



**ANNUAL REPORT**  
**2020**

KMF microfinance organization is the largest microfinance institution in Kazakhstan. The company provides microcredit products aimed at supporting entrepreneurship, increasing the well-being of the citizens and developing agriculture.

## **1. Major milestones in 2020**

### **\$40mn loan from the EBRD**

In a complex environment of economic volatility, KMF received an EBRD loan in the amount of \$40mn in tenge. The loan helped domestic entrepreneurs to continue their entrepreneurial activities and save jobs.

In such a way, KMF was able to satisfy the urgent liquidity needs of micro, small and medium-sized businesses (MSMEs) that resulted from the coronavirus pandemic, thanks to a local currency loan provided by the European Bank for Reconstruction and Development (EBRD).

### **\$15mn loan from a subsidiary of PROPARCO French Development Agency**

KMF received a tenge loan equivalent to \$15mn from PROPARCO (a subsidiary of the French Development Agency (AFD)). In Kazakhstan, microfinance institutions (MFIs) play a key role in rural areas, where people often have difficulty accessing the resources they need to finance their activities. Just as in the case of the tenge loan equivalent to \$10mn provided by PROPARCO in 2017, this new loan will allow KMF to continue supporting the economic and social development of the citizens, which is not covered by traditional financing, especially in rural areas, PROPARCO reported.

### **SIFEM Swiss investment fund and KMF signed a financing agreement for \$10mn**

With the help of SIFEM funds, KMF is successfully diversifying its investment portfolio and attracting affordable financing for small and medium-sized businesses to help them overcome the economic problems caused by the COVID-19 pandemic.

– Thanks to the positive financial impact that microlending has on the economy of Kazakhstan, we support the active expansion of microfinance in Kazakhstan. Our long-term loan will allow the largest microfinance institution in the country to keep on actively lending to rural residents and women who are now experiencing difficulties due to a downturn and, therefore, falling income,” said Jörg Frieden, Chairman of SIFEM

### **Agreement with DAMU Entrepreneurship Development Fund**

An agreement was signed between DAMU Entrepreneurship Development Fund and KMF on opening a credit facility for financing micro and small private businesses in the regions on preferential terms.

5bn tenge allocated to KMF will be used to finance micro and small private entrepreneurship in the regions on preferential terms as part of the existing loan products of KMF.

### **The EBRD award**

The EBRD recognized KMF for its success in the implementation of sustainable development projects in the field of gender and economic integration.

In addition to the Women in Business project, KMF is also implementing other projects aimed at supporting women entrepreneurs, including in rural areas, for example, the borrowers support program, which covered tens of thousands of micro-entrepreneurs in Kazakhstan.

## Mobile app

KMF launched a mobile application which allows customers to apply for a micro loan, get it transferred to a payment card issued by a third-party bank and make monthly repayments. The application is constantly updated to include new functions and capabilities. At the end of 2020, it was used by over 150 thousand users.

## Borrower Support Program during COVID-19 constraints

KMF has designed and successfully implemented a program for supporting borrowers, which included a variety of measures for those clients who faced difficulties and those who are ready to develop further! The program covered tens of thousands of clients. Under the program, a project of subsidized microloans for women entrepreneurs was implemented.

## “Green” microloans

As part of its cooperation with the EBRD, KMF launched a new direction of “green” microloans. The company became the first local partner of the EBRD among financial institutions in Kazakhstan to receive a credit facility in tenge equivalent of \$5mn. The GEF (Green Economy Financing Facility) program is aimed at providing loans to KMF clients for financing the modernization of housing / business with modern energy-efficient materials, purchasing energy-efficient equipment and technologies for business with the possibility of receiving 10-15% compensation of the microloan amount.

## New mission statement and values of KMF

The company adopted a new mission “The Best Microfinance for Your Prosperity”, which better aligns with the company’s values, client relationships and the prospects for KMF’s development as an MFI. The company also chose three values: K for Knowledge, M for Motivation, F for Freedom. While targeting these guiding values and principles, KMF will operate to benefit customers, employees and society as a whole!

## 2. KMF in figures

At the end of 2020, the number of active clients of KMF amounted to 220,361 people (down by 11% YoY), while the loan portfolio<sup>1</sup> increased to 135.7bn tenge (+1% YoY).

The company has 110 sales offices across Kazakhstan, which cover more than 4,000 settlements in 14 branches in major cities of Kazakhstan. The company has an important social impact on clients’ businesses by supporting them with financial and non-financial services. KMF loans contributed to the creation of more than 183,000 jobs. In addition, entrepreneurs finance about 40,000 jobs for their employees, thereby ensuring their employment.

## Social impact

68% of our clients (150,000 people) are residents of rural areas, who have utilized 63% of the company’s total loan portfolio.

It should be noted that 57% of all clients are women, of whom more than 80 thousand women live in the countryside.

## Data as of December 31, 2020

### Share of clients by source of income

<sup>1</sup> Hereinafter, the term “loan portfolio” means the outstanding principal on loans to customers, before deducting the impairment reserve as of December 31, 2020.

Income from entrepreneurial activity	51%
Income from agriculture	40%
<b>Average loan size and coverage of low-income population</b>	
Average disbursement size (micro-business clients only), total	659,000
Coverage of low-income population: income per 1 family member < 1 Cost of living (among new clients)	4%
<b>Service quality</b>	
Customer Satisfaction Survey	96.7%
Customer retention rate	72%
Coverage by “Financial literacy” project	155,000 (70% of active clients)
Coverage by “Business education” project	7,600
<b>Jobs created through KMF financing</b>	
Number of jobs funded (self-employed clients + hired employees)	252,667
including self-employed clients (microenterprise financing)	184,366
including the number of employees of our clients	67,676

### Financial literacy improvement project

The company’s social responsibility determines not only the provision of financial services, but also free training in financial literacy.

Since 2013, KMF, with the support of a major shareholder, KMF-Demeu Foundation, has been implementing the project “Improving the financial literacy of the population of Kazakhstan”. Lessons / consultations are available not only for clients, but also for all those interested. By January 1, 2021, the total number of participants in the Financial Literacy project exceeded 155,000 people. Over 7,000 KMF borrowers attended workshops on financial literacy in business management.

### Socio-ecological management system (SEMS), by categories of environmental risk

The company has adopted and operates a methodology for a socio-ecological management system (SEMS). This technique is implemented in the software in the form of a questionnaire, which is filled in by the loan officer by the own statement of the borrower. According to this methodology, the company has determined various degrees of risk for the activities of borrowers that may have an adverse impact on the environment.

**As of January 1, 2021, the distribution of environmental risks in the KMF portfolio is as follows:**

Risk degree	Percentage of the total number of clients	Percentage of the loan portfolio
High	0,01%	0,01%
Average	56,98%	51,70%
Low	43,01%	48,29%
<b>Total</b>	<b>100,00%</b>	<b>100,00%</b>

\*\*\* **High environmental risk** – The activities of the borrower / applicant and/or financing may have a significant adverse impact on the environment or human health and safety. For example: activities that

pose occupational risks or threat to health; irrigation activities or other projects affecting water supply or contributing to the pollution of water resources, production with significant harmful emissions and/or accumulation of hazardous wastes, using harmful and/or hazardous substances.

**\*\* Average environmental risk** – The activities of the borrower / applicant and/or financing may lead to environmental consequences, but these consequences are site-specific and few (if any) of them are irreversible. For example: hospitality / tourism, small scale agricultural production, vehicle maintenance and repair, etc.

**\* Low environmental risk** – The activities of the borrower / applicant and/or financing have minimal or no harmful environmental and/or social consequences. For example: repair of household items; wholesale and retail trade not mentioned in the list of activities not eligible for funding, in-home services, etc.

In 2020, as part of KMF’s participation in the EBRD’s Financial Program for a Green Economy in Kazakhstan, the company developed a program for green financing.

Now KMF clients receive loans for technologies that minimize the use of energy, technologies that generate energy from renewable sources and technologies that protect water resources.

### **Charity**

Charity plays an important role in the social activities of the company. Employees share and support this vision of the company.

In 2020, KMF began cooperation with the world-famous organization, the Red Cross and Crescent. During the state of emergency in March-May 2020, the company allocated 4mn tenge for the purchase of 800 food sets for those who were out of their work and needed food and basic necessities. The company also allocated another 10mn tenge from the reserve fund to buy special protective suits for medical workers.

The company also in its customary way helped low-income families and children in need of help under the “Road to School” project, when school supplies, uniforms, winter clothes and shoes are purchased for children from poor families throughout Kazakhstan. The company employees also take care of WWII veterans, large families and orphanages.

## **3. Summary of the results of the microfinance market for 2020**

As of January 1, 2021, the Agency of the Republic of Kazakhstan for Regulation and Development of the Financial Market (ARDFM) registered 229 operating MFIs. Since the beginning of 2020, the register of ARDFM was supplemented with 47 MFIs, producing an increase of 15% YTD. The share of KMF in the loan portfolio (net of impairment reserves) was 33%.

Despite all the difficulties caused by the coronavirus pandemic, the Company managed to maintain its loan portfolio at 136bn tenge with a slight increase by 1%. This was facilitated by the Company’s focus on maintaining the financial stability of its clients and preventing deterioration in the quality of the portfolio. In this regard, various client support tools were developed in a short time, both for the period of a pandemic and a post-crisis recovery.

At the same time, the growth rate of the entire MFI sector in terms of assets since the beginning of the year was 46%.

**Table 1**

**Largest MFIs by size of assets as of Q4 2020 (>10bn tenge)**

MFI	Assets, mn tenge	Share	Growth rate
KMF	154,307	33%	5%
Toyota Financial Services	70,148	14%	1%

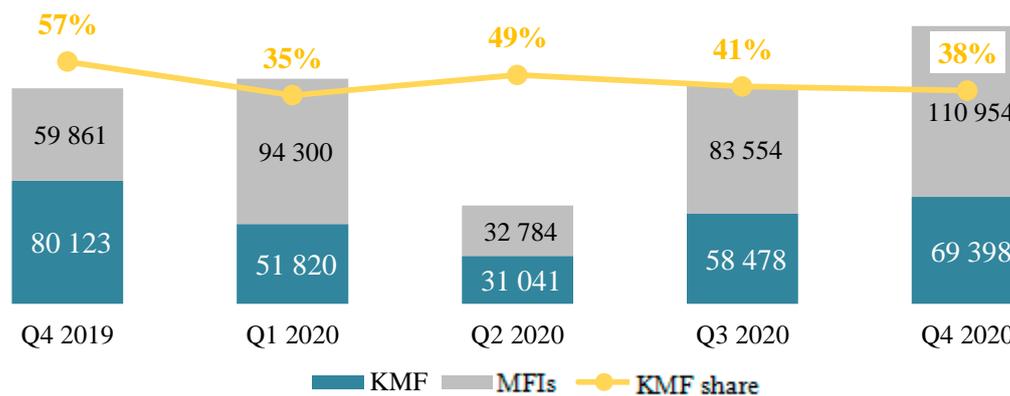
MyCar Finance	45,531	11%	-
OnlineKazFinance	43,176	9%	116%
Arnur Credit	20,528	4%	3%
TAS FINANCE GROUP	15,701	3%	10,333%
Shinkhan Finance	10,920	2%	43%
Others	158,976	25%	-7%
<b>Total MFI market</b>	<b>519,287</b>	<b>100%</b>	<b>46%</b>

In Q4 2020, the share of KMF by the number of loans disbursed was:

- ✓ net of pawnshops and fintech – 38% (-19% YoY)
- ✓ according to the classification of the NBK – 5%, which resulted from the final transfer of all pawnshops and fintech companies to the MFI category.

**Diagram 1**

**Share of KMF by the number of loans disbursed, units (net of pawnshops and fintech)**

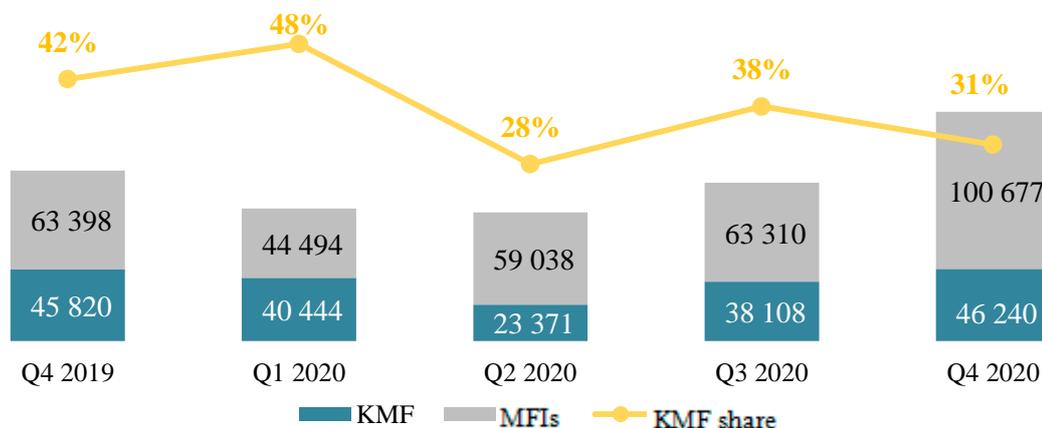


In Q4 2020, the share of KMF by the amount of loans disbursed was:

- ✓ net of pawnshops and fintech – 31% (-11% YoY)
- ✓ according to the classification of the NBK – 20%. In terms of the amount of loans disbursed, the decrease in the share turned out to be not as dramatic as in the number of loans disbursed, yet significant.

**Diagram 2**

**Share of KMF by the amount of loans disbursed, mn tenge (net of pawnshops and fintech)**



**Indicators of the average disbursement amount in the financial market in Q4 2020:**

- ✓ KMF – 666k tenge (+16% YoY)
- ✓ MFIs – 907k tenge (+100%)
- ✓ MFIs (NBK's classification) – 150k tenge (-65% vs Q1 2020)
- ✓ STBs – 509k tenge (+5%).

The coronavirus pandemic has spurred financial institutions to radically transfer their businesses and lending, in particular, to online.

Although KMF occupies a dominant competitive position in the Kazakhstan microfinance market, rapid changes in the market in terms of lending technologies, as well as in the legislation on MFIs, are forcing to revise the established business processes in favor of greater flexibility and speed.

#### 4. Review of financial results of KMF for 2020

The company prepares financial statements in accordance with International Financial Reporting Standards (IFRS) and the legislation of the Republic of Kazakhstan on accounting and financial reporting.

All information in this section is based on audited financial statements as of the years ended December 31, 2018, 2019 and 2020.

##### Key financial indicators for 2020

Indicators	2018	2019	2020
ROA	8.9%	9.0%	7.2%
ROE	41.1%	40.2%	27.2%
Return on LP (NP)	9.8%	9.8%	8.3%
PaR30+	2.0%	2.9%	3.6%
Leverage	3.4	3.0	2.2
Capital adequacy	22.6%	24.7%	28.1%
LP yield	41.8%	39.4%	36.1%
Overhead costs ratio	46.2%	44.3%	41.7%

Thanks to the Company's timely response to the difficulties caused by the coronavirus crisis, the financial indicators for 2020 are at a stable level.

*For reference: The sharp decline in ROE is due to the decision to not pay dividends in 2020.*

KZT mln.

Profit and Loss account	2018	2019	2020
<b>Interest income</b>	<b>43,257</b>	<b>51,895</b>	<b>49,820</b>
Income on loans	42,761	51,189	48,766
<b>Interest expense</b>	<b>-15,699</b>	<b>-18,519</b>	<b>-17,435</b>
<b>Financial margin</b>	<b>27,558</b>	<b>33,376</b>	<b>32,385</b>
Operating expenses	-12,675	-14,505	-13,162
Provisions	-2,064	-2,325	-4,170
<b>Operating profit (loss)</b>	<b>12,819</b>	<b>16,546</b>	<b>15,053</b>
Non-interest expense	-116	-457	-151
<b>Profit (loss) before tax</b>	<b>12,704</b>	<b>16,089</b>	<b>14,901</b>
CIT	-2,654	-3,356	-3,824
<b>Net profit (loss)</b>	<b>10,050</b>	<b>12,733</b>	<b>11,078</b>

Net profit received for the reporting period was 11.1bn tenge, which is 35% of the total net profit of the entire MFI sector. KMF's ROA in 2020 amounted to 7.2%, while the average indicator for the microfinance market is 6.2% (according to AMFOK<sup>2</sup> data). A good net profit indicator given the current unfavorable conditions is the result of the timely implementation of a number of measures aimed at:

- maintaining the financial stability of the company's customers and staff (design and implementation of various support tools);
- strengthening control over the quality of the portfolio;
- decreasing the funding cost (a shift in emphasis to local funding at a lower interest rate);
- increasing the efficiency of operating expenses (including by optimizing business processes)

Interest income received on loans for the year amounted to 48bn tenge. Income from placed liquidity was received in the amount of 1bn tenge. The profitability of the loan portfolio amounted to 36.1%, down by 3.3% from the start of the year. The decrease in the indicator was influenced by deferrals provided for the payment of principal and interest as part of the provision of support measures to clients in the context of lockdowns and the lack of business opportunities.

<sup>2</sup> Association of microfinance organizations of Kazakhstan

Interest expenses amounted to 17.3bn tenge, efficiency of financial expenses comprised 13%, having improved since the beginning of the year by 1.3 pp. The rate of decline in interest income by 4.2% is offset by the rate of decline in interest expenses by 6.2%, which is due to the diversification of the loan portfolio by way of attracting local funding with a lower interest rate.

Loss from expenses incurred for making asset impairment provisions amounted to 4.2bn tenge, which is almost 45% more than in the previous year. The significant increase in expenses was due to a large pool of restructuring, caused by lockdowns and a lack of income during the pandemic.

Due to a significant depreciation of tenge, transactions with financial instruments at fair value through profit or loss generated an income in the amount of 871mn tenge from the revaluation of swaps from the beginning of the year, which made it possible to compensate for the loss from revaluation of foreign currency in the amount of 928mn tenge.

Operating expenses amounted to 13.2bn tenge, which is 1.3bn tenge less than in 2019 (-10%). More efficient use of expenses gives evidence of timely measures taken to optimize costs during a pandemic. At the end of 2020, the company's headcount included 1,811 people (the share of credit section employees was 49%).

The operating cost efficiency indicator improved by 0.5 pp from 13.1% to 12.5%. The efficiency of personnel costs amounted to 6.9%, having improved by 1 pp, while the efficiency of other administrative expenses comprised 3%, up by 0.4% compared to 2019.

The ratio of operating expenses to interest income at the end of 2020 was 26%, up by 1.5% compared to 2019 (28%).

## 5. Statement of financial position

### Assets

At the end of 2020, KMF assets increased by 5% from the beginning of the year to 154bn tenge, having grown by 6bn tenge due to 3.5bn tenge increase in the loan portfolio and the acquisition of a building for the Head Office.

Assets	2018	2019	2020	2029 vs 2018		2020 vs 2019	
				abs	%	abs	%
Cash and cash equivalents	7,158	9,056	4,816	1,898	27%	-4,240	-47%
Funds in credit institutions	11	31	24	20	182%	-7	-23%
Derivative financial assets	-	-	188	-	-	-	-
Loans to clients	117,377	132,795	136,314	15,418	13%	3,519	3%
Investment securities	-	-	4,116	-	-	-	-
Investment property	148	64	53	-84	-57%	-11	-17%
Right-of-use assets	-	632	527	-	-	-105	-17%
Net fixed assets (intangible assets)	3,973	4,277	7,737	304	8%	3,460	81%
Other assets	535	747	490	212	40%	-257	-34%
<b>TOTAL ASSETS</b>	<b>129,202</b>	<b>147,602</b>	<b>154,264</b>	<b>18,400</b>	<b>14%</b>	<b>6,662</b>	<b>5%</b>

Net loan portfolio is by definition the largest item of assets: it accounts for 88% of total assets. The share of liquid assets (cash and securities) was 6% as of the reporting date. The share of net fixed assets increased from 3% at the start of the year to 5%.

### Net fixed assets

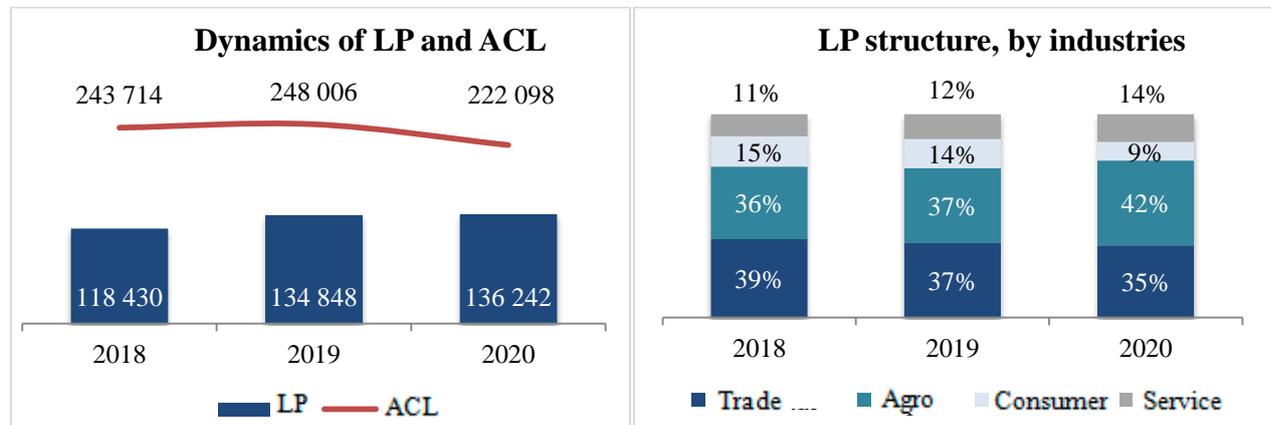
The book value of fixed assets and intangible assets of KMF as of the reporting date amounted to 7.7bn tenge, having increased YTD by 3.5bn tenge (+81%) due to the acquisition of an office building.

Net fixed assets, mn tenge	2018	2019	2020	2019 vs 2018		2020 vs 2019	
				abs	%	abs	%
Buildings	2,122	2,152	5,310	30	1%	3,158	147%
Computers	653	679	812	27	4%	133	20%
Other types of fixed assets	337	389	357	52	16%	-32	-8%
Machine and equipment	235	249	326	14	6%	77	31%

Vehicles	255	252	309	-2	-1%	57	23%
Land plots	81	81	86	0	0%	5	7%
Production and household inventory	84	88	79	4	4%	-9	-10%
Transfer devices	1	3	21	2	135%	18	582%
Constructions	2	2	4	0	-2%	2	95%
Intangible assets	204	382	433	177	87%	51	13%
<b>TOTAL fixed assets</b>	<b>3,973</b>	<b>4,277</b>	<b>7,737</b>	<b>304</b>	<b>8%</b>	<b>3,460</b>	<b>81%</b>

## Loan portfolio

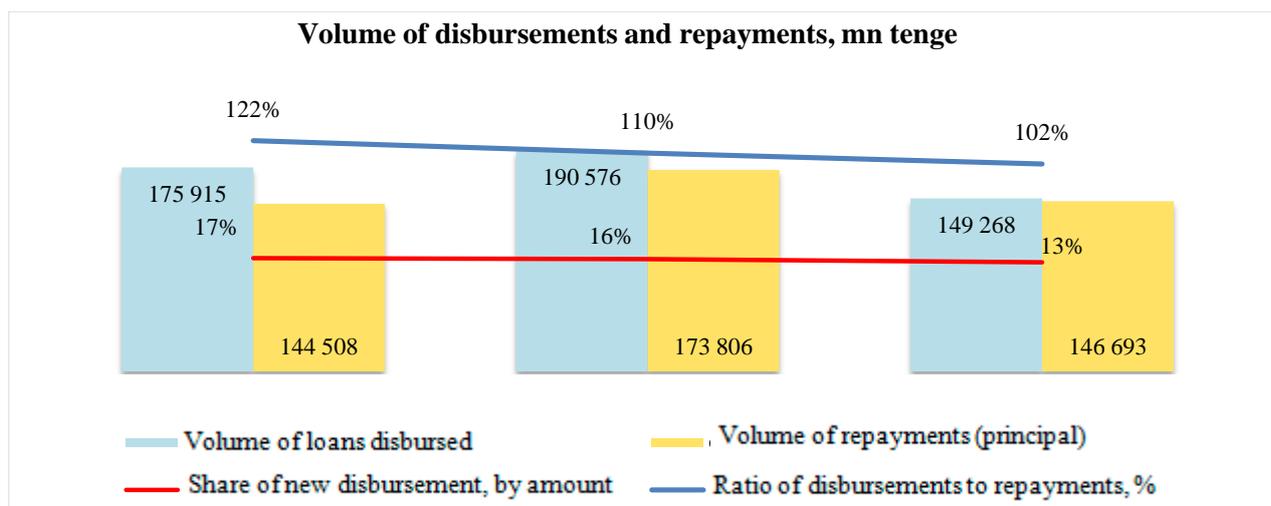
The loan portfolio of KMF increased by 1.4bn tenge YoY (+1%) and amounted to 136.3bn tenge.



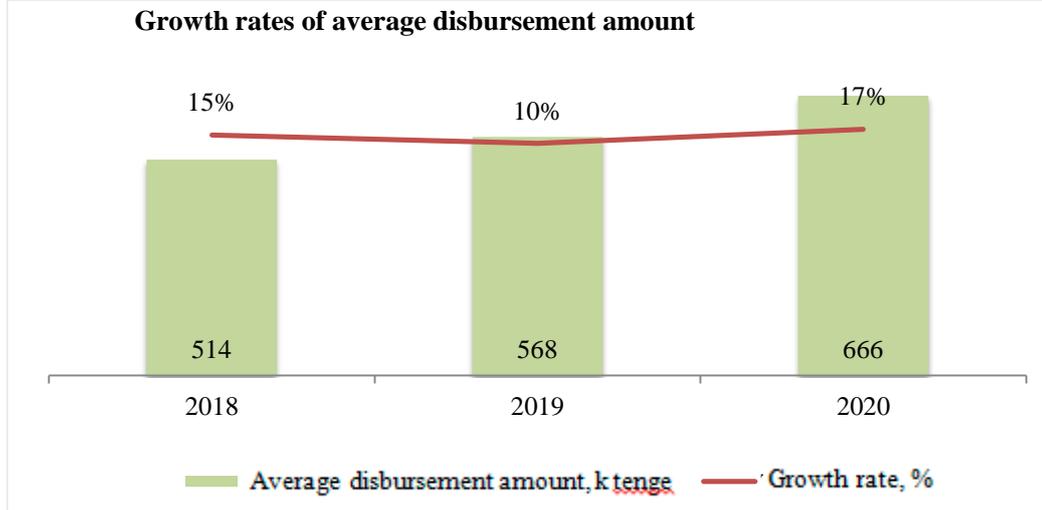
In the structure of the loan portfolio, there is a downward trend in consumer lending and growth in the Trade and Agro industries. The company focuses on business development in the agricultural sector.

All changes in the portfolio structure are in line with the strategic goals of the Company. The growth rates of the loan portfolio are conditioned by the demand for KMF products and the construction of processes aimed at increasing the efficiency and performance of employees. The total base of active clients as of the reporting date was 222k borrowers.

Within 12 months of 2020, the company disbursed 224,177 loans for a total amount of 149bn tenge. The share of new disbursements in terms of the amount amounted to 13% of the total volume of loans or 20bn tenge for the reporting period.

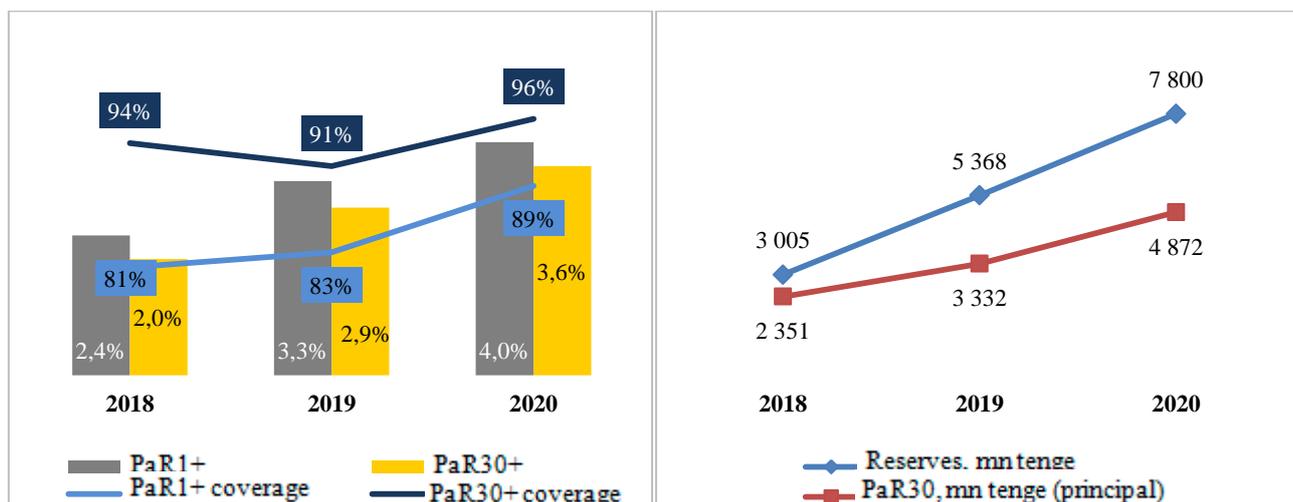


**Growth rates of average disbursement amount**



The ratio of the volume of loans to the volume of repayments remains at the level of over 100%, which indicates a balanced growth of the loan portfolio. The growth rate of the average disbursement amount is increasing; this is primarily due to inflationary processes caused by a significant increase in the US dollar exchange rate.

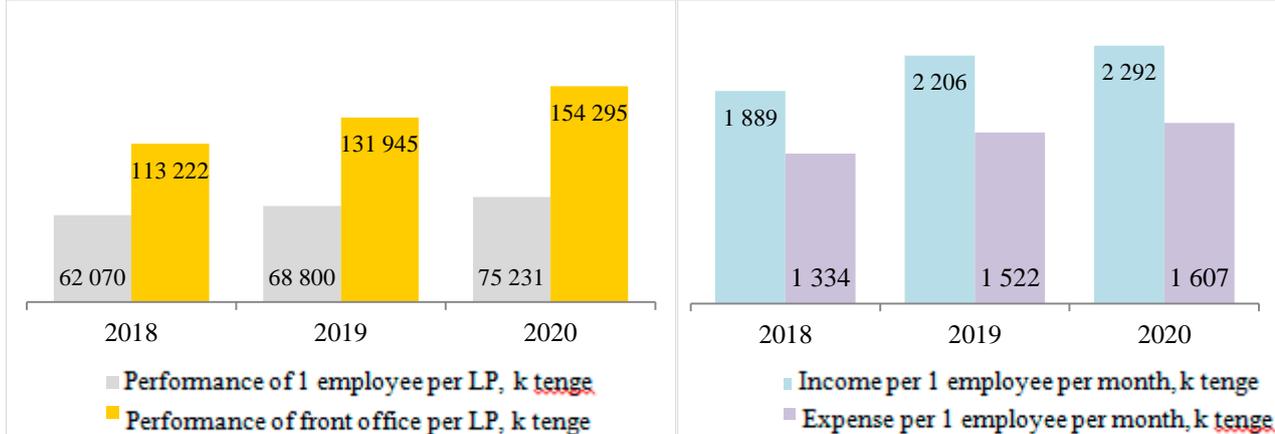
The strength of KMF is the strong regulation of the procedure for granting a loan as part of each loan product of the Company. When assessing credit risk, the company takes into consideration payment discipline, credit history and the frequency of defaults.



Despite the harsh consequences of the pandemic, the Company managed to keep the quality of the portfolio at an acceptable level thanks to timely measures taken as part of an expeditiously designed anti-crisis program. PaR>30 as of the reporting date amounted to 3.6%, the share increased by 0.7 pp. The company takes a responsible approach to assessing the risks of its assets. The methodology for calculating the impairment allowance is fully in line with IFRS 9 and is confirmed by Ernst&Young. Provisions for impairment on loans disbursed amounted to 7.8bn tenge, up by 45% or 2.4bn tenge YTD. Provisioning of PaR>30 remains at a fairly high level (96%).

### Employee performance

Employee performance indicators in terms of loan portfolio volume are being improved through automation and optimization of business processes aimed at balanced growth of the headcount.

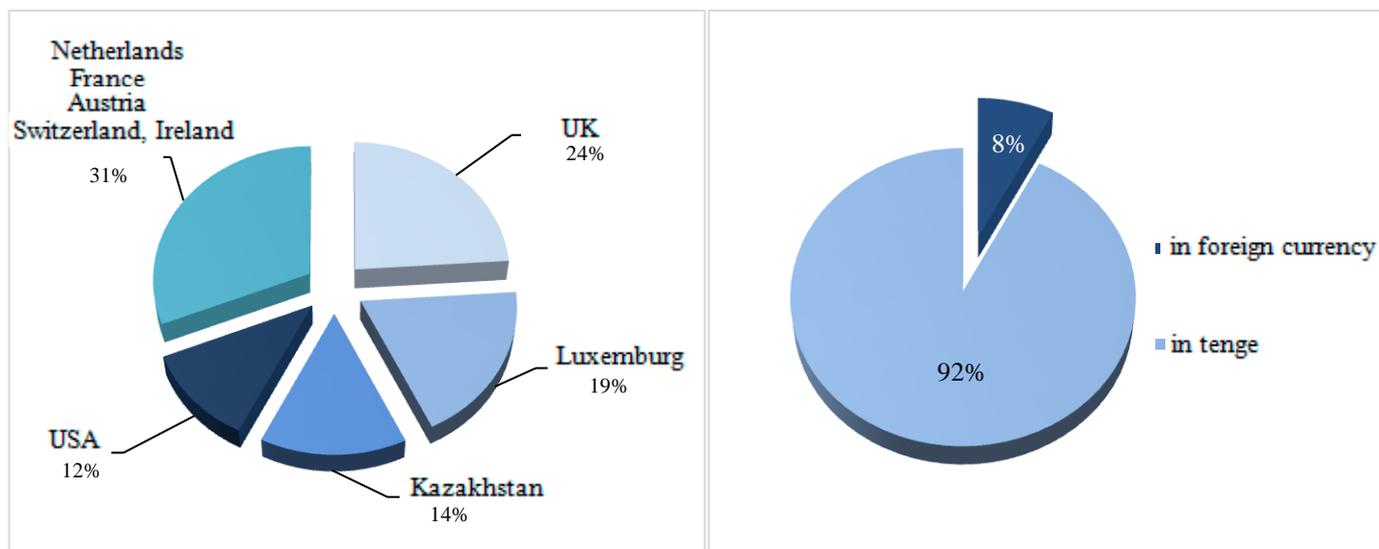


## Liabilities

The total liabilities of KMF as of the end of 2020 amounted to 107bn tenge, down by 4% or 4.4bn tenge YTD and include credit and other liabilities. The ratio of liabilities to balance sheet total is 69%.

The volume of liabilities to creditors for the period decreased by 4.4% (by 4.6bn tenge) and amounted to 102bn tenge.

The company has a fairly extensive list of funding sources, which are represented by both international financial institutions and local banks. About 92% of the total volume of borrowings was received in tenge.



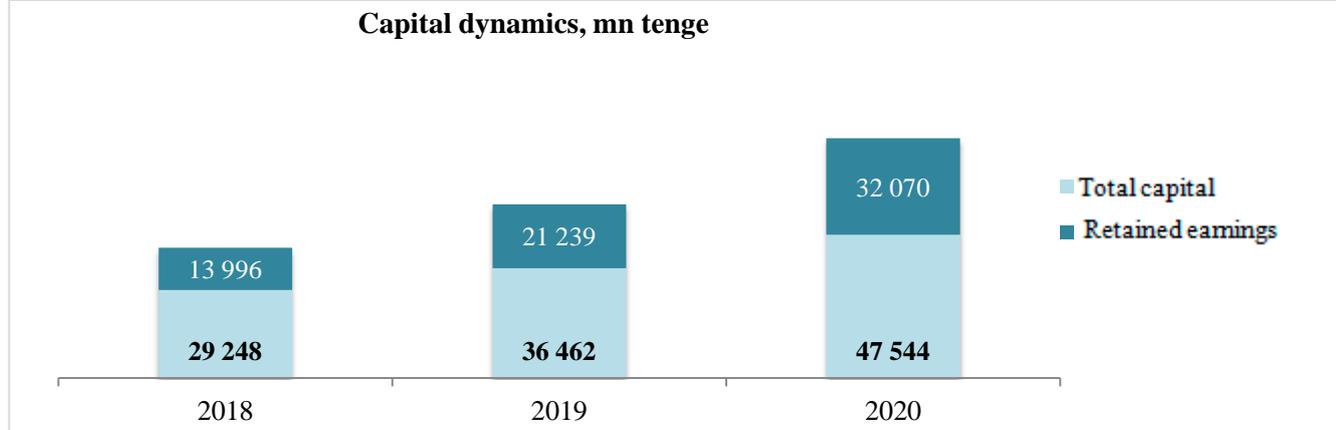
In 2020, the Company diversified its portfolio of borrowings by increasing the share of funding from local financial institutions. Thus, the share of local financing in the portfolio increased from 2% in 2019 to 14% in 2020.

In addition, the Company continues to adhere to a restrained policy in relation to foreign currency loans in order to reduce FX risks. The share of loans in USD at the end of 2020 remained at the level of 8% of the total borrowings.

## Capital

As of December 31, 2020, the size of the authorized capital remained at the level of 14.4bn tenge, while equity amounted to 47.5bn tenge (up by 11bn tenge or by 30% YoY). Accumulated retained earnings as of the reporting date amounted to 32bn tenge. The return on equity was 27%.

### Capital dynamics, mn tenge



The capital adequacy ratio at the end of 2020 was 28.1%, which is significantly higher than the minimum level established by the National Bank of the Republic of Kazakhstan. The company diligently manages the level of capital adequacy in order to protect against risks inherent in its activities.

As of December 31, 2020, 2019 and 2018, the Company was in compliance with all external statutory capital requirements.

N:	Prudential ratio	Standard	Actual	Compliance
1	Paid-up authorized capital	$\geq 50$ mn tenge	14,431mn tenge	✓
2	Estimated equity	$\geq 50$ mn tenge	47,544mn tenge	✓
3	Capital adequacy ratio	$k1 \geq 0.1$	0.281	✓
4	Maximum exposure per borrower ratio	$k2 \leq 0.25$	0.001	✓
5	Leverage ratio	$k3 \leq 10$	2.246	✓