



ANNUAL REPORT

2015

НАҚТЫ ІСКЕ – НАҚТЫ ҚОЛДАУ!
РЕАЛЬНОМУ ДЕЛУ – РЕАЛЬНАЯ ПОДДЕРЖКА!

Microfinance Organization KMF is the largest MFO in Kazakhstan and one of the largest in Central Asia. The company provides loan products aimed at supporting entrepreneurship, growth of well-being of the population, and development of agriculture.

1. Reporting events in 2015

Obtaining the status of a microfinance organization

In January 2015, the Company successfully completed the procedure of the formal re-registration of the microcredit organization KazMicroFinance into **Microfinance Organization KMF**. In February, the company was registered with the National Bank of the Republic of Kazakhstan and entered into the register of microfinance organizations. Thus, KMF has become a full-fledged player in the regulated financial market. From now on the company should comply with specific requirements such as compliance with prudential standards, submission of regulatory and financial statements, provision of information about borrowers and loans disbursed to credit bureaus, etc.

Obtaining social rating “A” from MicroFinanza Rating

In March 2015, KMF obtained social rating “A” from an international rating organization MicroFinanzaRating. Currently, KMF is the only microfinance organization in Kazakhstan with an active social rating, which evidences excellent level of social performance management and properly organized client protection mechanisms.

Obtaining the highest “Five diamonds” rating from MixMarket

KMF has gained “Five diamonds” rating on the open global Internet platform MIX Market, which is an indicator of the highest level of transparency of the company’s statements and supporting documentation. MIX Market (www.mixmarket.org) is a datacenter where microfinance institutions share institutional data to increase their transparency and understanding of the market.

Completing the Client Protection Principles Certification initiated by Smart Campaign

In April 2015, KMF completed certification for the Client Protection Principles initiated by Smart Campaign, and thus it has become the first certified MFO in the Republic of Kazakhstan. Obtaining this certificate proves the compliance of the KMF’s management systems, policies and processes with the Client Protection Principles and firm commitment of its management to promote the growth and institutional development within the framework of the Client Protection Principles.

Recognition of KMF as a “National Champion” in the “Non-Banking Financial Services” sector

According to the decision of the Competitiveness Council of the National Chamber of Entrepreneurs of the Republic of Kazakhstan, KMF was included in the list of “National Champions”, a list of competitive companies in Kazakhstan. When selecting these companies, the panel of experts was guided by such criteria as leadership, internal generation of human resources, great market recognition, client-oriented services, innovations, etc.

KMF is recognized as **the best charitable organization** in the contest "Caravan of Mercy" held by the Assembly of the People of Kazakhstan.

During the year new offices were opened in South Kazakhstan, Pavlodar, Karaganda and Kostanay regions.

In May, **KMF disbursed its millionth loan** to a client of "Merkur" outlet of Almaty branch "On Kaldayakov".

2. KMF in figures

At the end of 2015, the number of active KMF clients made 151,634 people, and loan portfolio reached KZT 34.4 billion.

Today, KMF has 102 points of sale throughout Kazakhstan with the presence in more than 3,500 settlements, including 18 branches in major cities of Kazakhstan and 84 outlets, 74 of which are located in rural areas. The company has an important social impact on business customers by providing financial and non-financial services to them. We provide more than 120 000 jobs for our clients, moreover, these entrepreneurs finance about 21 000 jobs for their employees, thereby ensuring employment.

More than 70% of our customers, which are 105 thousand people, are rural residents, who have implemented more than 63% of the total loan portfolio.

It is worth noting that 64% of all clients are women, and 64 thousand of those clients provided with our credit facilities are women in rural areas.

Social Impact

| Share of the loan portfolio by the income source | |
|---|---------|
| Income from entrepreneurship | 39% |
| Income from agriculture | 31% |
| Average loan amount and coverage of population with low income | |
| Average loan amount, total | 299 590 |
| Coverage of population with low income per person Families with <1 minimum living wage (among new clients) | 4% |
| Service quality | |
| Client satisfaction analysis | 93.7% |
| Client retention rate | 79% |
| Coverage by the Financial Literacy Project | 75 149 |
| Jobs created due to KMF financing | |
| Number of financed jobs (self-employed clients + employed clients) | 121 190 |
| including self-employed clients (financing of micro enterprises) | 106 053 |
| including number of employees of our clients | 20 716 |

3. Social Responsibility

KMF is a socially responsible company, which pays particular attention to the development of projects and initiatives on social responsibility before clients, employees and society. Our success goes hand in hand with the well-being of our clients.

Smart Campaign

Responsible behavior towards customers is reflected in all the processes: starting from the terms and conditions of a loan product to the loan repayment. KMF is one of the few companies in microfinance industry, which has officially documented client protection principles and compliance with these principles is certified by the rating agency MicroFinanza Ratings.

Client Protection Principles:

- Appropriate product design and delivery channels;
- Prevention of over-indebtedness;
- Transparency;

- Responsible pricing;
- Fair and respectful treatment of clients;
- Privacy of client data;
- Mechanisms for complaint resolution.

This certificate says that KMF strictly complies with all the requirements of the client service, prevents their over-indebtedness, provides transparent and complete information on loan terms and conditions, keeps privacy, as well as complies with other indicators in order to prevent clients from all possible risks.

Financial Literacy Improvement Project

Corporate social responsibility specifies not only the provision of financial services, but also free financial literacy training.

Since 2013, with the support of its parent organization Corporate Fund "KMF-Demeu", KMF has been implementing the Financial Literacy Improvement Project. Seminars are attended free of charge not only by our clients, but by any citizen of Kazakhstan, willing to. By January 01, 2016 the total number of participants of the Financial Literacy Improvement Project has exceeded 75 000 people.

In 2015, the project on improvement of financial literacy among entrepreneurs on the topics of accounting, planning of enterprise costs, basics of marketing was launched for the company's loyal customers.

50% of all active clients of the company are covered by free financial literacy training, which demonstrates high demand for this training. Anyone can participate in these seminars by leaving an application on the company's website or registering at the branch with the business coach.

Charity

At the end of 2015, KMF was recognized as the best charitable organization among the banking sector of Kazakhstan within the framework of the contest organized by the Assembly of the People of Kazakhstan. However, the most important thing is that our employees share and support this vision of the company. Starting from 2014, all KMF branches are implementing the "Goodness Campaign", within which KMF employees on their own initiative help people in need by collecting funds, as well as by helping them at home, etc. Veterans of the Great Patriotic, large families and orphanages are under the employees' wing.

4. KMF's Key Financial Indicators

2015 was the year of the growth of KMF's efficiency. Taking into account economic environment and changes in the economic factors, such as the decline in Kazakhstan's GDP growth rate and devaluation of KZT by 86% during 2015, the financial performance of KMF is more than good.

KMF Assets as of December 31, 2015 amounted to KZT 44,191 thousand (+35%). Growth is resulted from the active loan activity and vertical development of KMF in rural regions of the country. Loan portfolio increased by 24% and amounted to KZT 34,729 million.

Loans' disbursement volume has increased by 17% compared with 2014, and by 9% by number. One of the important KMF's competitive advantages remains high loan portfolio quality. As of December 31, 2015 the share of PAR over 30 days was 1.9%.

Funding base structure remains unchanged, where 79% or KZT 34,977 million are borrowed funds and 21% or KZT 9,214 million are equity. In 2015, the Company's equity increased by 18%, the Company's net profit was KZT 1,701 million. Indicators on the level of operational and financial sustainability make up 120.1% and 110.9% respectively, which shows complete coverage of expenses with the use of the company's income. Following the results of 2015, the ratios of return on

equity and on assets, which are indicators of financial activities quality, made up 4.5% and 20.4% respectively.

| Indicators | 2013 | 2014 | 2015 |
|-------------------------------|--------|--------|--------|
| Return on assets (ROA), % | 3,8% | 5,6% | 4,6% |
| Return on equity (ROE), % | 16,4% | 30,7% | 20,4% |
| Operational sustainability, % | 116,1% | 122,6% | 120,1% |
| Loan portfolio yield, % | 43,5% | 44,0% | 41,9% |
| Portfolio at risk, % | 1,3% | 1,3% | 1,9% |
| Leverage | 4,0 | 3,2 | 3,8 |

KMF performance results

According to the audited financial statements, KMF made a net profit of KZT **1,701 million** in 2015, which is by 18% higher than the last year's figure. This net profit increase, first of all, is a result of the loan portfolio increase by 24%.

Following the results of 12 months of 2015, the financial income increased by KZT 3,096 million or by 31%, and amounted to KZT 12,984 million compared with income of KZT 9,887 million for 2014.

The financial income structure includes 92% of interest income from loans disbursed. For the accounting period of 2015, the interest income from loans increased by KZT 2,965 million or by 33%. For 2015 the financial expenses as compared with the result of 2014 showed increase by 33% or by KZT 894 million and amounted to KZT 3,573 million. This growth is explained by several reasons: increase in value of raising new loans and increase in volume of liabilities following the results of 2015.

in thous. KZT

| Income Item | 2015 | 2014 | 2013 | 2015-2014, % of changes | 2014-2013, % of changes |
|------------------------------------|-------------------|------------------|------------------|-------------------------|-------------------------|
| Financial income: | 12 983 803 | 9 887 396 | 6 325 078 | 31% | 56% |
| Interest income from loans | 11 974 383 | 9 009 758 | 5 797 934 | 33% | 55% |
| Loan commission | 839 511 | 820 661 | 434 010 | 2% | 89% |
| Other portfolio income | 68 943 | 35 257 | 27 322 | 96% | 29% |
| Income from short-term investments | 100 965 | 21 719 | 65 812 | 365% | -67% |
| Financial expenses | 3 573 015 | 2 678 831 | 1 665 602 | 33% | 61% |
| Financial margin | 9 410 788 | 7 208 565 | 4 659 476 | 31% | 55% |

In 2015, the KMF's operational expenses amounted to KZT 6,038 million. Growth of expenses was 21% as compared with 2014. This growth of expenses should be considered in the context of KZT devaluation, which increased operational expenses.

Structure of operational expenses

in thous. KZT

| | 2015 | 2014 | Deviation |
|--------------------------------|-----------|-----------|-----------|
| Personnel expenses | 4 197 482 | 3 501 020 | 20% |
| Administrative expenses | 1 840 080 | 1 503 229 | 22% |

Personnel expenses increased by 20%. The reasons of that growth were increase in number of employees by 12%, as well as increase in salary of all employees of the company by 15% on average.

At year-end 2015, the number of personnel was 1,397 people (excluding women-employees, who are on maternity leave). Personnel expenses still constitute the main share of expenses – 70% of the total amount of operational expenses. At year-end 2015, the personnel expenses efficiency indicator was 13.7%, which is better than the result of 2014 (15.6%).

Growth of other administrative expenses amounted to 22%, that is caused by the investments in development, branch network and information system expansion, acquisition and installation of own terminals of loan repayment acceptance, strengthening of security at offices, improvement of current conditions and development of new loan products. During the reporting year 9 new outlets were opened. At year-end 2015 KMF, has 18 branches and 84 outlets.

Despite operating expenses growth, the operating efficiency indicator of other administrative expenses improved by 0.7% and, following the results of 2015, it made up 6.0% (following the results of 2014 – 6.7 %). Following the results of 2015, the ratio of operational expenses to financial income amounted to 47% showing improvement by 4% as compared with the results of 2014 (51%).

Asset impairment losses or provisioning expenses increased in 2015 and amounted to KZT 377 million. This growth has been expected considering the growth of the loan portfolio by 24%, where provisions for impairment losses are created at the disbursement of loans. At the same time, the low level of the non-performing loans should be noted, which is an indicator of the high quality loan portfolio (see section "Statement on financial standing").

5. Statement on financial standing

Assets

As of December 31, 2015 the KMF's assets amounted to KZT 44,191 million against KZT 32,640 million as of December 31, 2014. Assets increased by KZT 11,551 million or 35%, that is caused by net loan portfolio increase by 24%, and liquid assets increase by 87%. There was a substantial increase in the volume of financial instruments measurable at fair value, which amounted to KZT 2,985 million.

Like in previous years, the prevailing share in the assets structure is occupied by the disbursed loans, as of the end of the reporting year their share amounted to 79%. The level of liquid assets increased from 7% as of the end of 2014 up to 10% following the result of 2015. The volume of net fixed assets has increased by KZT 267 million, and the volume of other assets by KZT 120 million.

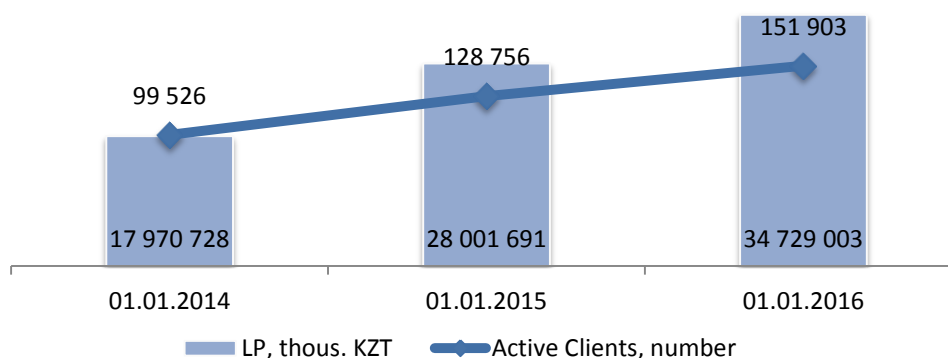
| Assets | as of 31.12.2015 | as of 31.12.2014 | as of 31.12.2013 | 2015-2014, rate in % | 2014-2013, rate in % |
|---|-----------------------------|-----------------------------|-----------------------------|---------------------------------|---------------------------------|
| Cash and cash equivalents | 4 392 587 | 2 354 678 | 324 979 | 87% | 625% |
| Net loan portfolio | 34 644 759 | 28 008 962 | 18 073 844 | 24% | 55% |
| Financial instruments measurable at fair value | 2 984 600 | 493 859 | 95 718 | 504% | 416% |
| Other assets | 278 277 | 158 758 | 189 030 | 75% | -16% |
| Net fixed assets | 1 890 453 | 1 623 525 | 1 174 686 | 16% | 38% |

| | | | | | |
|---------------------|-------------------|-------------------|-------------------|------------|------------|
| TOTAL ASSETS | 44 190 676 | 32 639 783 | 19 858 257 | 35% | 64% |
|---------------------|-------------------|-------------------|-------------------|------------|------------|

Loan portfolio

In 2015, the gross volume of loan portfolio increased by 24% and amounted to KZT 34,729 million. This growth was due to the KMF regional network expansion, with deeper outreach of existing regions and expansion into new regions, as well as the new SME product development in the regions.

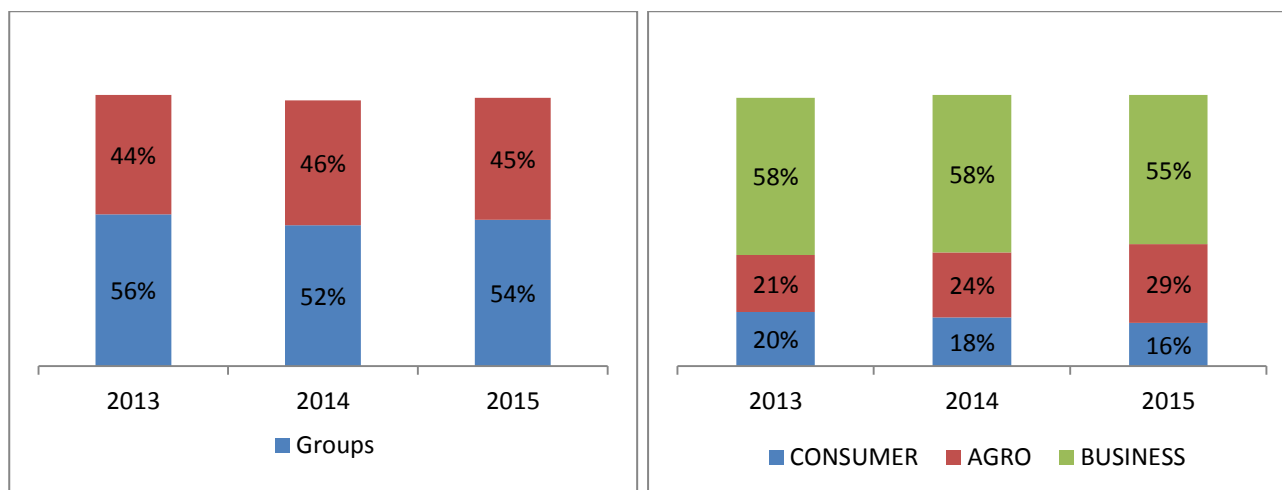
Dynamics of loan portfolio and active client base for the period of 2013-2015.



Loan portfolio dynamics shown in the diagram above illustrates stable loan portfolio growth. Over the last three years the loan portfolio increased twofold. Positive dynamics and significant volume of the loan portfolio was achieved due to the competitive conditions and individual approach to each client.

Number of active clients increased by 18% or more than 23 thousand people as compared with the previous year. The total active client base was 151 903 people following the results of 2015.

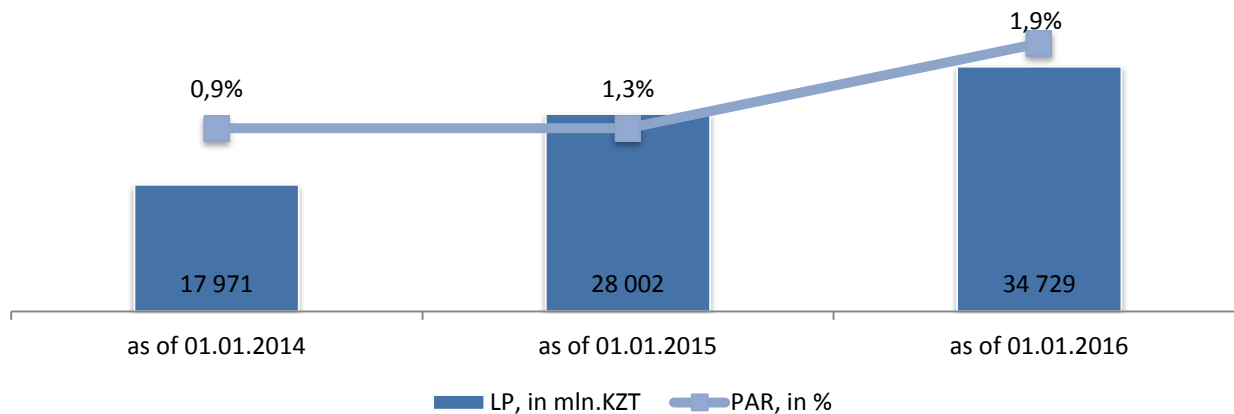
Loan portfolio structure hasn't changed significantly, the group loans aimed at business development have the greatest relative share.



Data provided in the diagrams above show that the established standards of loan risks diversification are in compliance both with the lending form, and with income source.

Since the beginning of 2015, the dynamics of changes in portfolio at risk ("PAR") demonstrates growth, but, at the same time PAR exposure makes up 1.9%, which is in compliance with the basic indicator and lower than the market level.

Dynamics of changes in LP and PAR for 2013-2015.

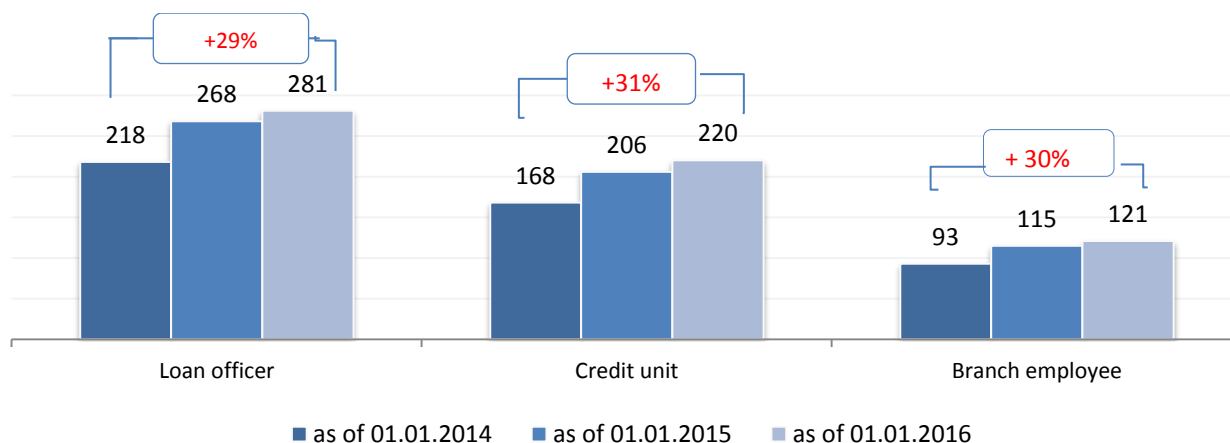


Loan officers' productivity

In 2015, the loan officers' productivity increased by 7% and reached level of 220 active clients per employee of the credit unit in the branches. By the end of the year, the loan officers' productivity was 281 clients per loan officer, and increased by 13 clients.

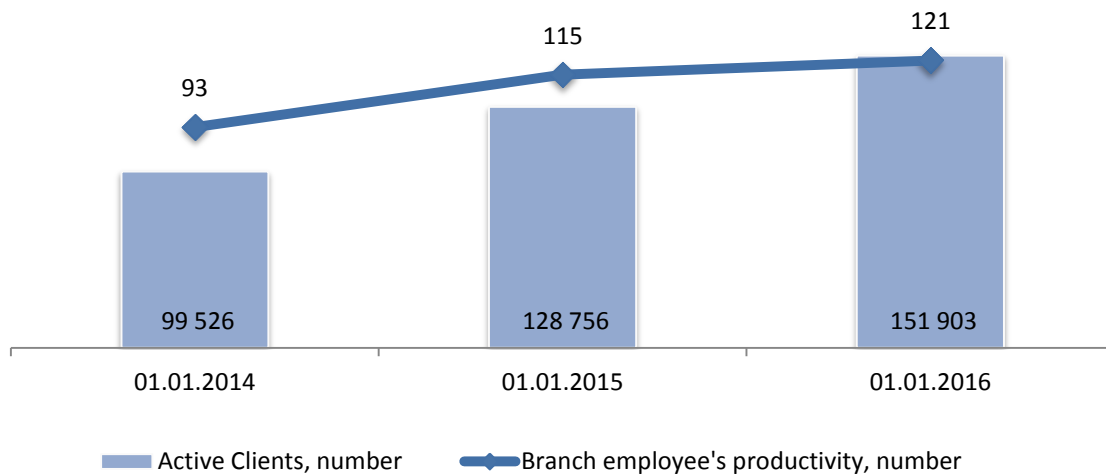
Growth of credit staff productivity was enhanced by the introduction of the tablet-based application "Mobile Expert", which increased the speed of document workflow in lending operations and reduced the time for considering loan applications.

Branch employees' productivity in the period from 2013 to 2015.



The ratio of branch employees' productivity and credit unit's productivity with active client base growth also demonstrates growth of employee's performance. During the last year, the number of active clients increased by 18% and number of credit unit employees increased by 11% as compared with the beginning of the reporting period.

Dynamics of active clients base growth and branch employees' productivity



Compliance with the prudential regulations

MFO "KMF" has completed the record registration with the National Bank of the Republic of Kazakhstan and is included in the register of microfinance organizations under the number 05.15.002 dated 03.02.2015. Therefore, according to the requirements of the National Bank of Kazakhstan KMF shall comply with prudential regulations.

| # | Indicator | Standard | Actual as of 01.01.2016 | Compliance with the prudential regulations |
|---|---|--------------------|-------------------------|--|
| 1 | Paid-in charter capital | \geq KZT 30 mln. | KZT 7,202,370 thous. | ✓ |
| 2 | Calculated equity | \geq KZT 30 mln. | KZT 9,193,459 thous. | ✓ |
| 3 | Equity adequacy ratio | $k1 \geq 0.1$ | 0.208 | ✓ |
| 4 | Maximum exposure ratio per one borrower | $k2 \leq 0.25$ | 0.002 | ✓ |
| 5 | Total liabilities maximum limit ratio | $k3 \leq 10$ | 3,400 | ✓ |