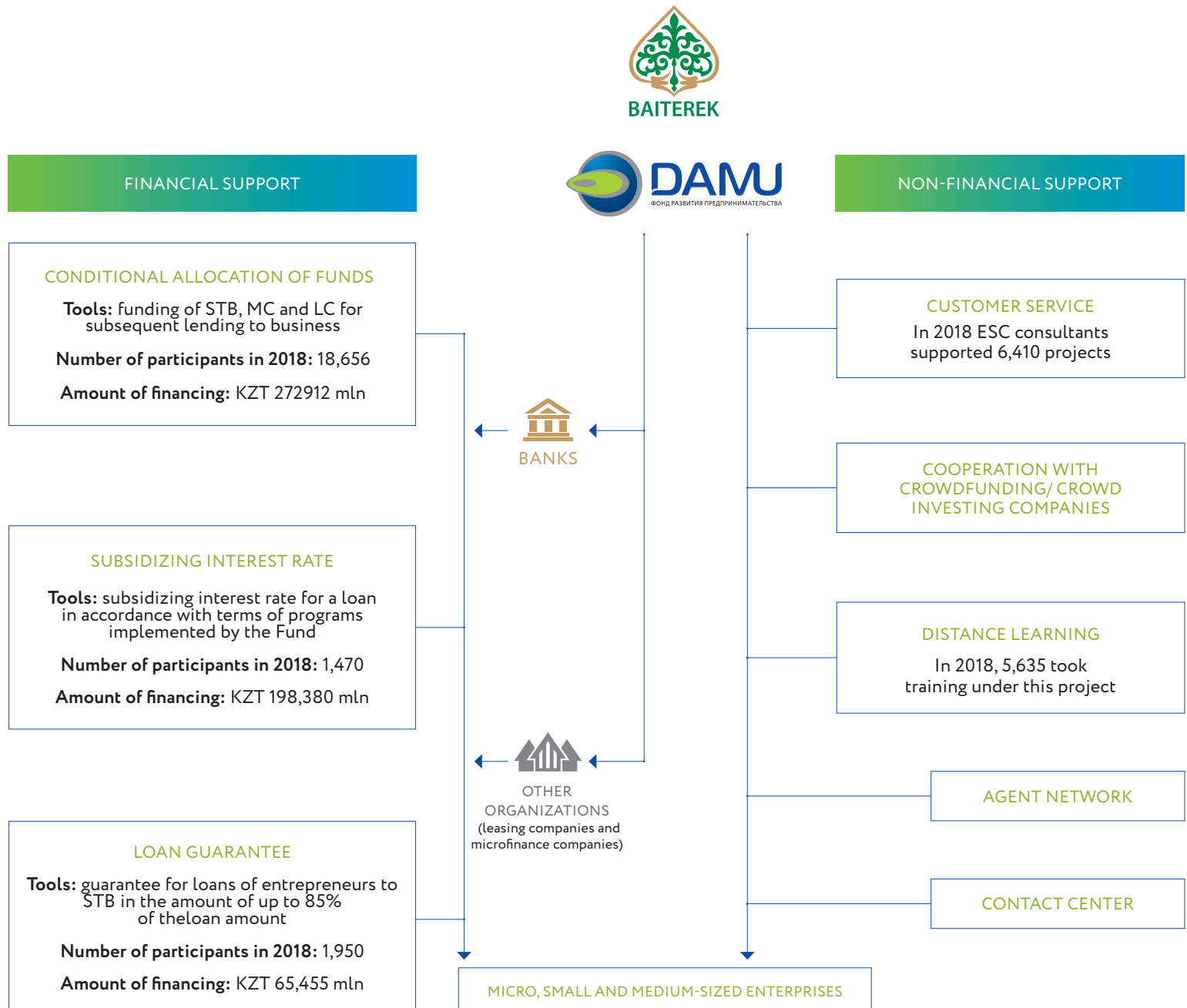


# 1 ABOUT THE FUND



Fund 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 (hereinafter – the STB), microfinance companies (hereinafter – the MC), leasing companies (hereinafter – the LC), subsidized interest rates, loan guarantees, consulting, providing information and analytical materials.



## 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.

*Almaty city, "Industrial Complex "Aurora" LLP.  
The project for the production of household chemicals,  
disinfectants and detergents.  
The company has received governmental support  
in accordance with the SME Manufacturing Support  
Program, covered by the National Fund of the Republic  
of Kazakhstan*

# GEOGRAPHY OF OPERATIONS

The Fund operates in all the regions of Kazakhstan. The regional network consists of 16 branches in all regional centers as well as in the cities of Nur-Sultan and Almaty. In addition, the entrepreneur support infrastructure includes 18 Entrepreneur Service Centers and 14 Mobile business support centers.



■ 18 ENTREPRENEUR SERVICE CENTERS  
(in all regional centers, Nur-Sultan, Almaty,  
Semey cities)



■ 14 MOBILE BUSINESS  
SUPPORT CENTERS

IN 2018:

25 347 CUSTOMERS

34 603 CONSULTANTS

# MISSION, VISION OF THE FUND

## 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 (hereinafter – 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 the 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 more than 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

Strategic directions	Strategic goals
Support and development of first-time and experienced entrepreneurs	<ul style="list-style-type: none"><li>• Increase lending to micro-businesses, development, and implementation of tools to support MC and credit associations</li><li>• Extend the reach of the existing MSME financial support programs</li><li>• Ensure greater business efficiency of supported MSMEs</li></ul>
Sustainable institutional development of the Fund	<ul style="list-style-type: none"><li>• Attract additional sources of funding.</li><li>• Achieve financial performance targets.</li><li>• Automate business processes.</li><li>• Raise the standards of corporate governance</li></ul>

The Development Strategy of DAMU Entrepreneurship Development Fund JSC was approved by the decision of the Board of Directors dated July 3, 2017





Nur-Sultan city, "Start- up of the bilingual children's club", IE Ukubayeva Aigul Kurmangaliyeva. Project for the start-up of the bilingual children's club. The company has received support through the guarantee instrument in the framework of the 2020 BRM



# 2 SME SECTOR OVERVIEW IN KAZAKHSTAN. MARKET OUTLOOK



In 2018, the number of registered small and medium-sized enterprises (hereinafter - the SMEs) in Kazakhstan rose 1.8% to 1,569 thous. entities. They currently account for 96.7% of all business entities operating in the country. Industry-wise, the largest growth occurred in the past year in Power Supply, Education, Mining Industry, Services, Art and Entertainment sectors. Reduction in the number of registered SMEs occurred in Transport and Warehousing, Trade. (Graphic 1)

The number of active entrepreneurs rose by 8.3 %.



According to the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, as of the end of 2018, there were 8,704 thous. employed individuals in the country.

At the same time, as of January 1, 2019, SMEs employed 3,268 thous. people (37.5% of the employed population). Compared to the previous year, SME employment rose 0.9%. (Graphic 2)

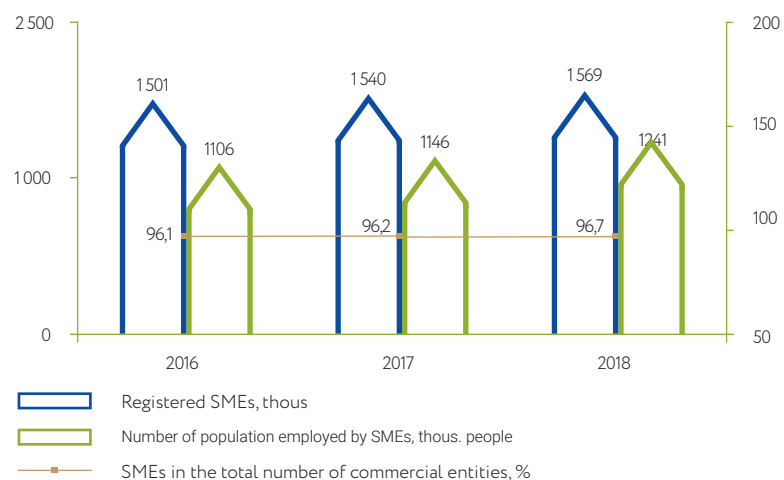
During the recent seven years, Kazakhstan's GDP in real terms has been growing steadily. In 2018, Kazakhstan's GDP grew 3.9% reaching KZT 58,786 bln. Goods account for 38.3% of GDP (including 28.7% for Manufacturing), while Services and Product Taxes account for 54.4% and 7.3% respectively.

According to the Statistics Committee of the Ministry of National Economy, in 2018, SME output was valued at KZT 26,490 bln. This is a year-on-year increase of 7.5% (at basic prices). In 2018, SMEs accounted for 68.8% of the products produced, medium-sized enterprises made up 19.6%, while sole proprietors and farms accounted for 11.6%.

The gross value added of SMEs in GDP in 2018 was 28.9% (Graphic 3).

Graphic 1

## NUMBER OF REGISTERED SMEs IN KAZAKHSTAN



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

Graphic 2

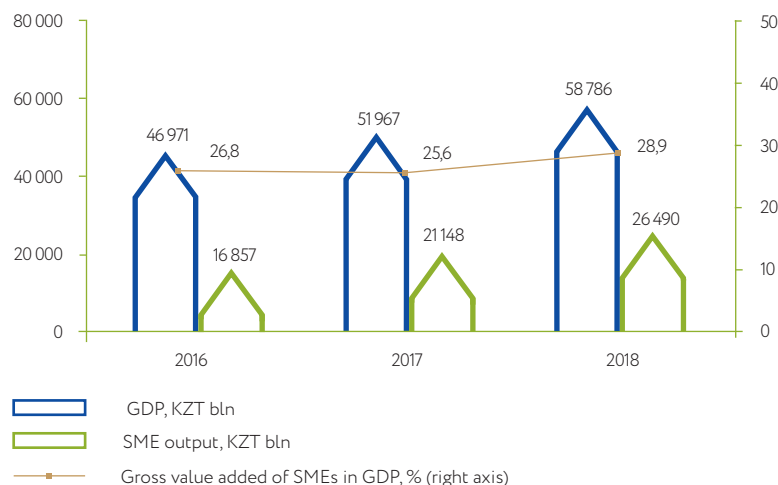
## DYNAMICS OF EMPLOYED POPULATION IN KAZAKHSTAN



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

Graphic 3

## 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](http://www.stat.gov.kz)).

## Loans to entrepreneurs and the Fund's share in lending

Overall, bank lending in 2018 increased 24.4 % up to KZT 13.5 bln, loans issued for business-related purposes also show a significant growth of 23.6%, lending to small business entrepreneurship – a growth of 14.0%. (Graphic 4)



Graphic 4

## LENDING TO ECONOMY AND SMALL BUSINESSES



Source: National Bank of the Republic of Kazakhstan ([www.nationalbank.kz](http://www.nationalbank.kz))

In 2018, Fund continued to implement its programs of conditional allocation of funds to STB, LC and MC, providing subsidized interest rates to entrepreneurs and loan guarantees.

Overall, in the past year, private entities participating in the Fund's programs received KZT 495 bln in loans. Loans issued by the Fund make up just 5% 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 STB.

Looking at the priority sectors of the economy alone, we will see that the Fund's contribution has decreased to 10.4%, which is 6.2 points lower compared to the previous year. (Graphic 5)

The Fund's share of loans in the Processing sector fell from 17.2 % in 2017 to 14% in 2018. At the same time, we will see that loans provided by the Fund in the Processing sector increased by KZT 5 bln compared to 2017.

Decrease in percentage of the Fund's loans in priority sectors and the Processing sectors is due to completed use of funds allocated under the framework of programs to support SMEs in the Processing sectors out of the funds of the National Fund in 2014-2015 and change in the Development Strategy of the Fund towards increase in the number of supported micro and small businesses. (Graphic 6)

Along with financial support programs in 2018, the Fund continued a large-scale campaign offering training and advice to entrepreneurs.

In 2018, as part of the project "Remote Support for Entrepreneurs" based on edu.damu.kz web platform, training was provided to 7,219 individuals.

At the end of the reporting period, there were 2,949 entrepreneurs (including 424 individuals in 2018), who took "SME Top Management Training" course as part of 2020 Business Road Map Entrepreneurship Support and Development State Program (hereinafter – 2020 BRM).

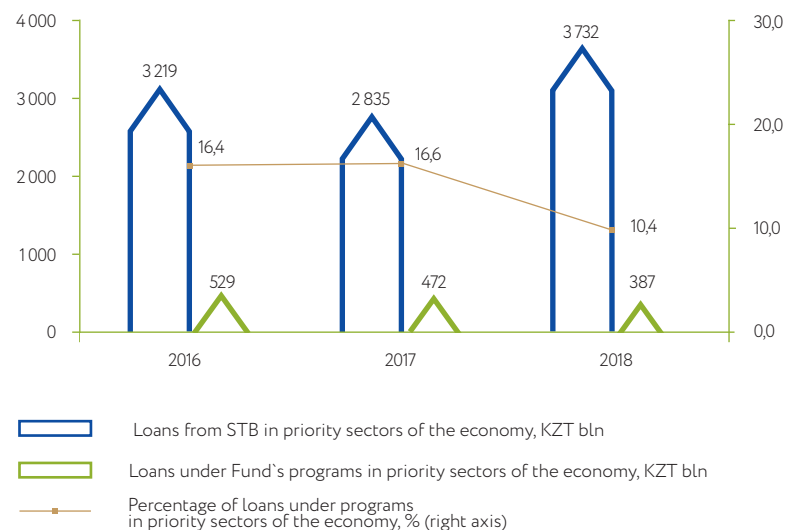


In 2018, 18 Entrepreneur Service Centers and 14 Mobile business support centers had 25.3 thous. visitor, who received more than 34.6 consultations.

At the end of 2018, Entrepreneur Service Centers facilitated 6,410 projects up until the moment when SME applications for joining the Fund's program were approved by a particular STB/LC/MC.

Graphic 5

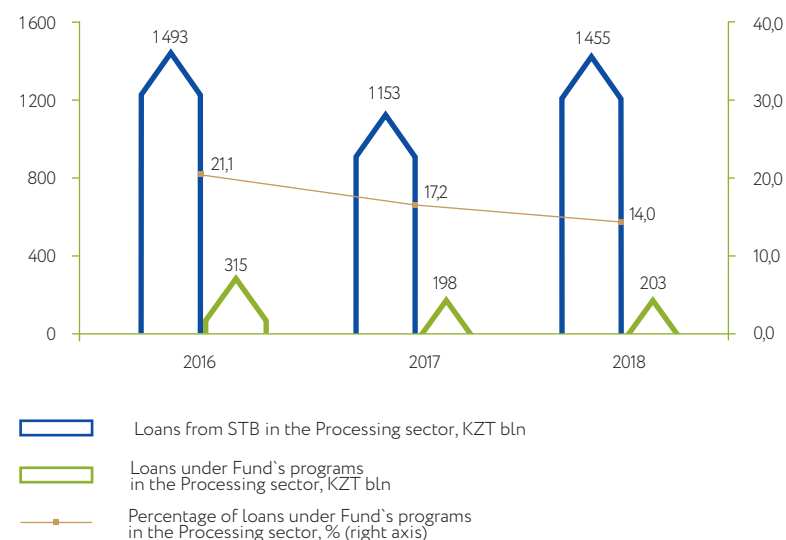
## LOANS FOR PROJECTS IN PRIORITY SECTORS OF THE ECONOMY



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

Graphic 6

## LOANS FOR PROJECTS IN THE PROCESSING SECTOR



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



## ECONOMIC OUTLOOK AND SMES IN KAZAKHSTAN FOR 2019

According to the Ministry of National Economy, in the period from 2019 to 2023 Kazakhstan's economy will show annual growth of 3.9 – 4.6%. The Ministry also expects a 3.9% annual economic growth in 2019.

Kazakhstan's economy will be growing against the background of the moderate growth rates of the global economy, a gradual increase in demand and moderate raw

commodity prices. At the same time, steady and progressive economic dynamics are expected due to a higher increase in gross capital formation, moderate and sustainable growth of household spending and net exports. One of the important growth factors is the increase in exports of goods and services. After adaptation of the economy to low world prices for oil and metals in 2019–2023, the dynamics of exports of goods and

services will maintain the trajectory of favorable growth due to the implementation of the export strategy of the country.

The monetary policy in 2019–2023 will have a favorable impact on promoting growth of the investment market and lending by STB. For the coming period, it is expected to grow 7.9%, per annum on average, in nominal terms it will increase from KZT 15.2 bln in 2019 to KZT 20.6 bln in 2023. Personal savings accounts in the same period will grow at 8.1% and make up KZT 28.8 bln in 2023. Money supply will



Shymkent city, Factory S.J.SAMRUK. Men's suits sewing project.  
The company has received support through the guarantee instrument in the framework of the 2020 BRM



be commensurate with economic growth, overall, planned monetization value will be within 37.3 %. In the forecast period, it is planned that inflation will decrease to 3.0–4.0 % in 2020–2023.

Advanced growth of investment will be facilitated by the implementation of the following measures of the Government of the Republic of Kazakhstan:

- Project management initiatives aimed at reduction of business-related cost, increase of labor productivity, increase in added value through operative and effective management of projects and optimum use of raised investment funds;
- measures for lending to small and medi-

um-sized enterprises aimed at expansion of investment opportunities of a specified group of enterprises in the processing and agricultural sectors as well as services;

- new social initiatives providing for increased access to purchasing of accommodation and higher education through greater investments in these spheres;
- effective mechanisms of public-private partnership through the creation of attractive conditions for the investment of private capital including debt capital, in infrastructure construction.

At the regional level, a set of measures will be adopted to develop mass entrepreneurship, reduce all types of business costs. Ease of do-

ing business rating will be introduced for cities and regions with the creation of special award.

Under the framework of the 2020 BRM, 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.



*Atyrau region, "TransTech International" LLP. Bakery and pasta production project, "Daulet Nan" bread production plant. The company has received governmental support in accordance with the SME Manufacturing Support Program, covered by the National Fund of the Republic of Kazakhstan*



# 3 MAIN ACTIVITIES GOALS FOR FUTURE PERIODS



## CONDITIONAL ALLOCATION OF FUNDS

In 2018, loans for a total of KZT 273 bln were provided to 18,656 borrowers through the conditional allocation of funds to STB, MC and LC.

In 2018, a total of KZT 64.7 bln was deposited into STB and financial institutions under conditional allocation programs/ products, including KZT 6.9 bln in MC.

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.

## ATTRACTION AND ALLOCATION OF FUNDS OF INTERNATIONAL FINANCIAL INSTITUTIONS

Under the agreement concluded with the Asian Development Bank on October 13, 2017 for opening of credit line to the amount of KZT 72 bln against government guarantee for financing of micro, small, medium-sized enterprises through STB and MC, the Fund raised KZT 31.9 bln taking into account unallocated funds of the previous year, the funds of the Asian Development Bank to the total amount of KZT 25.4 bln were allocated in STB/MC. In 2018, financing for a total of KZT 39.5 bln 13,511 was provided to micro, small, medium-sized enterprises under the program, taking into account revolving disbursements on earlier allocated funds as part of this program.

Also, in 2018, funds to the amount of KZT 10.3 bln were obtained from the European Bank for Reconstruction and Development for the economy of Kazakhstan against the guarantee of the Fund for “Kassa Nova Bank” JSC and “Bank CentrCredit” JSC. In 2018, a total of KZT 16 bln was provided to 2,176 small and medium-sized enterprises under the program, taking into account revolving disbursements on earlier allocated funds within the framework of this program.

## ATTRACTION AND ALLOCATION OF BUDGET FUNDS

In 2018, the Fund continued to implement the State Program for the Development of Productive Employment and Mass Entrepreneurship for 2017–2021 “Enbek” (hereinafter – Enbek program), as part of which a total of KZT 13.95 bln was raised from the regional budgets, of which KZT 14.6 bln were allocated in 9 STB/ MC (taking into account unallocated funds of 2017). In 2018, 1,295 micro, small, medium-sized enterprises were financed to the total amount of KZT 15.4 bln, taking into account revolving disbursements on earlier allocated funds within the framework of this program.

In 2018, the Fund continued to implement the Regional SME Financing Program on co-financing terms with the money of the regional budgets. Thus, in 2018, a total of KZT 3.07 bln of public funds were raised from 6 Governors’ offices and deposited into STB on co-financing terms with the money of Samruk Kazyna Sovereign Wealth Fund JSC and Fund’s own funds totaling KZT 8.3 bln. In 2018, within the framework of the program, a total of KZT 21.5 bln were lent to 489 small, medium-sized enterprises, including revolving disbursements related to the funds earlier provided under this program.

## In accordance with the Fund’s Strategy, the following activities were held in 2018:

- 1) developed a tool for conditional allocation of funds in STB for subsequent financing of SMEs carrying out entrepreneurial activity in the sphere of e-commerce, digital platforms and their ecosystems;
- 2) developed a tool for conditional allocation of funds in credit associations for subsequent financing of micro and small-sized enterprises;
- 3) as part of the optimization of programs for conditional allocation of funds, revised the terms of:
  - Damu-Regions 3 programs relating to the removal of constraints on refinancing of loans to SMEs, constraints in the list of priority branches of the economy, switching the interest rate of STB and SMEs from fixed to floating;
  - product on the financing of MC for subsequent financing of micro/ small enterprises and individuals carrying out entrepreneurial activity in regard to expansion of the target sector and increase of loan term;
  - product on financing of SME leasing transactions relating to separation from the target group of micro/ small enterprises and determining conditions for their financing;
  - Enbek programs relating to inclusion in the target group of active entrepreneurs, exclusion of provision for the creation of jobs for MSMEs.





In addition, in 2018 the Fund completed all arrangements to implement SME financing tool based on the “Islamic financing” principles, which are planned to be implemented in 2019: raising funds in the amount of USD 40 bln from Islamic Corporation for the Development of the Private Sector was approved, tool implementation mechanism was identified with the National Bank of the Republic of Kazakhstan, including by issue of “Sukuk” Islamic bonds by subsidiary company(ies) of Holding (DBK-Leasing JSC), operators who will finance the SME projects on the terms and conditions stipulated by the Fund were established.

## SUBSIDIES

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 the 2020 BRM. In the course of the 2020 BRM, subsidizing loans have become popular among entrepreneurs, proving to be an effective tool for channeling loans to priority sectors of the economy.

In order to diversify the economy, increase the growth rates of production volumes, reduce the cost of manufacture of products, that is development and functioning of the processing sector, a mechanism for financing of priority projects to ensure long-term tenge liquidity was implemented: a total volume of financing of STB in 2018–2020 to support private entrepreneurs carrying out activity in the processing and agricultural sectors makes up to KZT 600 bln. At the same time, for subsidizing within this Mechanism, KZT 30 bln were provided from the Republican budget.

In 2018, the Fund provided support for subsidizing tool:

- 1) within the framework of 2020 BRM, 1,432 projects were supported to the amount of KZT 173.16 tenge worth of loans, paid subsidies made up KZT 39.9 bln;
- 2) under Nurly Zher State Program, support was provided to 32 projects to the amount of KZT 24.4 bln of loans, paid subsidies made up KZT 1.6 bln;
- 3) under the framework of Program for Support of Energy Service Initiatives in the cities of Kazakhstan “Sustainable Cities for Low-Carbon Development”, 6 projects were supported to the amount KZT 0.8 bln of loans, paid subsidies made up KZT 0.002 bln.

## GUARANTEES

In 2018, the Fund provided support on guarantee tool:

- 1) under the framework of 2020 BRM, a total KZT 48.605 tenge worth of loans was granted to 1,191 projects, the amount of guarantee made up KZT 18,857 bln;
- 2) under the framework of Enbek program, a total of KZT 5.611 bln worth of loans was granted to 488 projects; the amount of guarantee made up KZT 2.870 bln;
- 3) under the framework of Damu Optima Program, a total of KZT 11.081 bln worth of loans was granted to 265 projects, the amount of guarantee was KZT 6.584 bln;
- 4) under the framework of “Sustainable Cities for Low Carbon Development in Kazakhstan” Program for Support of Energy Service Initiatives in the cities of Kazakhstan, a total of KZT 0.158 bln was granted to 6 projects, the amount of guarantee was KZT 0.064 bln.

The following changes on guarantee tools were made to 2020 Business Road Map Entrepreneurship Support and Development Unified Program approved by the resolution of the Government of the Republic of Kazakhstan, which significantly improved the terms and simplified the process of obtaining the guarantees:

- 1) 2020 Business Road Map Entrepreneurship Support and Development Unified

Program was renamed into the 2020 Business Road Map Entrepreneurship Support and Development State Program;

2) industry-specific constraints were removed from the projects implemented within the framework of public-private partnership agreements;

3) Regional Coordination Council was excluded from the guarantee approval process;

4) guarantee can be obtained in one of the following ways;

- before contacting STB, i.e. firstly, the entrepreneur receives the Fund’s decision on provision of guarantee, after that he contacts the STB for a loan;

- after the decision is made by STB;

- within the framework of the portfolio guarantee. The Fund and the STB sign an Agreement, as part of which the STB establishes a limit for independent guarantee for loans.

5) corrections pertaining to interest rates, that specify its cut-off date were made:



“Guarantee can be provided for loans with nominal interest rate not exceeding the base interest rate of the National Bank of the Republic of Kazakhstan, increased by 5 (five) percent points at the date the decision is issued by the bank on entrepreneur’s project.”;

- 6) regardless of loan amount, all entrepreneurs can submit an electronic request for guarantee through “e-government” web portal;
- 7) form of a document that confirms registration of individual entrepreneur was refined.

Modifications were made to guarantee tool in 2020 BRM and Enbek program, which help to issue guarantees within the framework of portfolio guarantee.

Portfolio guarantee is a form of providing guarantees to entrepreneurs in the limits established by the Fund, within which STB has

the right to independently decide on granting guarantees without additional approval procedures with the Fund.

**Procedure for the portfolio guarantee is as follows:**

- 1) in accordance with procedure established by internal documents, the STB independently reviews application from entrepreneur, carries out complex expertise (financial status, collateral security) of borrower and project;
- 2) if the STB makes a positive decision to grant a loan with the Fund’s guarantee, it

sends the copies of the bank loan agreement to the Fund;

- 3) the Fund executes and signs a guarantee agreement which is sent to the STB;
- 4) STB signs the guarantee agreement, ensures its signing by entrepreneurs and sends the signed guarantee agreement to the Fund.

The use of this form of guarantee is possible in the event the Fund and the STB conclude an Agreement for portfolio guarantee, within which limit, terms and conditions of the possible guarantee are established.



*Mangystau region, Wind-Powered Generating Plant. “BEST – Group NS”. Project for the production of electricity from renewable energy sources. The company has received support through the subsidy and guarantee instruments in the framework of the 2020 BRM*

## RESULTS OF FINANCIAL PROGRAMS

	Actual 2016	Actual 2017	Target 2018	Actual 2018	% of target reached
<b>Loans granted to entrepreneurs through conditional allocation of funds to STB/ MC/ LC</b>					
Number of participants, persons	10 145	8 305	8 303	18 656	224%
Amount of financing, KZT mln	247 275	230 469	186 850	272 912	146%
<b>Subsidized interest rates</b>					
Number of participants, persons	2 121	2 310	1 156	1 470	127%
Loan amount, KZT mln	331 879	275 660	-*	198 380	100%
<b>Loan guarantees</b>					
Number of participants, persons	979	1 320	3 900	1 950	50%
Loan amount, KZT mln	27 474	42 811	-	65 455	-

\* The target is established only under the framework of Nurly Zher Residential Construction State Program in the amount of KZT 70 bln

## 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 r.	2015 r.	2016 r.	2017 r.	2018 r.
Monitoring projects under the Conditional allocation programs of the Fund (17 programs)	1 021	947	226	2 334	1 237
Monitoring projects under the Programs for supporting SMEs in the Processing sector (funding provided by the National Fund of Kazakhstan)	0	606	725	576	819
Agency agreements on monitoring projects of the Unified Accumulative Pension Fund, or UAPF (NB, DBK)	0	0	0	777	737
Monitoring of subsidized projects	1 576	1 792	3 068	2 595	1 814
Monitoring of guaranteed projects	51	440	1 170	989	1 655
Monitoring of grants	397	193	406	183	522
Total	3 045	3 978	5 595	7 454	6 784

## ACTIONS TAKEN ON WARNINGS/VIOLATIONS

Monitoring description	Number of warning/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 projects under the Conditional allocation programs of the Fund (17 programs)	24	17	61,46	5	5,96	13	590,42	7	284,9
Monitoring of projects under the Programs for supporting SMEs in the Processing sector (National Fund of Kazakhstan)	17	10	29,60	10	29,60	15	673,52	14	644,18
Monitoring of projects of the UAPF (NB, DBK)	19	Monitoring results submitted to the NB of Kazakhstan							
Monitoring of subsidized projects	21	Violations found on subsidized projects							
Monitoring of guaranteed projects	17	17 guarantees cancelled							
Monitoring of grants	58	Notification of revealed violations sent to Regional Coordinator of the Program, Competition Committee.							
Total	156	27	91,06	15	35,56	28	1 263,94	21	929,08

## MONITORING PROGRAM EFFECTIVENESS

### 2020 Business Road Map Entrepreneurship Support and Development State Program

According to forecast data of the Fund, enterprises, and entrepreneurs participating in the 2020 BRM program as of January 1, 2019, had their combined output valued at KZT 18.8 trln, including KZT 5.3 trln for 2018. (Graphic 7)

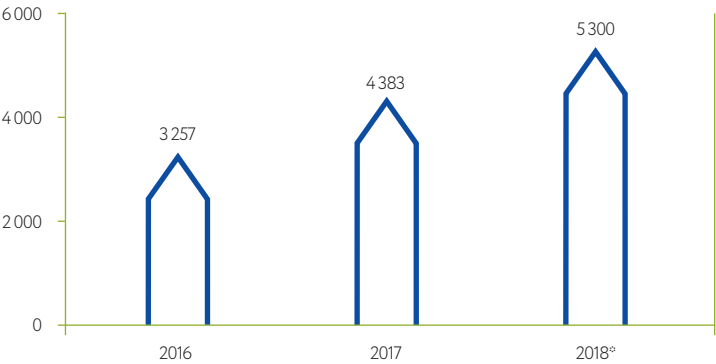
Interest rate subsidies and loan guarantees under the 2020 BRM have a positive impact on the financial performance of enterprises, especially in the current economic situation. On the other hand, thanks to better performance, the government gets more tax revenues, making the program more commercially and fiscally viable.

As of January 1, 2019, participants of 2020 BRM have paid a total of KZT 1.2 trln in taxes, including KZT 318 bln for 2018.

(Graphic 8)



Graphic 7  
PRODUCT OUTPUT BY PARTICIPANTS  
OF 2020 BUSINESS ROAD MAP, KZT BLN

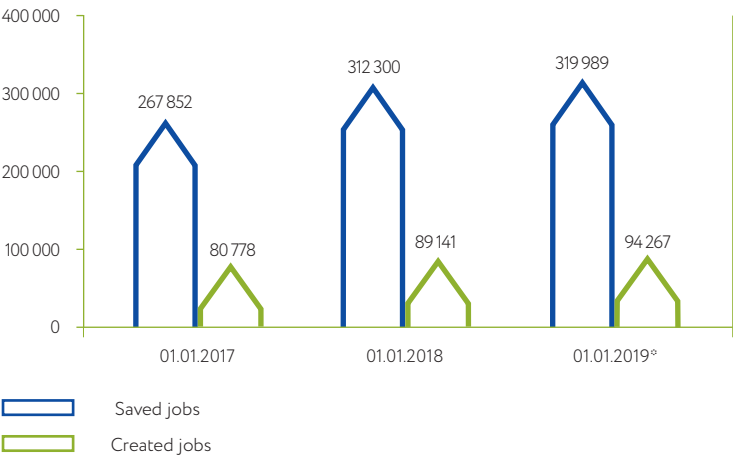


° According to preliminary data

The broad scope of the 2020 BRM and the growing interest of SMEs signify a social impact of this initiative expressed in the creation of jobs.

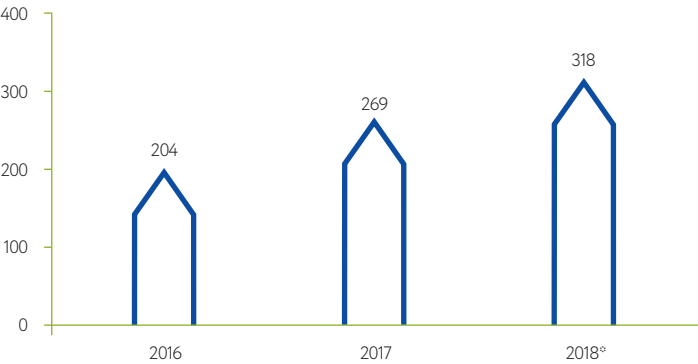
Specifically, as of January 1, 2019, participants of the 2020 BRM kept approximately 319 thous. jobs and created over 94 thous. new jobs. (Graphic 9)

Graphic 9  
NUMBER OF CREATED  
AND SAVED JOBS, UNITS



° According to preliminary data

Graphic 8  
PAID TAXES BY PARTICIPANTS OF 2020 BUSINESS  
ROAD MAP, KZT BLN



° According to preliminary data

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 forecast data of the Fund, revenue made up KZT 1,200,000 mln in 2018.

According to the preliminary estimate, entrepreneurs who received financing under this Program in 2018 paid a total of KZT 74,000 mln in taxes (and KZT 63,980 mln in taxes in 2017).

According to STB and the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan, entrepreneurs who received financing from the National Fund have created and/or intend to create 18.4 thous. new jobs (including 997 jobs in 2018), which is approximately 8 jobs per enterprise.

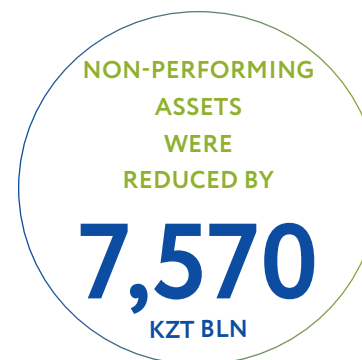
## REDUCING OF NON-PERFORMING ASSETS

As of January 1, 2018, non-performing assets totaled KZT 38.02 bln.

Structure of the Fund's non-performing assets as of January 1, 2018:

- 1) direct lending – KZT 10.12 bln (projects that received direct financing from the Fund in the form of loans or leasing contracts during 2004–2008)
- 2) other receivables – KZT 4.7 bln (receivables from financial and business activities)
- 3) Portfolio accepted from “Delta Bank” JSC (projects of end borrowers accepted by the Fund on 28.04.2017 from “Delta Bank” JSC under public-private partnership agreement) that makes up KZT 15.69 bln as of 28.04.2017, the non-performing problem part of which was KZT 6.4 bln as of 01.01.2018;
- 4) debt of “Delta Bank” JSC – KZT 6.2 bln;
- 5) debt of “Kazinvestbank” JSC – KZT 10.0 bln;
- 6) performed guarantees – KZT 0.6 bln.

Of the total volume of non-performing assets for 2018 in the amount of KZT 38.02 bln, non-performing assets were reduced by KZT 7.570 bln (overperformance of the challenge by 355 %), of which:



1) Repaid by funds KZT 6.732 bln, of them:

- KZT 5.931 bln – projects transferred from “Delta Bank” JSC (loans without collateral);
- KZT 0.466 bln – direct financing projects (KZT 365.9 mln on the direct portfolio – 207 borrowers and KZT 99.9 mln on non-performed guarantees on 57 projects);
- KZT 0.335 bln repaid on accounts receivable (KZT 147 mln from “Kazinvestbank” JSC, KZT 181 mln from “Astana Finance” JSC and other).

2) Wrote off KZT 838 mln of bad debt (on the direct financing portfolio and accounts receivable).

A total KZT 7.570 bln of bad debt (KZT 6.732 bln of funds + KZT 838 bln of write-off) was reduced in 2018, overperformance made up 355 %.  
In particular, all 16 projects transferred to “Delta Bank” JSC were repaid with funds to a total of KZT 5.931 bln without collateral.

## OUTCOME

(KZT, bln)

Nº	Non-performing asset	Target	Actual	Execution, %
1	Direct lending portfolio and receivables		1,639	
		2,131		335%
2	Portfolio taken from “DeltaBank” JSC		5,931	
	Total	2,131	7,570	

ASSET STRUCTURE

Companies where the Fund has an equity stake but does not have significant influence on their operations: MCO Econom LLP (equity KZT 12 mln, equity share – 16.6 %), MCO West Finance LLP (equity KZT 5.06 mln, equity share – 39.5 %), MCO Zhaynar LLP (equity – KZT 5.5 mln, equity share – 36.0 %). 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 dated July 20, 2016 and no. 77 dated February 24, 2017 on the elimination of the said MCOs.

In 2018, elimination of MCO ADAL-INVEST LLP was carried out by order no.1 dated 04.01.2018 of Republican State Enterpriese of the Administration of Justice of Maktaaral region, Department of Justice of South Kazakhstan region, Ministry of Justice of the Republic of Kazakhstan, elimination of MCO ADAL-INVEST LLP was registered from register of legal entities.

In 2018–2019, it is expected to complete elimination of mentioned MCOs.



West-Kazakhstan region, “KazSroyMarket” LLP. Project for the production of dry building mixes. The company has received support under the “Damu-Ondiris” Program



CUSTOMER SERVICE

In 2018, in order to improve customer service in the Entrepreneur Service Centers (hereinafter – the ESC) and increase the number of customers of the Fund as well as to exclude duplication of functions with services implemented within the framework of 2020 BRM, the Fund developed a new concept of ESC and Mobile business support centers, within which the functionality of ESC consultants was changed. Thus, in

accordance with the new concept, the main functional objective of ESC and Mobile Centers of Entrepreneur Service consultants is to support the projects of private entrepreneurs up until applications for joining the Fund's programs are approved in STB, MC and/or LC. In 2018, ESC consultants facilitated a total of 6,410 projects before approval by STB, MC and/or LC.

As part of quality improvement of provided service, CRM Sensors were installed at the desks of ESC managers, which provide the possibility for audio and video recording of consultations with customers and customer evaluation. These units enable assessment of service quality, customer's satisfaction and, if necessary, analyze the course of consultation by records. Thus, all consultations must be completed with assessment on CRM Sensor notepad. In 2018, customer satisfaction with quality of provided services was 99.5%.

To implement the Development Strategy of DAMU Entrepreneurship Development Fund JSC for 2014–2023, the Fund has implemented a feedback system at its corporate website, which helps to assess the quality of services provided to the Fund's customers, receive recommendations, reviews and proposals from customers, identify cases of abuse of official position, cases of fraud as well as to provide prompt online consultation.

Cooperation with crowdfunding/ crowdinvesting platforms.

On July 18, 2018, DAMU Entrepreneurship Development Fund JSC and "STARTTIME" LLP (start-time.kz crowdfunding platform) signed a Memorandum of Understanding and Cooperation. This cooperation offers an

opportunity for start-up and existing projects that do not have sufficient pledge or resources for start-up of new project, to publish and present the project on the platform for raising a loan and/or guarantee of the Fund and collect resources for project start-up.

### **DISTANCE LEARNING**

Distance learning within the framework of the project "Remote Support of Entrepreneurship Development" aims to encourage entrepreneurship and improve business competences of the public in regions of Kazakhstan.

The goal of distance training of first-time entrepreneurs is to give necessary knowledge on fundamentals of entrepreneurship and instill business skills so that potential entrepreneurs become interested in opportunities for opening their own businesses.

The goal of distance training of existing entrepreneurs is to deepen the knowledge and expand practical business skills, including use of marketing tools to increase sales volumes, track the results of financial and business operations and management projects as well as to improve skills on building and management of sales department.

Distance learning provides an opportunity to everyone interested to continuously improve their professional standards regardless of student location conditional only upon availability of the Internet. In the process of this training, entrepreneurs independently study educational materials in interactive mode, perform practical activities, and take tests. Upon successful completion of tests, trainees receive training completion certificates.

In 2018, this training was completed by 5,635 individuals.

### **AGENCY NETWORK**

In 2018, the Project "Agency Network of DAMU Entrepreneurship Development Fund JSC of Employees of Second-Tier Banks" was developed and implemented (hereinafter – the Project), which is aimed at material encouragement of credit managers/specialists of partner bank branches for granting loans to micro, small and medium-sized businesses using the tools for state support of entrepreneurs.

Under the terms of the Project, an amount is paid for each use of state support tool.

Under the terms of the Project, this form for encouragement of partner bank employees can be applied in the event the Fund and partner banks conclude Agreements for Cooperation under the framework of the Project.

### **MONITORING OF SERVICE SUPPORT IMPLEMENTATION AND SME TOP MANAGEMENT TRAINING**

The Fund continues to monitor the component "SME Top Management Training" and the tool "Provision of service support for existing entrepreneurial activity" under the framework of 2020 BRM.

In 2018, 424 individuals took SME Top Management Training was, service support was used by 42,845 small and medium-sized enterprises, that received 58,233 services.

## CONTACT CENTER

Also, the Fund's Contact Center continues its work – the center for processing of requests from entrepreneurs and individuals and informing them in the Fund's interests via various communication channels.

In 2018, employees of the Contact Center consulted 70,885 customers, 37,208 (52 %) of them were private entrepreneurs. 34,654 individuals registered in BPM system.

## DEVELOPMENT OF INFORMATION TECHNOLOGIES IN THE FUND

In 2018, the Fund continued to automate internal business processes. At the end of 2018, the automation level reached 92%. In particular, the following key results were achieved.



1) The action plan of Office of Internal Audit was implemented. Now, the Office of Internal Audit launches for performance and requests performance reports through Electronic Document Management System. Follow-up control was established. Previously, this process was carried out via e-mail.

2) Electronic archive module was implemented. The module is filled with scanned copies of credit dossiers of supplier's employees. In 2019, it is planned to add sections with archived orders and agreements.

3) Signing of material requisitions, certificates of acceptance and transfer of fixed assets

and management of office premises were converted to digital format. Documents are signed using electronic digital signature without use of paper records.

4) Works on automating accounting processes, such as collateralized property, raised loans, accounts payable and receivable as well as reporting, were completed. Thus, excessive paper document flow was excluded.

5) The process of separate income and expense accounting of the Fund was automated. It provides the possibility to receive data to assess the cost and profitability of programs implemented by the Fund (including out of funds received from the Republican budget), assess profitability of regional branches, information to search opportunities for optimization of resources usage, ensure completeness and thoroughness of submission of reporting according to distribution results with details necessary for management decisions.

6) Procurement activity processes were automated. Creation and approval of technical specifications for purchasing of goods, works and services, signing of agreement are performed in electronic document management system.

7) Personnel adaptation, selection, assessment and training process was automated. Need for use of paper records was excluded.

8) Project monitoring procedures were automated. The main procedures for monitoring projects of private entrepreneurs in bpm'online sales system were systematized. Capability for filling out monitoring reports when travelling to remote areas of project implementation was enabled when connected to the Internet.

9) Monitoring of key indicators of executive employees activity was automated.

10) Correspondence with external counterparties was also converted into digital format. All outgoing correspondence is signed using electronic digital signatures.

11) Subsidizing business process was automated. Currently, the entire process from submission of application to decision-making is conducted in bpm'online sales system.

12) Fund raising and allocation processes were automated.

In addition, the Fund automated submission of applications for granting loan guarantees to private businesses within the framework of 2020 BRM without limits of the amount as well as for partial subsidizing of loan interest rate.

Along with this, submission of applications for obtaining of guarantees as part of Enbek Program on Digital Baiterek digital platform of Baiterek National Managing Holding JSC was implemented.



## INTERNATIONAL COOPERATION

In 2018, the Fund continued to actively develop international contacts with international financial institutions and foreign organizations. At the level of the Fund, the management organized visits to the USA, Russian Federation, Republic of Belarus, Kingdom of Spain, People's Republic of China. Also, the representatives of the Fund visited the Republic of Poland and Republic of Tajikistan to meet with entrepreneurship development institutes.

These visits helped to update agenda of international cooperation in the field of exchange of experience and practice on entrepreneurship support measures. In particular, the Fund continued to strengthen cooperation with the Russian SME Corporation and SME Bank, Belorussian Fund for Financial Support of Entrepreneurs BELARP, Chinese Fund "Silk Way", Chinese-European Economic Cooperation Fund, Malaysian Corporation SME Corp., Korean companies SBC and KODIT, Enterprise Singapore agency, Polish PARP, Hungarian MBA, Azerbaijan's KOBIA, Japanese JICA and others.

On September 12, 2018, Road Map for cooperation was signed between DAMU Entrepreneurship Development Fund JSC and KOSGEB Small and Medium-Sized Enterprises Support and Development Organization in Ankara, under the framework of which practical training was organized for employees of the Fund in KOSGEB (Ankara, Turkey) in December 2018.

As part of attracting additional financial sources, the Fund actively interacted with international financial institutions, such as Asian Development Bank, European Bank for Reconstruction and Development, Eurasian Development Bank, Islamic Corporation for the Development of the Private Sector.

In 2018, the Fund began to develop cooperation with new potential partners: the Asian Infrastructure Investment Bank, the World Bank and the United Nations Green Climate Fund.

In order to develop innovation projects in the Republic of Kazakhstan, aimed to support start-ups, cooperation with the Polish Development Fund and Ernst&Young Poland was started in view of successful Polish experience on implementation of start-up initiatives of Startberry, Wavespace and EYnovation.

Special attention was paid to development of green financing and Islamic financing

mechanisms. Thus, in April 2018, the Fund began to implement projects jointly with the UNDP Kazakhstan under the "Sustainable Cities for Low-Carbon Development" program. Process of accreditation in the United Nations Green Climate Fund for further raising of green finance to Kazakhstan was also begun. Raising USD 40 mln was elaborated with the Islamic Corporation for the Development of the Private Sector.



East Kazakhstan region, "Shygys Universal" LLP  
Project for the processing of products and raw materials of an animal origin (fish and shellfish).  
The company has received support in the framework of the 2020 BRM



## GOALS FOR FUTURE PERIODS

In 2019, the Fund plans to implement its Policy for sustainable development, integration of the sustainable development principles in the Fund's Development Strategy and Key Processes, including planning, reporting, risk management, investments, operating activity as well as decision-making processes at all levels from authorized agencies to employees.

One of the first stages of implementing the sustainable development principles in the Fund will be conducting training on sustainable development issues for the Fund's employees, to raise awareness and improve corporate culture.

Also, in 2019 the Fund plans to complete automation of the main business processes:

- 1) development and implementation of Internet portal within the framework of Digital Damu project;
- 2) automation of Rating model in DAMU Entrepreneurship Development Fund JSC;
- 3) implementation of iDamu project (Intelligence Data Analysis Management Unification).

Core business action plan:

### Conditional allocation of funds

In 2019, the Fund plans to launch the following products in order to implement its Strategy:

- 1) it is planned to consider the experience of implementation and development of tool for subsequent financing of transactions of acquisition of intellectual property;
- 2) as part of implementation of new product for financing of SMEs carrying out entrepreneurial activity in sphere of e-commerce, digital platforms and their ecosystems, it is planned to begin to distribute the money of the Fund approximately in the amount

of KZT 1 bln. The product is aimed at further systematic support of e-commerce development due to development of electronic trade platforms;

- 3) it is planned to implement the tool for financing of SMEs based on Islamic financing principles using the funds from Islamic Corporation for the Development of the Private Sector in the amount of USD 40 mln.

In 2019, the Fund plans to carry out institutional development and financing of MC's within the Apex Department.

It is also necessary to mention the Fund's work plans for existing programs for conditional allocation of funds:

- 1) within the sales of product of conditional allocation of funds in STB and LC for financing SME leasing transactions, it is planned to allocate roughly KZT 2 bln of the Fund's resources. The product is aimed at concessional financing of micro and small business leasing transactions;
- 2) in 2019, the Fund will continue to raise funds from local management bodies (hereinafter - the LMB) for implementation of individual regional programs that provide entrepreneurs in the regions with affordable and long-term funding, and carry out the Enbek program. According to plan for 2019, a total of KZT 22 bln will be attracted further funding of financial institutions. Allocation of these funds in STB / MCs is expected in 2019;
- 3) under the framework of implementation of the Damu-Regions III Program, it is planned to continue to allocate roughly KZT 4 bln of the Fund's resources;
- 4) as part of implementing product for financing MSMEs using the loan from the Asian Development Bank through STB and MC's (4th tranche of ADB loan), it is planned to obtain the remaining open cred-

it line and allocate about KZT 40.1 bln to STB / MC.

- 5) as part of implementing the programs using the funds of the National Fund of the Republic of Kazakhstan (tranches 1,2,3), it is planned to distribute about KZT 14.6 bln previously withdrawn by the Fund from STB among STB based on the decision of the



State Commission on the modernization of the economy of the Republic of Kazakhstan. 6) also, in 2019, the Fund plans to raise funds, against its own guarantee, from the European Bank for Reconstruction and Development for lending to small and medium-sized businesses in the amount of at least USD 30 mln.



### Subsidies and guarantees

The Fund developed and sent draft 2020 BRM and draft Rules for review of the Minis-

try of National Economy of the Republic of Kazakhstan. These drafts provide for extension of 2020 BRM until 2025.

In 2019, the Fund will also carry out integration with the e-government portal (egov.kz), where private entrepreneurs will be able to submit applications for services in electronic form.

Pursuant to paragraph 4 of the National Action Plan for implementation of the State of the Nation Address to the People of Kazakhstan dated October 5, 2018 “Growing Welfare of Kazakh Citizens: Increase in Income and Quality of Life” by decrees of the Government of the Republic of Kazakhstan dated December 11, 2018 No. 820 and December 29, 2018 No. 943, Credit Mechanism for priority projects to ensure long-term tenge liquidity (the Mechanism) and amendments / supplements to the Rules for partial subsidizing of interest rate within the framework of 2020 BRM were approved.

This mechanism will provide STB’s with long-term tenge liquidity in the amount of at least KZT 600 bln to solve the problem of accessible lending to priority projects.

In 2019, the Fund plans to promote portfolio guarantees under the framework of 2020 BRM and Enbek Program.

### Customer service

In 2019, it is planned to strengthen customer service at ESC. In order to do that, it is necessary, first of all, to improve the quality of services provided, the quality of customer servicing, and to raise employees’ competence for subsequent provision of high-quality services to customers. To improve the quality of customer servicing at ESC, the Fund plans to establish the rules for communication of ESC employees with customers, taking into account capabilities of the Fund’s CRM system, to introduce

customer survey tools based on results of services rendered at ESC.

As to the quality of services provided at ESC, the Fund plans to hold a survey among customers and identify the need for changes in existing products of the Fund, thereby improving the product line.

In order to create a comfortable environment when providing services to custom-

ers, the CRM system will display a package of necessary documents for participation in the Fund’s programs and schedules for repayment of loans by customers, etc. for ESC employees. At the same time, the quality control of rendered service will be carried out by monitoring the movement and rate of consideration and progress of customer’s application. Thus, it is planned that all the above activities will allow the Fund to reach a new level in customer service.



Jambyl region, “Saule Confectionery Factory” LLP.  
Project for the production of fresh flour confectionery products.  
The company has received support in the framework of the second line of the 2020 BRM



# 4 PERFORMANCE OVERVIEW. FINANCIAL HIGHLIGHTS





№	Performance indicator	2018			Explanation of reasons for non-achievement/ over-achievement of indicators
		Target	Actual	% of target reached	
1	MCs in the Fund's loan portfolio, %	7,98%	11,9%	149%	Overachievement is related to early utilization of credit line funds of the Asian Development Bank in the amount of KZT 5,868 bln by Microfinance companies KMF LLP.
2	Micro and small entrepreneurs in the total number of supported entrepreneurs, %	77,0%	89,5%	116%	Overachievement through the Program of conditional allocation of funds.
3	MSMEs that received financial support vs. the the total number of MSMEs on the market, %	3,8%	4,7%	124%	Overachievement through the Program of conditional allocation of funds.
4	The number of new projects and projects for modernization and expansion of existing capacities in order to increase productivity and expand markets with accumulation from 2014 (programs of the Government/Fund), units	47 179	58 609	124%	Overachievement through Program of conditional allocation of funds.
5	The amount of housing used by the Fund to provide support, thous. sq. m	50	163,5	327%	From the beginning of implementation of "Nurly Zher" Residential Construction Program on partially subsidizing interest rate for loans of real estate developers tool, the amount of commissioned housing made up 225.51 thous. sq. m, 62.01 thous. sq. m in 2017, 163.5 thous. sq. m in 2018.
6	Private sector in the Fund's loan portfolio, %	100%	100%	100%	
7	Value of products produced by supported entrepreneurs, KZT bln	14 648	-	100%	Actual data will be received in the second half-year of 2019 from the State Revenue Committee of the Ministry of Finance of the RK. Preliminary performance is as planned.



№	Performance indicator	2018			Explanation of reasons for non-achievement/ over-achievement of indicators
		Target	Actual	% of target reached	
8	<b>Increase in taxes paid by entrepreneurs supported by the Fund, KZT bln</b>	13	-	100%	Actual data will be received in second half-year of 2019 from the State Revenue Committee of the Ministry of Finance of the RK. Preliminary performance is as planned
9	<b>Private sources of funding in total borrowings for the reporting year, %</b>	72,3%	72,9%	101%	
10	<b>Automation of the Fund's key business processes, %</b>	100%	92%	92%	Of 72 business processes, 6 processes are not automated.
11	<b>Assessing the Fund credibility from the point of view of MSMEs and their satisfaction levels, %</b>	Not less than 80%	91,3%	114%	-

## 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, compliance with the amounts and terms for attraction and allocation of funds and minimization of unnecessary risks. The main objective of asset and liability management is to regulate the Fund's assets and liabilities to achieve high financial targets of the Fund's activity with simultaneous minimization of risks.

The need for effective management of the Fund's assets and liabilities in modern conditions is defined by:

- New complex products;
- Changes in the structure of borrowings;

- Instability in the economy;
- Need to coordinate the Fund's activity in all areas;
- Need to coordinate approaches to provision of funds to counterparties within the general framework of risk management.

The main tasks of the Fund, with respect to asset and liability management, are to maintain the liquidity at the level sufficient to cover all needs for cash flows, with the possibility of profitable allocation of surplus liquidity. Moreover, other tasks of the Fund are to maintain sufficient value of capital to repay any business risks, ensure safe-keeping of temporarily surplus cash, the capacity to pay interest on current liabilities, the

ability to finance emerging investment opportunities.

As of January 1, 2019, the Fund's assets totaled KZT 304.1 bln, which is a decline of KZT 15.8 bln compared to 2017 because a partner bank in the ADB loan paid off its debt (second, third tranches).

Loans account for most of the assets (72%). Cash makes up 16% of total assets. The Fund's securities make up 2% of the assets.

At the end of 2018, the Fund's liabilities totaled KZT 231.6 bln, which at KZT 12.8 bln more compared to the previous period. As of January 1, 2019, the Fund's equity was KZT 72.5 bln.

# FINANCIAL HIGHLIGHTS

In 2018, the Fund's combined revenues reached KZT 31.2 bln, including KZT 19.5 bln as income from core business, KZT 7.3 bln as income from foreign currency swap re-evaluation and KZT 4.4 bln as income from non-core business.

In 2018, the Fund's expenditures totaled KZT 41.8 bln. The biggest cost items include creation of provision (47%), costs associated with received loans and other financial expenses (19%), currency exchange losses (18%), administrative costs (11%).

At the end of 2018, negative financial result was obtained at KZT (-11.9) bln, which affected profitability indicators.

Negative financial result was obtained

from creation of provisions on liabilities of Tsesnabank JSC due to deterioration of financial standing in 2018.

## RATING

Based on the results achieved in 2018, Moody's Investors Service international rating agency affirmed DAMU Entrepreneurship Development Fund JSC long-term and short-term rating in the foreign and national currency at Baa3. At the same time, Moody's affirmed Fund's national rating at Aa1.kz. Rating outlook remains Stable.

## DEVELOPMENT PLANS

To achieve financial targets, the Fund will implement uniform approaches to planning and bud-

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

## SIGNIFICANT BUSINESS TRANSACTIONS

Information about the Fund's non-arm's length transactions, large transactions and related-party transactions concluded in 2018 is presented in the Appendix.

## PROFITABILITY INDICATORS

Item	2016 (actual)	2017 (actual)	2018 (plan)	2018 (actual)
ROA, return on assets	1,6%	1,2%	-2,8%	-3,8%
ROE, return on equity	5,8%	4,1%	-10,1%	-13,7%
Average IRR	14,23%	9,66%	7,00%	8,6%
Profitability of activities	17,3%	14,1%	-28,6%	-28,6%
NI margin	19,6%	20,7%	-46,6%	-28,6%
Debt/equity	2,5	2,1	4,0	3,2
Share of loan portfolio in assets	58,8%	68,6%	75,8%	71,8%

# 5 THE FUND'S INFORMATION POLICY





Fund's corporate website ([www.damu.kz](http://www.damu.kz)) and business portal ([www.business.gov.kz](http://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. At the end of 2018, the Fund's corporate website is the 13th most

visited website and business portal is the 8th most visited website among 98 websites in the Finance category of zero.kz website traffic ranking service.

Almost all PR-campaign directions and aspects can be implemented through social networks: these include content strategy that will inform the audience of your product in a consistent and targeted manner, communication with consumers, running advertising campaigns, actions, contests,

identification of audience behavior, enhance loyalty.

Now, when all communication channels are integrated into one, it is important for the companies not only to have their own websites but to actively update information about themselves in social media. In 2018, 1397 posts were published in Instagram, Facebook and YouTube. The Fund has 15.5 thous. followers on Instagram and 38.9 thous. followers on Facebook.



**15,5 THOUSAND OF SUBSCRIBERS**



**38,9 THOUSAND OF SUBSCRIBERS**



Kyzylorda region, "Kuat" LLP. Project for the production of polymer pipes. The company has received support through the subsidy instrument in the framework of the 2020 BRM



# 6 RISK MANAGEMENT





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 the Fund's enterprise risk management system (hereinafter, the ERMS) 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, 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.

In 2018, the Fund approved a Report on assessing the effectiveness of enterprise risk management system (including existing risk management methods and controls) con-

ducted by KPMG, and a corrective action plan was drawn up.

In 2018, the risk management system was aimed at implementing the principles of credit risks comprehensive analysis within the framework of 2020 BRM for guaranteeing SME projects. Given the importance of program implementation, the Fund annually improves the methodology for assessing project risks, which allows minimizing credit risks at an early stage.

When deciding whether to provide or deny guarantees, the Fund 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 2018, the financial risk management traditionally focused on three risk areas: condi-

tional loans of STB, securities portfolio and temporarily available funds in STB. To minimize these risks, the Fund limited active operations with banks and conducted remote analysis of credit risks faced by STB, LC and corporate issuers.

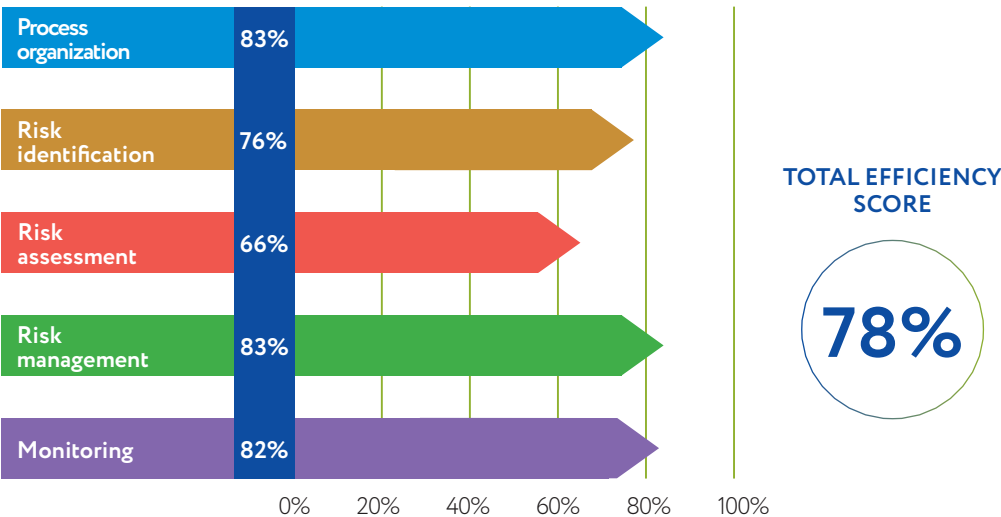
Limiting was possible due to the Department of Risk Management’s work to improve the methodological and technical side of financial risk management.

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 2018, the Fund continued to manage operational risks. Measures on automation of risk database, risk register were carried out. All of the Fund’s divisions participate in this work and related documentation has been approved including the following: up-

ASSESSMENT OF EFFICIENCY OF CRMS COMPONENTS



dated 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 redzone show the Fund's greatest exposure. Risks in the yellow zone are acceptable risks. Risks in the green zone signify the lowest level of exposure.

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

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



Almaty region, "Almaty Fan Plant" LLP. Project for the production of air conditioners, fans. The company has received support under the "Damu Regions-3" Program, as well as through the subsidy and guarantee instruments in the framework of the 2020 BRM





Akmola region, "Samhat" Shoe Factory" LLP.  
Shoe manufacturing Project.  
The company has received support  
through the subsidy and guarantee  
instruments in the framework  
of the 2020 BRM



Karaganda region, "Eurasia Building" LLP.  
Project for the construction of multi-apartment  
residential buildings. The company is funded  
under the Program "Nurly Zher"

## KEY RISKS

Key risks of the Fund fall into the following categories:

a. Credit risk of the Funds counterparties means a risk of losing funds allocated in STB, MC and LCs due to their failure to fulfill their obligations to the Fund.

b. Financial risk is the probability of losses due to currency fluctuations and nonbalanced structure of interest rates.

c. 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).

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

## 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 to improve the Fund's internal controls system:

1. 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 dated September 20, 2016) are being changed/added to make the internal controls system more effective;

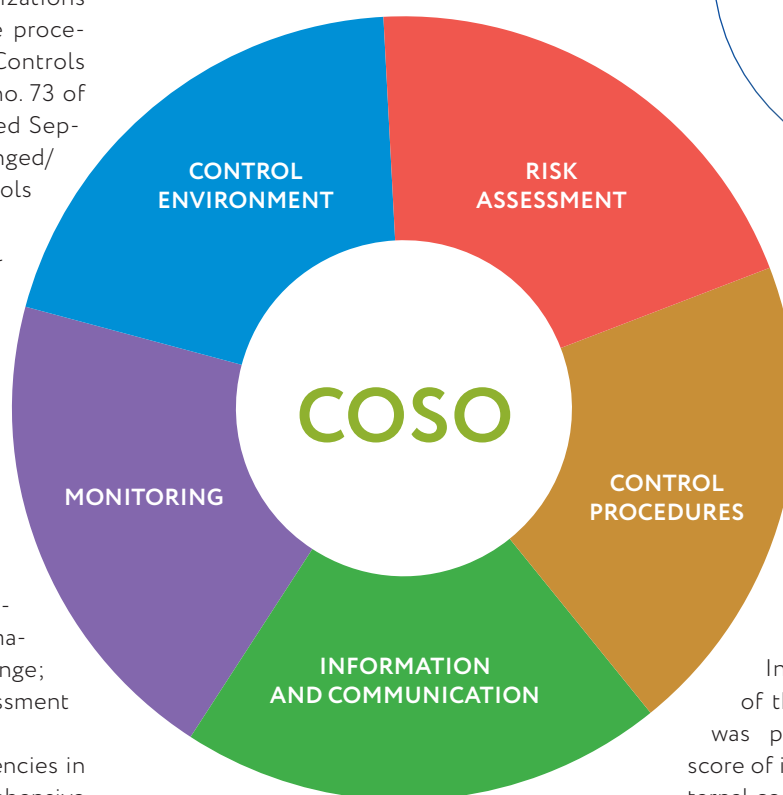
2. The concept of "internal control system" is explained in greater detail, describing the three lines of defense in internal controls specifying the actors of the internal controls system, their responsibilities and scope of authority;

3. Five interrelated components of the internal controls system are described in detail (according to the COSO model), including: control environment; risk assessment; control procedures; information support and information exchange; 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:

1) Monitoring the implementation of recommendations of the Office of Internal



**TOTAL  
SCORE  
OF INDEPENDENT  
ASSESSMENT  
OF THE INTERNAL  
CONTROLS  
SYSTEMS 2018 WAS**

**88%**

Audit (OIA) related to all of the Fund's structural units;

2) Monitoring the implementation of recommendations of the external auditor;

3) Monitoring the implementation of recommendations of Baiterek National Managing Holding (the Fund's sole shareholder) and the Fund's independent directors.

In 2018, an independent assessment of the Fund's internal control system was performed by DeloitteLLP. Total score of independent assessment of the internal controls systems was 88%.



# 7 CORPORATE GOVERNANCE



## DECISION MAKING

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

1. Sole shareholder as the supreme body;
2. Board of Directors as the management body;
3. Executive Board as the executive body;
4. 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 re-

ceivables arising from lending, leasing, documentary (guarantees), investment and administrative operations;

8. Other bodies established in accordance with legislation of the Republic of Kazakhstan.

The report on compliance with the seven fundamental principles enshrined in the Corporate Governance Code for 2018 is posted on the Fund's corporate website.

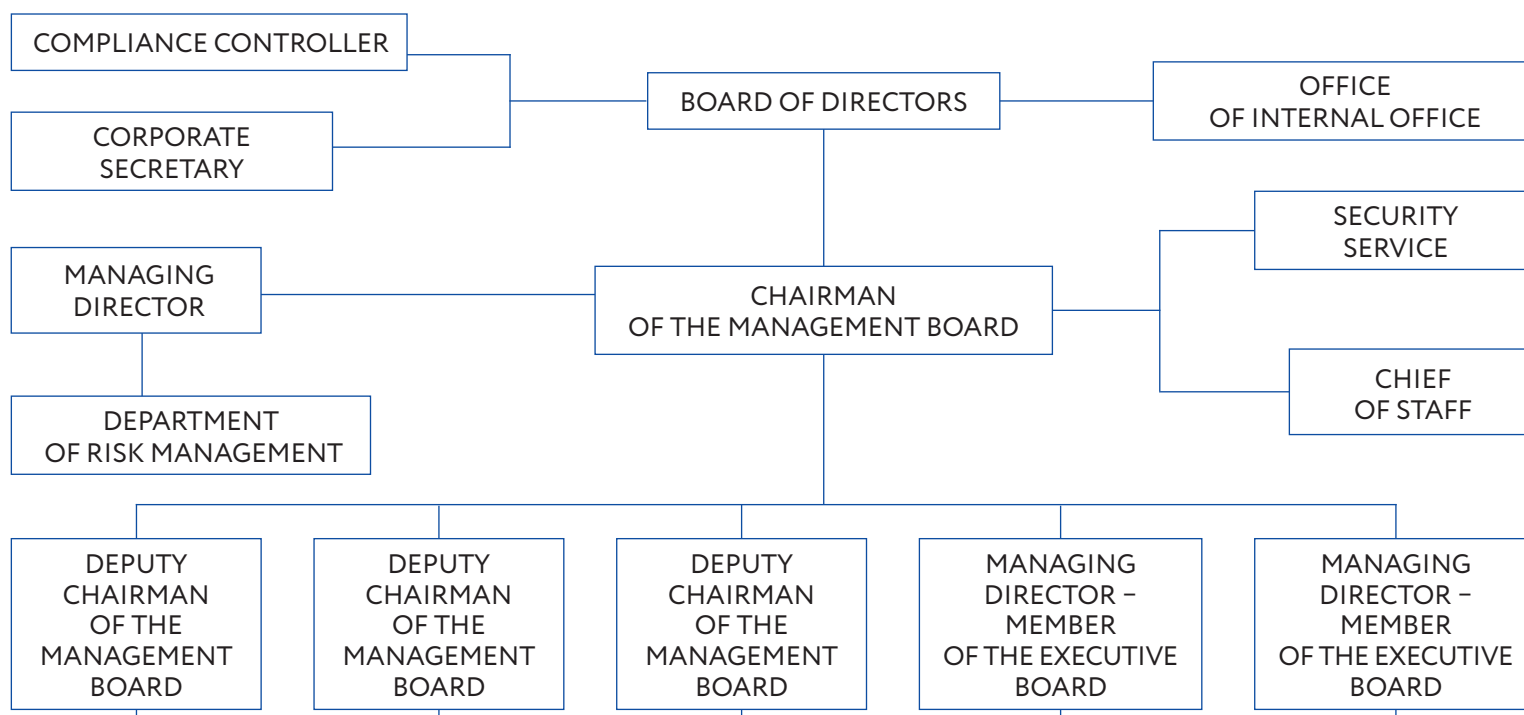
According to results of diagnostics of the Fund's Corporate Governance conducted by the Office of Internal Audit Service of DAMU Entrepreneurship Development Fund JSC for the period 2015-2016, compliance of corporate governance with the best practice requirements is 80.1%. The Fund's corporate governance diagnostics for 2017-2018 is expected in 2019.

COMPLIANCE  
OF CORPORATE  
GOVERNANCE WITH  
THE BEST PRACTICE  
REQUIREMENTS IS

**80,1%**

## ORGANIZATIONAL STRUCTURE

Organizational structure helps the Fund effectively achieve strategic goals and objectives. The Fund has 22 departments, 2 offices and 16 regional branches.





## SOLE SHAREHOLDER

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

The mission of the Holding is to support sustainable economic growth of the Republic of Kazakhstan in order to achieve the goals set by the Strategy-2050. The Holding is a key operator in implementation of the state and government programs.

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



THE MISSION  
OF THE HOLDING  
IS TO SUPPORT  
SUSTAINABLE  
ECONOMIC  
GROWTH OF THE  
REPUBLIC OF  
KAZAKHSTAN

## BOARD OF DIRECTORS

The Board of Directors is a management body that ensures strategic management of the Fund and control of the Management Board's activity.

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

The Board of Directors operates in accordance with the legislation of the Republic of Kazakhstan, the Charter of the Fund, the Corporate Governance Code of the Fund and other documents of the Fund.

As of January 1, 2019, the Fund's Board of Directors consists of 6 members, including 2 independent directors.

## MEMBERS OF THE BOARD OF DIRECTORS

### Chairman of the Board of Directors – Yerbolat Askarbekovich Dossayev

born in 1970, elected as the Chairman of the Board of Directors on October 5, 2017, termination date – March 13, 2019.

### Member of the Board of Directors – Aydar Abdrazakhovich Arifkhanov

born in 1974, elected as a member of the Board of Directors on April 5, 2017.  
Representative of the Sole Shareholder of DAMU Entrepreneurship Development Fund JSC.

### Member of the Board of Directors – Bektas Gafurovich Mukhamedzhanov

born in 1957, elected as a member of the Fund's Board of Directors on August 1, 2018.

### Independent Director – Yelena Leonidovna Bakhmutova

born in 1962, elected as a member of the Fund's Board of Directors on September 19, 2018.

### Independent Director – Askar Raushanuly Yelemessov

born in 1968, elected as a member of the Fund's Board of Directors on May 28, 2018.

### Member of the Board of Directors – Abai Serikovich Sarkulov

born in 1981, elected as a member of the Fund's Board of Directors on April 5, 2017

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

Detailed information about the members of the Board of Directors is posted on the Fund's corporate website.

In 2018, the following changes occurred in the Board of Directors.

1. In the first quarter of 2018, by the decision of the Sole shareholder dated January 24, 2018 (No. 02/18), member of the Board of Directors, G. T. Dzholdybayeva was removed from office in accordance with the submitted notice. G.B. Tadjiyakov was elected to the Board of Directors as a representative of the Sole shareholder.
2. On March 25, 2018, tenure of independent director Zh.D. Yertlessova expired. By the decision of the Sole shareholder dated March 27, 2018 (No. 11/18), the composition of the Board of Directors was set in the number of 6 (six) people.
3. By the decision of the Sole shareholder dated May 28, 2018 (No. 21/18), the composition of the Board of Directors was set in the number of 7 (seven) people. A. R. Yelemessov elected a member of the Board of Directors, independent director of the Fund with tenure of 3 (three) years.

4. By the decision of the Sole Shareholder dated August 1, 2018 (No. 31/18), member of the Board of Directors, independent director S.Zh Bisekeev was removed from office. B.G. Mukhamedzhanov was elected a member of the Board of Directors with tenure until expiration of tenure of the Board of Directors as a whole.

5. By the decision of the Sole Shareholder dated August 29, 2018 (No. 34/18), member of the Board of Directors G.B. Tadjiyakov was removed from office. The composition of the Board of Directors was set in the number of 6 (six) people.

6. By the decision of the Sole Shareholder dated September 19, 2018 (No. 37/18), the composition of the Board of Directors was set in the amount of 7 (seven) people. The tenure of independent director O.A. Zhandosov was established until September 25, 2018. Y.L. Bakhmutova was elected a member of the Board of Directors, independent director with tenure of 3 (three) years. Since

September 26, 2018, the composition of the Board of Directors was set in the number of 6 (six) people

7. During the fourth quarter of 2018, there were no changes made to the composition of the Board of Directors.

Selection of independent directors is governed by the Board of Directors Bylaws of DAMU Entrepreneurship Development Fund JSC approved by the decision of the Sole Shareholder dated November 28, 2018, No 53/18.

### REPORT OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

In 2018, the Board of Directors held 10 in-person meetings and 5 meetins in absentia. More than 130 topics were reviewed. In the reporting year, the Board Committees held 29 meetings. All of these were in-person meetings.

In addition, at the initiative of the independent directors, there were two strategic sessions held with participation of repre-

sentatives of the Sole shareholder, members of the Board of Directors, the Fund’s Executive Board and other representatives. As part of sessions in February and September 2018, the issues of adjustment of the Fund’s Development Strategy for 2014-2023, qual-

ity of loans granted to STB using the funds from the National Fund of the Republic of Kazakhstan, reporting format of private entrepreneurship – customers of Damu Entrepreneurship Development Fund JSC and other topics were considered.

### PARTICIPATION IN MEETINGS OF THE FUND’S BOARD OF DIRECTORS IN 2018

№	Members of the Board of Directors	Participation	%
1	Yerbolat Askarbekovich Dossayev	15/15	100%
2	Aidar Abdrazakhovich Arifkhanov	15/15	100%
3	Bektas Gafurovich Mukhamedzhanov (from August 1, 2018)	7/8	88%
4	Askar Raushanuly Yelemessov (from May 28, 2018)	11/11	100%
5	Yelena Leonidovna Bakhmutova (from September 19, 2018)	6/6	100%
6	Abai Serikovich Sarkulov	15/15	100%

### BOARD OF DIRECTORS



Members of the Board of Directors  
Chairman of the Board of Directors  
Yerbolat Askarbekovich Dossayev



Member of the Board of Directors  
Aydar Abdrazakhovich Arifkhanov



Member of the Board of Directors  
Bektas Gafurovich Mukhamedzhanov



Independent Director  
Yelena Leonidovna Bakhmutova



Independent Director  
Askar Raushanuly Yelemessov



Member of the Board of Directors  
Abai Serikovich Sarkulov

Election as the Chairman of the Board of Directors on October 5, 2017, termination date – March 13, 2019

ACTIVITIES OF THE BOARD COMMITTEES

The Board of Directors of the Fund has 3 committees which are (1) Strategic and Budget Planning, (2) Audit, and (3) 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 and solves other issues.

In 2018, the Committee held 9 in-person meetings and reviewed more than 29 topics, including preliminary review of the following: 2017 Annual Report, 2017 Strategy Implementation Reports, 2017-2021 Development Plans (adjustment), etc

**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, etc.

In 2018, the Committee held 9 in-person meetings and one meeting in absentia during which more than 80 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 2017, etc.

**Nomination, Remuneration and Social Affairs Committee** was established to submit recommendations to the Board of Directors on matters pertaining to human resources and motivation policy, assessment of activity of the Board of Directors, the

Executive Board, Corporate Secretary, etc. In 2018, the Committee held 11 in-person meetings and reviewed a number of topics including maps of key performance indicators for senior management of the Fund for 2017 (functional KPIs), changes in the composition of the Executive Board, a map of key performance indicators for senior management of the Fund in 2019 (functional KPIs), etc.

By the decision of the Board of Directors dated September 19, 2018 the approved composition of the Committee had the following members:

Audit Committee	
Chairman of the Committee	Yelemessov A. R., independent director
Member of the Committee	Bakhmutova Y. L., independent director
Member of the Committee	Mukhamedzhanov B. G., member of the Board of Directors
Nomination, Remuneration and Social Affairs Committee	
Chairman of the Committee	Bakhmutova Y. L., independent director
Member of the Committee	Yelemessov A. R., independent director
Member of the Committee	Mukhamedzhanov B. G., member of the Board of Directors
Strategic & Budget Planning Committee	
Chairman of the Committee	Bakhmutova Y. L., independent director
Member of the Committee	Yelemessov A. R., independent director
Member of the Committee	Mukhamedzhanov B. G., member of the Board of Directors

The Fund, in accordance with the Board of Directors Bylaws, annually conducts a comprehensive assessment of the performance of the Board of Directors and committees, an individual assessment of the activities of directors in accordance with international best practice. At the end of 2018, the performance evaluation of the Board of Directors and committees was carried out by independent external experts of the International Finance Corporation (IFC). The purpose of the assessment was to obtain objective information on the activities of the Board of Directors and committees, as well as the analysis of individual contribution of directors to the work of the Board. As a result of the assessment, the strengths of the activities of the Board of Directors and committees were identified, and recommendations were developed to improve the efficiency of their activities.



## 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.

## COMPOSITION OF THE EXECUTIVE BOARD



**Chairman  
of the Management  
Board**  
Abai  
Serikovich  
Sarkulov

Election date as  
Chairman of the  
Executive Board –  
February 23, 2017,  
termination date –  
April 24, 2019



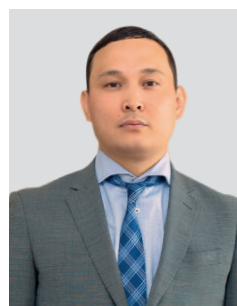
**Deputy Chairman  
of the Management  
Board**  
Gaukhar  
Asylbekovna  
Buribaeva



**Deputy Chairman  
of the Management  
Board**  
Daulet  
Maksutovich  
Abilkairov



**Deputy Chairman  
of the Management  
Board**  
Galym  
Nurgazievich  
Nurgaziev



**Managing Director  
member  
of the Management  
Board**  
Aset  
Bulatovich  
Sharipov



**Managing Director  
member  
of the Management  
Board**  
Kuanysh  
Serikovich  
Ulasbekov

### **Chairman of the Management Board – Abai Serikovich Sarkulov**

Born in 1981, election date as Chairman of the Executive Board – February 23, 2017, termination date – April 24, 2019.

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, Chief of Staff, Managing Director, Department of Risk Management, Security Service.

### **Deputy Chairman of the Management Board – Gaukhar Asylbekovna Buribaeva**

Born in 1983, election date as Deputy Chairman of the Management Board – June 27, 2018.

Supervises and coordinates the work of the Apex Department, Department of Guarantees, Department of Subsidies, Department of Program Tools and Customer Service Department.

### **Deputy Chairman of the Management Board – Daulet Maksutovich Abilkairov**

Born in 1983, election date as Deputy Chairman of the Management Board – May 21, 2014.

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

### Deputy Chairman of the Management Board – Galym Nurgazievich Nurgaziev

Born in 1972, election date as Deputy Chairman of the Management Board – December 15, 2017.

Supervises and coordinates the work of Managing Director, Government Relations Department, regional branches, Treasury Department, Accounting and Reporting Department and the Press Secretary.

### Managing Director – member of the Management Board – Aset Bulatovich Sharipov

Born in 1982, election date as Managing Director – member of the Management Board – July 3, 2017.

Supervises and coordinates the work of the Monitoring Department, Non-Performing Assets Department, Department for Administration of Financial Support Tools and Legal Department.

### Managing Director – member of the Management Board – Kuanysh Serikovich Ulasbekov

Born in 1984, election date as Managing Director, member of the Management Board – July 3, 2017.

Supervises and coordinates the work of Managing Director, Strategic Analysis and Corporate Governance Department, Business Technology Department, Department of Information Technologies, Budget Planning 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.

Detailed information about the members of the Executive Board is posted on the Fund's corporate website.

In 2018, the following changes occurred in the composition of the Executive Board.

1. By the decision of the Board of Directors dated May 31, 2018 (No. 05/2018), Akshanov N.S. was removed from office as Deputy Chairman of Executive Board.
2. By the decision of the Board of Directors dated June 6, 2018 (No. 06/2018), Buribayeva G.A. was appointed Deputy Chairman of the Management Board.
3. By the decision of the Board of Directors dated September 3, 2018 (No. 08/2018), Finogenova A.V., the Managing Director, member of the Management Board was removed from office.

## REPORT OF THE EXECUTIVE BOARD

The rights and responsibilities of the members of the Executive Board are defined by the Charter, the Executive Board Bylaws and other internal policies of the Fund.

The Executive Board Bylaws established the procedure for forming and functioning of the Fund's Executive Board, rights and responsibilities of the members of the Executive Board, making and documentation of its decisions as well as control over their fulfillment.

At the beginning of 2018, the Executive Board of the Fund was composed of 7 members, including:

1. Chairman of the Management Board – Abai Serikovich Sarkulov;
2. Deputy Chairman of the Management Board – Daulet Maksutovich Abilkairov;
3. Deputy Chairman of the Management Board – Galym Nurgazievich Nurgaziev;
4. Deputy Chairman of the Management

Board – Akshanov Nurlan Sagyndykovich;  
5. Managing Director, Member of the Management Board – Kuanysh Serikovich Ulasbekov;  
6. Managing Director, Member of the Management Board – Aset Bulatovich Sharipov;  
7. Managing Director, Member of the Management Board – Alyona Valeryevna Finogenova.

In 2018, Nurlan Sagyndykovich Akshanov and Alena Valeryevna Finogenova were removed from the Management Board, and Deputy Chairman of the Management Board Gaukhar Asylbekovna Buribaeva was included in the Management Board of the Fund.

At the end of 2018, the composition of the Fund's Board included 6 members:

1. Chairman of the Management Board – Abai Serikovich Sarkulov;
2. Deputy Chairman of the Management Board – Daulet Maksutovich Abilkairov;
3. Deputy Chairman of the Management Board – Nurgaziev Galym Nurgazievich;
4. Deputy Chairman of the Management

Board – Gaukhar Asylbekovna Buribaeva;  
5. Managing Director, Member of the Management Board – Kuanysh Serikovich Ulasbekov;  
6. Managing Director, Member of the Management Board – Aset Bulatovich Sharipov.

In 2018, the Executive Board held 197 meetings, at which it made decisions on the Fund's operational management and reviewed a total of 980 topics.

### THE EXECUTIVE BOARD HELD MEETINGS

# 197

REVIEWED A TOTAL OF

# 980

TOPICS

## THE EXECUTIVE BOARD COMMITTEES

Human Resources Committee, the Change Management Committee, and the Budget Committee are permanent collegial-advisory bodies under the Fund's Executive Board, operating within the powers assigned to them by the Executive Board of the Fund.

1) Human Resources Committee is the body that ensures the 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. In 2018, the Committee reviewed 734 topics.

2) Change Management Committee is the body that improves, automates and streamlines existing/new business processes of the Fund, as well as reviews and pre-improves new products. In 2018, the Committee reviewed 220 topics.

3) Budget Committee is the body that develops the Fund's budget structure for a particular fiscal year, develops adjustments to the current budget based on the budget progress. In 2018, the Committee reviewed 190 topics.

Personal composition and number of members of the Committees are determined by

the decision of the Fund's Executive Board. The Committees are managed by the Chairmen of the Committees. The committees are composed of members of the Executive Board (no more than 2 (two), including other employees the Fund. The Committees consist of the Committee Chairman, which is a member of the Fund's Executive Board, Deputy Chairman of the Committee and other members of the Committee with voting power, including the deliberate vote.

The activities of Executive Board Committees are governed by the Fund's Committees Bylaws.

## OVERSIGHT OF THE FUND

The Office of Internal Audit (hereinafter, the 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 2018 Annual Audit Plan (hereinafter, the AAP) approved by the decision of the Board of Directors dated December

14, 2017, minutes No. 83, the OIA completed 12 audit assignments within the time frame set by the AAP, including effectiveness assessment of the enterprise risk management, internal controls system, monitoring the limits of certain administrative costs; checking the KPI performance, as well as functional KPI performance of the Executive Board; audit of funds allocation business process under the framework of programs for conditional allocation of funds, audit of treasury operations and cash flow management business processes, audit of regional branches in the city of Almaty, Pavlodar, East Kazakhstan, Kyzylorda regions.

On the instructions of the Board of Directors of the Fund and Baiterek National Managing Holding JSC, 2 unscheduled inspections were carried out regarding implementation of KPI "Number of created jobs" and on the complaint of Kydyrbaev E.Zh.

According to the results of the audit as-

signments, a total of 139 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.

Assessment of the effectiveness of enterprise risk management (ERM) and internal controls (IC) was carried out by the OIA based on relevant Methods approved by the decision of the Fund's Board of Directors. The following scores were achieved based on the assessment: ERM (85 %), IC (83 %).

On a quarterly basis, the OIA reviews the progress of the implementation of its own and external auditor recommendations. The results of these reviews 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 topic “Corruption: counteraction and investigation”, participated in specialized training workshop COBIT5 “Implementation and Audit”, passed exams and received diplomas on internal audit from the Institute of Financial Analysts (IFA) (UK), passed exams and received certificates of “Professional Accountant of Kazakhstan”.

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

Under the Program for Ensuring and Improving the Quality of Internal Audit, approved by the decision of the Board of Directors dated May 31, 2018, minutes No. 05/2018, an internal assessment of the quality of the internal audit activity for 2018 was carried out.

According to the results of the assessment, the OIA’s performance was rated as “compliant” with International professional standards of internal audit, the Office of Internal Audit Bylaws approved by the decision of the Board of Directors dated March 30, 2018, minutes No 02/2018, Rules for organization of internal audit of the Fund dated May 31, 2018, minutes No 05/2018, compliance with Ethical Code approved by the decision of the Board of Directors dated July 25, 2011, minutes No 28.



Aktobe region,  
“CaspianPlus” LLP.  
Project for the  
production of fixing  
arrangements.  
The company has  
received support  
through the subsidy  
and guarantee  
instruments in the  
framework  
of the 2020 BRM

## INFORMATION ABOUT 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 exclu-

sive responsibility of the Sole Shareholder.

“Pricewaterhouse Coopers” LLP audited the financial statements for 2018. “Pricewaterhouse Coopers” LLP was paid KZT 10,640,000 incl. VAT for auditing the financial statements for 2018.

In 2018, “Pricewaterhouse Coopers” LLP provided a number of various services:

- Financial consulting services for a total fee KZT 3,082,000 incl. VAT. The Fund did not hire former employees of audit companies that carried out an audit of financial statements.

## CORPORATE CONFLICT AND CONFLICT OF INTEREST RESOLUTION POLICY

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 situations when their personal interest may affect the proper performance of their duties. Personal interests of the Fund’s officer or employee shall not affect the impartial performance of their roles and responsibilities.

The policy defines the practices and procedures for the pre-trial resolution of corporate conflicts and conflicts of interest, as well as the actions of the bodies, officers, and employees of the Fund in these processes.

The Executive Board and the Board of Directors are involved in conflict resolution, guided by the reasonable and lawful

interests of the Fund and the Sole Shareholder.

The compliance controller initiated changes to the Policy in terms of expanding the circle of persons subject to the Policy, as well as in connection with the redistribution of functions between structural units and compliance controller.

## REMUNERATION POLICY

In accordance with the law of the Republic of Kazakhstan, the Charter, the Fund’s internal documents, the members of the Board of Directors of the Fund may receive remuneration and (or) compensation related to their performance of functions of members of the Fund’s Board of Directors.

Members of the Board of Directors who are representatives of the Sole Shareholder, Chairman of the Management Board (in case of his membership in the Board of Directors of the Fund) do not receive remuneration for participation in

the work of the Fund’s Board of Directors.

Member of the Fund’s Board of Directors may 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

When establishing the remuneration of a

member of the Board of Directors of the Fund, the duties of members of the Board of Directors, the scope of the Fund’s activities, long-term goals and objectives determined by the development strategy, the complexity of issues reviewed by the Board of Directors of the Fund, the level of remuneration in similar companies of private sector are taken into account (benchmarking, review of remuneration).

In 2018, members of the Fund’s Board of Directors (including independent directors) were paid a total of KZT 13,853,125.

Name of member of the Board of Directors (including independent director)	Work in the Board Committees	Remuneration Total actual	Including (remuneration structure)			Amount paid
			for working in the Board of Directors	for working as the Committee Chair	for working in the Committee as the Committee member	
Oraz Alievich Zhandossov	Chairman of the Strategic and Budget Planning Committee, member of the Nomination, Remuneration and Social Affairs Committee	4 225 636	3 694 543	346 364	184 726	3 431 250
Zhannat Dzhurgalievna Yertlessova	Chairman of the Audit Committee	1 215 278	1 111 111	104 167	0	1 093 750
Serikbai Zholdybaevich Bisekeyev	Chairman of the Nomination, Remuneration and Social Affairs Committee, member of the Audit Committee, member of the Strategic and Budget Planning Committee	2 652 778	2 222 222	208 334	222 222	2 387 500
Yelena Leonidovna Bakhmutova	Chairman of the Nomination, Remuneration and Social Affairs Committee and the Strategic and Budget Planning Committee, member of the Audit Committee	2 199 806	1 845 856	230 952	122 998	1 787 500
Askar Raushanuly Yelemessov	Chair of the Audit Committee, member of the Nomination, Remuneration and Social Affairs Committee, member of the Strategic and Budget Planning Committee	3 604 494	3 072 458	403 509	128 528	2 928 125
Bektas Gafurovich Mukhamedzhanov	Member of the Audit Committee, Member of the Nomination, Remuneration and Social Affairs Committee, Member of the Strategic and Budget Planning Committee	2 739 930	2 462 851	0	277 079	2 225 000
TOTAL		16 637 921	14 409 040	1 293 326	935 553	13 853 125

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

mining the remuneration amount;

- correlation between the size of remuneration and the Fund's performance, as well as the 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. These factors notably increase the achievement of corporate and individual KPIs by senior managers.





Pavlodar region, "Steklomir" LLP. Project for the construction and modernization of glass processing plants. The company has received support through the subsidy and guarantee instruments in the framework of the 2020 BRM



North Kazakhstan region, "RiM-KazAgro" LLP. Fast Food Project. The company has received support through the subsidy instrument in the framework of the 2020 BRM



# 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, 2018, the Fund employed 371 people. Over the past three years, the Fund's staff numbers remained unchanged.



### EMPLOYEE TURNOVER

In 2018, the total employee turnover rate was 16.4 % compared to the target of 20%. In 2018, the Fund had 159 open vacancies, of them 135 vacancies for an administrative position and 24 vacancies for managerial and executive positions. 35.1% of vacancies for administrative positions were filled with internal candidates. 64.9% of vacancies were filled with external candidates. 62.5% of vacancies for the managerial and executive position were filled with internal candidates from the Fund's Talent Pool, 37.5% of vacancies were filled with external candidates. (Graphic 10)

## EMPLOYEE BREAKDOWN, PERSONS

Item	2016	2017	2018
Top management	7	7	6
– of them women	1	1	1
Heads of structural divisions and regional branches	36	41	40
– of them women	14	13	15
Administrative staff	328	323	325
– of them women	171	155	178
Total	371	371	371
– of them women	186	169	193

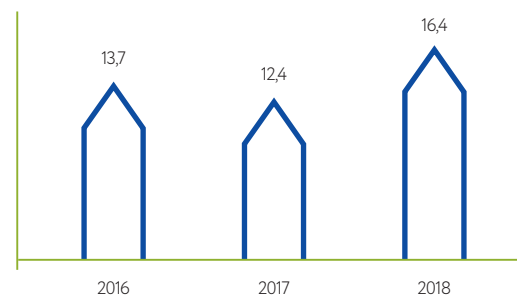
## EMPLOYEE TRAINING AND DEVELOPMENT

The goal of employee training and professional development is to update and gain additional theoretical and practical knowledge, skills, competencies, and abilities in the field of professional and management activity of employees for the effective performance of their job responsibilities and solving the tasks established in line with the development strategy of the Fund.

In order to achieve this target, the Training Plan for the Employees of Damu Entrepreneurship Development Fund JSC was approved by the decision of the Fund's Human Resources Committee (Minutes No 07/2018 dated January 17, 2018). The Fund's 311 employees were trained 632 times by attending 66 training events. Some employees took several training courses throughout the year, including in the corporate format. Training as part of the annual Plan was aimed at the development of employees' business, personal and professional competencies.

Graphic 10

### EMPLOYEE TURNOVER IN DAMU ENTREPRENEURSHIP DEVELOPMENT FUND JSC FOR 2016–2018, %





## SUCCESSION POOL

In 2018, the Fund continued to build and develop its talent pool. In 2018, 29 people were included in the talent pool of the Fund. In this period, 14 people were promoted to higher-level positions, 12 – to executive positions.

The Fund actively works to develop (train, ensure career growth) of succession pool members. In particular, Individual Development Plans were developed for them.

While being in the talent pool, employees in the talent pool attend training events that promote the development of their professional and personal competencies. Also, the talent pool continues to attend business meetings with independent directors of the Board of Directors, Chairman of the Executive Board and members of the Fund's Executive Board.

## CORPORATE CULTURE DEVELOPMENT

Corporate culture development is an essential element for building a highly effective organization and a necessary component to achieve the company's strategic goals. Due to this every year, surveys are conducted to measure employee engagement, plus there are regular business meetings and meetings of the workgroups and the Human Resources Committee of the Fund's Executive Board.

In 2018, the level of employee engagement and satisfaction compared with 2017 remained unchanged at 75%.

In 2018, the Fund carried out activities to promote team spirit. In particular, the Fund



studied the current type of corporate culture, identified the preferred type and developed an action plan for implementation of the preferred model of corporate culture for 2019–2020.

In addition, team building events, training courses are carried out regularly; Intranet – a corporate website was launched for close internal interaction of the Fund's employees on many issues, both of work and informal nature.

## 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 a quarterly performance review of administrative employees to determine if employees are qualified for their jobs and to calculate the percentage of target achieved. In 2018, the Fund developed a system of position grades based on the assessment of the contribution of each position and its relevance in the context of the entire Fund, established basic salaries in accordance with the implemented system.

The Fund's employees have annual health insurance plans paid by the Fund's budget. In addition, the Fund provides financial aid to employees in the amount of two salaries in case of annual leave, marriage, childbirth or death of a family member.

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

## OCCUPATIONAL HEALTH

The Fund focuses on systematic work and incremental steps to enhance 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 employees during their work, in the Fund's offices, during business trips, as well as emergency situations.

# CORPORATE SOCIAL RESPONSIBILITY

The Fund is aware of the importance of its impact on the economy, the environment and society to ensure sustainable development in the long term while respecting the balance of interests of stakeholders. A responsible, thoughtful and rational stakeholder approach will contribute to the sustainable development of the Fund. In 2018, the Fund complied with the requirements of the Corporate Social Responsibility Policy of Damu Entrepreneurship Development Fund JSC, approved by the decision of the Fund's Executive Board dated January 22, 2018 (Minutes No. 05/2018). In December 2018, the Holding sent the Sustainable Development Policy of Baiterek National Managing Holding JSC, approved by the decision of the Executive Board of Baiterek NMH JSC dated November 28, 2018 (minutes No. 52/18), in accordance with which it is planned to improve the Fund's sustainable development management system.

The Fund ensures consistency of its economic, environmental and social goals for sustainable development in the long term.

The sustainable development of the Fund includes 3 (three) components:

- 1) economic component directs the Fund's activities towards the profitability of its activities, promoting the interests of the Sole Shareholder and investors, improving the effectiveness of processes, increasing investments in creating and developing more advanced technologies, and increasing labor productivity;
- 2) environmental component contributes to minimizing the impact on biological and physical natural systems, the optimal use of limited resources, the use of environmentally friendly, energy- and material-saving technologies;
- 3) social component is focused on social responsibility principles, which, among

other things, include ensuring labor safety and preserving the health of employees, fair remuneration and respect for the rights of employees, individual development of personnel, implementation of social programs for personnel, creation of new jobs, sponsorship and charity, environmental and educational activities.

In order to improve the Fund's performance in the field of sustainable development, an Action Plan was developed and approved to strengthen the corporate social responsibility of Damu Entrepreneurship Development Fund JSC for 2018–2019, which provides for 32 measures. In addition, target values of performance assessment indicators for corporate social responsibility within the framework of three components of sustainable development are approved on an annual basis.

## CORPORATE SOCIAL RESPONSIBILITY PERFORMANCE IN 2018

Areas in corporate social responsibility	Indicators	Target value for 2018	Results
Economic indicators	The sum in the Fund's budget for sponsorship/charity	A total of KZT 10 mln are included in Y2018 Budget under "Provision of sponsorship"	In 2018, funds in the amount of KZT 5 mln under "Provision of sponsorship" were redistributed to other Budget items.
	Total amount spent by the Fund on provision of sponsorship and charity support to external interested parties	Target amount planned to provide sponsorship and charity support to external interested parties in 2018 is KZT 10 mln	In December 2018, according to the sponsorship agreement No. 236 dated December 29, 2018, the Fund provided sponsorship support in the amount of KZT 5.0 mln of the Mountaineering and Sport Climbing Federation.

Areas in corporate social responsibility	Indicators	Target value for 2018	Results
Economic indicators	Number of entrepreneurs and population with entrepreneurial initiative who took distance training	Not less than 500 people	<p>Number of participants who took training for existing entrepreneurs in 2018:</p> <p>1. Finance not for financiers (in Kazakh) – 21</p> <p>2. Finance for non – financiers – 462</p> <p>3. Sales growth system – 527</p> <p>4. Sales growth system (in Kazakh) – 31</p> <p>5. Effective Marketing Service – 229</p> <p>6. Effective Marketing Service (in Kazakh) – 7</p> <p>7. Employee motivation – 304</p> <p>8. Employee motivation (in Kazakh) – 3</p> <p><b>Total: 1,584</b></p>
			<p>Number of participants who took training for first-time entrepreneurs in the current period of 2018:</p> <p>1. First-time entrepreneur – 4583</p> <p>2. First-time entrepreneur – (in Kazakh) 1,052</p> <p><b>Total: 5,635</b></p>
	Number of entrepreneurs with disabilities who have received support through Damu-Komek project within the framework of the Unified Program for Raising Entrepreneurship Competencies of Damu Entrepreneurship Development Fund JSC for 2015–2018	<p>1) Annual placement of not less than 300 requests for provision of sponsorship</p> <p>2) Annual provision of non-financial material and property support for at least 150 entrepreneurs with disabilities to carry out business activities</p>	As of January 1, 2019, there were 2,559 requests submitted, of which sponsorship was provided under 2,148
	Personnel engagement level	75%	75%
Human resources indicators	Number of young specialists who took training or practical training in the Fund	40 people	40 people
	Number of the Fund's employees who took training	220 employees	311 employees
	Number of appeals of employees to the Fund's ombudsman on the matters of non-compliance with the Business Code Ethics	0	0
Environmental indicators	Reduced consumption of energy resources by the Fund compared to previous years	Reduced power consumption by 10% compared to 2017	Data for 2018, as of January 01, 2019: decline in power consumption made up 23.24%. The preliminary figure is derived from consumed energy amount (kWh / kW) and provided documents.



## ENVIRONMENTAL PROTECTION

In June 2018, in order to prevent and reduce excessive environmental damage in the process of implementing business projects of entrepreneurs who are participants in some entrepreneurship support programs, as well as to adequately construct environmental management provided for by the Fund's Environmental Policy, an environmental protection training was held for monitoring workers the Fund's regional branches (hereinafter – the regional branches), together with the representatives of STB, the Asian Development Bank.

The goal of the training was to train the monitoring managers of regional branches on the main principles of the Asian Development Bank Policy for protective measures, namely:

- 1) study of tools that contribute to prevention/avoidance of negative impact of projects on environment and people;
- 2) minimization, mitigation and /or compensation of negative impact of projects on environment when this cannot be avoided;
- 3) assistance to borrowers to strengthen the existing system of protective measures and capacity development for the environmental and social risk management.

A list of prohibited investment activities for projects that, in the context of implementation, are detrimental to human health and/or ecology was proposed for review and study. Also, training was conducted for step-by-step study and review of financing project, proper use of funds to identify prohibited

activities, assignment of environmental risks (A, B and C), the Asian Development Bank case studies were used.

In 2019, it is planned that consultants from the Frankfurt School of Finance and Management will conduct training on the green financing principles under the framework of potential loan from the Asian Development Bank for development of green economy in the Republic of Kazakhstan. On April 29, 2019, the first meeting with the consultants from the Frankfurt School of Finance and Management was held, which determined the structure of training on the "green" financing principles and identified the needs of the Fund and potentially involved financial institutions.

## CHARITY

In 2018, the Fund arranged voluntary fund-raising for the benefit of WWII veterans and home-front workers: the proceeds were transferred personally to the veterans of Almaty city.



*Kostanay region, "LIDER-2010" LLP.  
Project for the construction of a new  
ultramodern milk processing plant.  
The company has received support  
through the subsidy instrument in the  
framework of the 2020 BRM*

# 9 ANNUAL FINANCIAL STATEMENTS



## STATEMENT OF FINANCIAL CONDITION

(KZT thous.)	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	37,953,674	44,074,930
Securities at fair value through profit or loss	-	2,659,323
Funds in financial institutions	229,558,581	225,578,278
Accounts receivable under subsidy programs	29,337	34,550
Loans and advances to clients	606,308	3,324,539
Investments available for sale	-	567,017
Investments in debt securities	7,100,689	-
Fixed assets	2,279,485	2,497,187
Intangible assets	228,155	292,674
Prepayments under the current liabilities for income tax	11,290,109	13,721,713
Long-term assets for sale	396,747	1,360,967
Other assets	14,678,723	25,801,698
<b>TOTAL ASSETS</b>	<b>304,121,808</b>	<b>319,912,876</b>
<b>LIABILITIES</b>		
Borrowings	201,309,973	203,002,903
Debt securities in issue	16,057,484	-
Liabilities under subsidy programs	4,974,063	3,177,338
Deferred tax liabilities	1,279,281	6,065,416
Deferred revenue and provision for credit-related commitment	6,914,341	5,263,531
Other liabilities	1,066,188	1,255,534
<b>TOTAL LIABILITIES</b>	<b>231,601,330</b>	<b>218,764,722</b>
<b>EQUITY</b>		
Shareholder's equity	72,920,273	72,920,273
Additional paid-in capital	834,527	834,527
Revaluation reserve of available-for-sale investments	-	70,337
Revaluation reserve of investments at fair value through other comprehensive income	222,476	-
Other provisions	316,430	316,430
Undistributed (loss) / earnings	(1,773,228)	27,006,587
<b>TOTAL EQUITY</b>	<b>72,520,478</b>	<b>101,148,154</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>304,121,808</b>	<b>319,912,876</b>



## PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(KZT thous.)	2018	2017
Interest income calculated by effective interest method	24,613,727	34,796,892
Other similar income	140,937	-
Interest expense	(8,363,634)	(7,629,888)
<b>Net interest income</b>	<b>16,391,030</b>	<b>27,167,004</b>
Provision for impairment of customers' loans and advances and funds in financial institutions	(18,936,130)	
<b>Net interest income after loan loss provision</b>	<b>(2,545,100)</b>	<b>20,284,592</b>
Fee income	3,934,347	4,158,138
Gain minus loss from financial derivative transactions	5,941,231	(12,492,609)
Gain minus loss on revaluation of securities held at fair value through profit or loss	65,958	292,507
Gain minus loss on foreign currency transactions	-	17,032
Loss minus gain on foreign currency revaluation	(7,671,877)	2,140,311
Loss arising from the initial recognition of financial instruments at below-market rates	(4,443,157)	(4,278,421)
Revaluation of securities held at fair value through other comprehensive income	(86,806)	-
Recovery of provision/ (Contributions to provision) for impairment of other assets	6,042	(34,850)
(Contributions to provision) / Recovery of provision for credit-related liabilities	(243,942)	207,212
Recovery of provision for impairment of investments held to maturity	-	183,337
Other operating (loss) / income	(289,272)	40,818
Expenses on implementation of the Fund's programs	(872,451)	(904,953)
General and administrative expenses	(4,339,827)	(4,406,877)
<b>Earnings before tax</b>	<b>(10,544,854)</b>	<b>5,206,237</b>
Income tax expenses	(1,385,618)	(1,093,393)
<b>(LOSS) / PROFIT FOR THE YEAR</b>	<b>(11,930,472)</b>	<b>4,112,844</b>
<b>Other comprehensive income:</b>		
Items that may be reclassified subsequently to profit and loss:		
Investments available for sale:		
– Income minus loss for the year	-	8,749
Investments in equity securities measured at fair value through other comprehensive income:		
– Income minus loss for the year	152,139	-
<b>Other comprehensive income for the year</b>	<b>152,139</b>	<b>8,749</b>
<b>TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR</b>	<b>(11,778,333)</b>	<b>4,121,593</b>

## STATEMENT OF CHANGES IN EQUITY

(KZT thous.)	Shareholders' equity	Additional paid-in capital	Provision for available-for-sale investment	Provision for securities measured at fair value through other comprehensive income	Other revisions	Undistributed (loss) / earnings	Total
<b>Balance as of January 1, 2017</b>	<b>72,920,273</b>	<b>834,527</b>	<b>61,588</b>	-	<b>316,430</b>	<b>24,571,961</b>	<b>98,704,779</b>
Profit for the year	-	-	-	-	-	4,112,844	4,112,844
Other aggregate income	-	-	8,749	-	-	-	8,749
Total aggregate income for the year	-	-	8,749	-	-	4,112,844	4,121,593
Dividends paid	-	-	-	-	-	(1,678,218)	(1,678,218)
<b>Balance as of December 31, 2017</b>	<b>72,920,273</b>	<b>834,527</b>	<b>70,337</b>	-	<b>316,430</b>	<b>27,006,587</b>	<b>101,148,154</b>
Transition of opening balance	-	-	70,337	70,337	-	-	-
<b>Changes at the initial use of IFRS 9</b>	-	-	-	-	-	(3,760,633)	(3,760,633)
<b>Recalculated balance as of January 1, 2018</b>	<b>72,920,273</b>	<b>834,527</b>	-	<b>70,337</b>	-	<b>23,245,954</b>	<b>97,387,521</b>
Loss for the year	-	-	-	-	-	(11,930,472)	(11,930,472)
Other aggregate income	-	-	-	152,139	-	-	152,139
Total aggregate income for the year	-	-	-	152,139	-	(11,930,472)	11,778,333
Dividends paid	-	-	-	-	-	(1,234,153)	(1,234,153)
Discount on securities	-	-	-	-	-	(5,904,111)	(5,904,111)
Provision on loan	-	-	-	-	-	(5,950,446)	(5,950,446)
<b>Balance as of December 31, 2018</b>	<b>72,920,273</b>	<b>834,527</b>	-	<b>222,476</b>	<b>316,430</b>	<b>(1,773,228)</b>	<b>72,520,478</b>

## CASH FLOW STATEMENT

(KZT thous.)	2018	2017
<b>Cash flow from operating activities:</b>		
Interest received	16,428,247	18,557,813
Interest paid	(4,481,586)	(3,383,249)
Fees received	5,203,483	3,941,384
Fees paid	-	-
Revenues from other operating activities	133,547	894,000
Labor costs, paid	(2,008,740)	(1,876,279)
General and administrative costs, paid	(5,261,281)	(4,012,811)
<b>Cash received from operating activities prior to changes in operating assets and liabilities</b>	<b>10,013,670</b>	<b>14,120,858</b>
<b>Net decrease/(increase) on:</b>		
– securities held at fair value, which changes are reflected through profit or loss	-	3,808,000
– funds in financial institutions	(12,252,595)	6,854,215
– loans and advances to clients	6,345,360	8,618,886
– other assets	(367,602)	(2,820,108)
<b>Net (decrease)/ increase on:</b>		
– liability on subsidy programs	-	-
– other financial commitments	2,257,434	(10,531,427)
– other liabilities	60,255	(154,785)
<b>Net cash from / (used in) operating activities</b>	<b>6,056,522</b>	<b>19,895,639</b>
<b>Cash flow from investment activities</b>		
Acquisitions of investment securities	(33,011,630)	-
Proceeds from disposal of investment securities	737,444	-
Acquisition of fixed assets	(46,091)	(64,372)
Acquisition of non-intangible assets	(45,511)	(97,363)
Proceeds from disposal of fixed assets	229,539	1,499
<b>Net cash flow (used in) / from investment activities</b>	<b>(32,136,249)</b>	<b>(160,236)</b>
<b>Cash flow from financial activities</b>		
Loans taken	40,855,659	28,969,693
Loans repaid	(55,374,984)	(51,909,898)
Gain from financial derivative transactions	19,582,304	4,702,293
Gain from issued debt securities	15,995,520	-
Dividends paid	(1,234,153)	(1,678,218)



<b>Net cash used in financial activities</b>	<b>19,824,346</b>	<b>(19,916,130)</b>
Effect of changes in foreign exchange rate on cash and cash equivalents	134,125	228,643
Net increase in cash and cash equivalents	(6,121,256)	47,916
Cash and cash equivalents at beginning of period	44,074,930	44,027,014
Cash and cash equivalent at end of period	37,953,674	44,074,930

## 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, 2018, on transactions with the related parties:**

(KZT thous.)	Sole Shareholder	Jointly controlled companies	Associated companies	Other related parties
Cash and cash equivalents	-	56,250	-	16,907,264
Investment debt securities at fair value through profit or loss	-	-	-	948,880
Funds in financial institutions	-	-	-	14,934,368
Prepayment under the current liabilities for income tax	-	-	-	11,290,109
Other financial assets	-	-	-	5,187
Other assets	-	-	-	23,403
Borrowings	76,392,378	-	-	69,385,576
Issued debt securities	-	16,057,484	-	-
Liabilities under subsidy programs	-	-	-	2,131,878
Deferred tax liability	-	-	-	1,279,281
Other liabilities	-	4,384	-	696,903
Guarantees issued by the Fund as of year-end	-	-	-	732,974

## APPENDIX 1

NON-ARM'S LENGTH TRANSACTION  
AND LARGE TRANSACTIONS OF THE FUND IN 2018

## Non-arm's length transactions:

№	Counterparty under the contract	Number and date of decision of the Fund's authorized body which made a decision on transaction	Brief information
1	"INTELFOOD" IE (2 transactions)	Decision of the Fund's Board of Directors dated April 27, 2018 (minutes No 84)	Conclusion of guarantee agreement
2	"OMIEX Kazakhstan" LLP/ "KazMotor" LLP		
3	"Ansau Group" LLP		
4	Zhansultanov Yermek Zhumanovich IE		
5	"RegionStroy" construction company (2 transactions)		Implementation of Nurly Zher Residential Construction State Program
6	"Khiba-Naz" (2 transactions)		
7	"Pacific Group"		
8	"Asia Stroy KZ" (4 transactions)		
9	"BK-Stroy" (7 transactions)		
10	"Integrostroy" (2 transactions)		
11	"Leasing Group" JSC	Abstract from decision in-person meeting of the Fund's Board of Directors No 03/2018 dated 27.04.2018	Transaction with Leasing Group JSC was concluded as part of the program for financing leasing transactions of small and medium-sized businesses.
12	"Shyngys-Service Trade" LLP	Abstract from minutes of the Fund's Credit Committee No.4556 of 11.05.18, Abstract from minutes of the Fund's Executive Board No. 64/2018 dated May 22, 188, Abstract from minutes of the Fund's Board of Directors No. 07/2018 dated June 29, 188	Conclusion of guarantee agreement between the Fund, Tsesnabank JSC and Shyngys-Service Trade LLP under the following terms and conditions: guarantee amount – KZT 26,315,790 (44% of the loan amount), guarantee period - 36 months, but not more than the term of the loan agreement.
13	"Baiterek Development" JSC	Abstract from Decision in-person of the Board of Directors of Damu Entrepreneurship Development Fund JSC No. 08/2018 dated September 3, 2018 (item No. 8)	To accommodate the Government Relations Department in Astana. Address of leased premises: Astana, Mangilik Yel street, 55A, Baiterek Business Center

№	Counterparty under the contract	Number and date of decision of the Fund's authorized body which made a decision on transaction	Brief information
14	"Development Bank of Kazakhstan" JSC	Abstract from Decision in-person meeting of the Board of Directors of Damu Entrepreneurship Development Fund JSC No. 08/2018 dated September 3, 2018 (item No. 8)	To accommodate the Government Relations Department in Astana. Address of leased premises: Astana, Mangilik Yel street, 55A, Baiterek Business Center
15	"Baiterek Development" JSC	Abstract from Decision in-person meeting of the Board of Directors of Damu Entrepreneurship Development Fund JSC No. 08/2018 dated September 3, 2018	To accommodate the regional branch in Astana. Address of leased premises: Astana, Mangilik Yel street, 55A, Baiterek Business Center
16	"Baiterek Development" JSC	Abstract from Decision in-person meeting of the Board of Directors of Damu Entrepreneurship Development Fund No. 08/2018 dated September 3, 2018 (item No. 8)	Address of leased parking lot: Astana, Mangilik Yel street, 55A, Baiterek Business Center
17	"Development Bank of Kazakhstan" JSC	Abstract from decision of the Fund's Board of Directors No 13/2018 dated 07.12.2018.	Commitment of the Fund to DBK to repurchase coupon bonds under the framework of the bond program prospectus for 6 months
18	"Yakovlev Sergei Aleksandrovich" IE	Abstract from minutes of the Fund's Credit Committee No 5400 dated 07.08.2018, Abstract from minutes of the Fund's Executive Board No 121/2018 dated 24.08.2018, abstract from meeting of the Fund's Board of Directors No 10/2018 dated 24.09.2019.	Conclusion of guarantee agreement
19	"Tsesnabank" JSC	Abstract from Minutes of the Executive Board No 164/2018 dated 13.11.2018, Abstract from Minutes of meeting of the Board of Directors No 12/2018 dated 26.11.2018.	Conclusion of transaction between Damu Entrepreneurship Development Fund JSC and Tsesnabank JSC, in which Damu Entrepreneurship Development JSC has interest by repurchasing bonds of Tsesnabank JSC.
20	"Tsesnabank" JSC	Abstract from Minutes of the Executive Board No 179/2018 dated 04.12.2018, Abstract from Minutes of meeting of the Board of Directors No 13/2018 dated 07.12.2018.	Conclusion of transaction between Damu Entrepreneurship Development Fund JSC and Tsesnabank JSC, in which Damu Entrepreneurship Development JSC has interest by repurchasing bonds of Tsesnabank JSC.

Large transaction: not concluded in 2018



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