



# ANNUAL REPORT **2019**

KMF microfinance institution is the largest MFI in Kazakhstan. The Company provides lending products aimed at supporting entrepreneurs, ensuring the population's welfare growth, and the development of agriculture.

## **1. Events in the reporting period of 2019**

### **Microfinanza Rating KMF social rating upgraded to “AA-”**

This assessment is higher than the previous assessment which was A+, and recognizes the excellent management of social performance and customer protection systems in the Company, the high probability of achieving the mission.

Confirmation of this rating indicates progress in terms of social responsibility to customers, society, and employees. The social rating provides an expert opinion on the social performance of the Company, and also provides an opportunity to compare the assessment with microfinance institutions (MFIs) not only in the Central Asian region, but throughout the world. Social rating plays an important role in strengthening the Company's social responsibility, as well as in increasing transparency and efficiency in the microfinance market.

“KMF is the first MFI outside Latin America with a valid AA- rating. In the database of companies that have been assigned a social rating since 2007, KMF is the only MFI with such a high current social rating,” said Chiara Pescatori, head of the rating committee of Microfinanza Rating.

KMF first initiated rating assessment procedure in March 2015, then the Company was assigned “A” rating. The Company once again underwent an assessment procedure in January 2017 – and this time the rating was upgraded to A+.

### **KMF received a loan of \$20 million (equivalent to approximately 8 billion tenge) from IFC, a member of the World Bank Group.**

Thanks to its financing activities, KMF increases access of micro and small businesses to lending, including women entrepreneurs and clients in rural areas, which is important in a country with limited access to loaned funds due to the lack of capital.

The loan was provided as part of IFC's efforts aimed at supporting diversification of Kazakhstan's economy by stimulating the growth of micro and small businesses outside the oil and gas sector and mining. Extractive industries account for 30% of Kazakhstan's GDP, half of government revenues, and three quarters of foreign direct investment.

### **KMF received first syndicated loan from EBRD in the amount of \$50 million to support micro, small and medium enterprises throughout the country**

The EBRD provided USD 10 million from its own funds, and the remaining USD 40 million were syndicated by microfinance investment funds. EBRD extended this loan to KMF in Kazakhstan tenge.

Under the new loan agreement, KMF will continue to participate in the Regional Small Business Program (RSBP) in Central Asia funded by the European Union. KMF will gain access to know-how in financing of micro, small and medium-sized enterprises, as well as training on various topics relevant to financial institutions that provide services to such enterprises.

### **Annual regional conference for women entrepreneurs “KMF Isker hanymy”**

Two annual regional conferences for women entrepreneurs “KMF Isker hanymy” took place in Shymkent, on March 15, and in Karaganda on May, 17. The theme of the conferences was “Effective sales. New technologies in the promotion of goods and services.”

The “KMF Isker hanymy” conference was devoted to discussing and finding ways to solve the problems that women face in the course of building and developing their businesses in Kazakhstan. The hosts of the conferences were the Corporate Fund “KMF-Demeu” and the microfinance institution KMF.

The main aim of the conference is to provide women with access to modern methods and business techniques for developing their businesses, to expert assistance and business trainers. The conference is aimed not only at those who have established business, but also at micro-entrepreneurs, self-employed women who are just starting their journey as entrepreneurs.

## 2. KMF in figures

At the end of 2019, the number of active KMF customers amounted to 248,000 people (+ 1.8% compared to the same period last year), the loan portfolio<sup>1</sup> amounted to KZT 134.8 billion (+ 13.9% compared to the same period last year).

KMF has a network of 14 branches and 110 sales points which cover more than 4,000 villages and cities throughout Kazakhstan. The Company has a positive social impact on customers’ business by providing financial and non-financial support. KMF microloans helped to create over 183,000 jobs. In addition, entrepreneurs finance about 40,000 jobs for their staff, thereby ensuring their employment.

### Social Performance

165,000 people that represent 67% of our customers are rural residents. Their share in the Company’s loan portfolio is 62%.

It is worth noting that 58% of our clients are women, including more than 90 thousand women living in rural areas.

### Data as of December 31, 2019

The share of customers by source of income	
Business income	38%
Agricultural income	36%
Average loan size and coverage of low income households	
Average loan amount (micro-business only), total	541 000
Coverage of the low-income households: income per 1 household member < subsistence rate (for new customers)	4%
Quality of service	
Customer Satisfaction Assessment	96.7%
Customer retention rate	77%
Coverage by Financial Literacy Project	152 000 (61% of active clients)
Coverage by Business Trainings	7 400
Jobs created due to KMF financing	
Number of jobs financed (self-employed clients + employees), including:	257 334
Self-employed clients (financing of micro enterprises)	183 164
Staff employed by KMF customers	73 522

<sup>1</sup> Hereinafter, the term “loan portfolio” refers to the outstanding balance of the principal debt on loans to customers, net of the impairment reserves as of December 31, 2019.

## Project on Financial Literacy Improvement

The social responsibility of the Company implies that not only it offers the financial services, but also deliver free financial literacy trainings.

Since 2013, KMF, in collaboration with its major shareholders - the KMF-Demeu Fund - has been implementing the project “Improvement of financial literacy of Kazakhstan’s population”. Lessons and consultations are available not only for KMF clients, but for non-clients as well. The total number of project’s participants exceeded 152,000 persons as of January 1, 2020. Over 7,000 KMF borrowers attended seminars on financial literacy in business management.

## Social and Environmental Management System (SEMS), by category of environmental risk

The Company has endorsed a methodology for social and environmental management system (SEMS). This methodology is implemented in the software in the form of a questionnaire, which is filled in by the loan officer according to information provided by the borrower. This methodology defines degrees of risk assigned to various types of borrowers’ activities that may have an adverse effect on the environment.

**The table below shows the distribution of environmental risks in the KMF portfolio as of 01.01.2020:**

Degree of risk	Clients	Loan Portfolio, KZT	Share of total customers	Share of portfolio
High	24	20 220 008	0.01%	0.04%
Moderate	120 665	64 589 674 835	48.7%	47.9%
Low	126 515	69 841 509 143	51.0%	51.8%
<b>Total</b>	<b>248 006</b>	<b>134 848 185 013</b>	<b>100.00%</b>	<b>100.00%</b>

\*\*\* **High environmental risk** - The activities of the borrower/applicant and/or proposed financing can have a significant adverse effect on the environment or human health and safety. For example: activities that pose occupational risks or health risks; irrigation activities or other projects affecting water supply or contributing to pollution of water resources, production with significant harmful emissions and / or accumulation of hazardous waste, using harmful and / or hazardous substances.

\*\* **Moderate environmental risk** - The activities of the borrower/applicant and/or proposed financing may lead to environmental consequences, but these consequences are specific to individual sites, and few of them (if any) are irreversible. For example: hotel / tourism business, small scale agricultural production, car maintenance and repair, etc.

\* **Low environmental risk** - The activities of the borrower/applicant and/or proposed financing have minimal or no harmful environmental and / or social consequences. For example: repair of household products; wholesale and retail trade that does not included in the exclusion list, home-based service, etc.

The range of green non-financial services is currently represented by customer consultations as part of the Shanyrak loan product (“Home Repair to Improve Energy Saving”) and discussions with customers involved in activities with moderate and high environmental risks. The financial benefits of using energy-efficient lamps and the overall reduction in water and electricity consumption are also mentioned in the financial literacy brochure. In addition, employees voluntarily participate in tree planting activities in their free time. However, the organization has not yet implemented a special loan product designed for renewable energy and / or energy efficiency or products designed to promote environmentally friendly technologies and activities (for example: processing, waste management, clean water, etc.).

## Charity

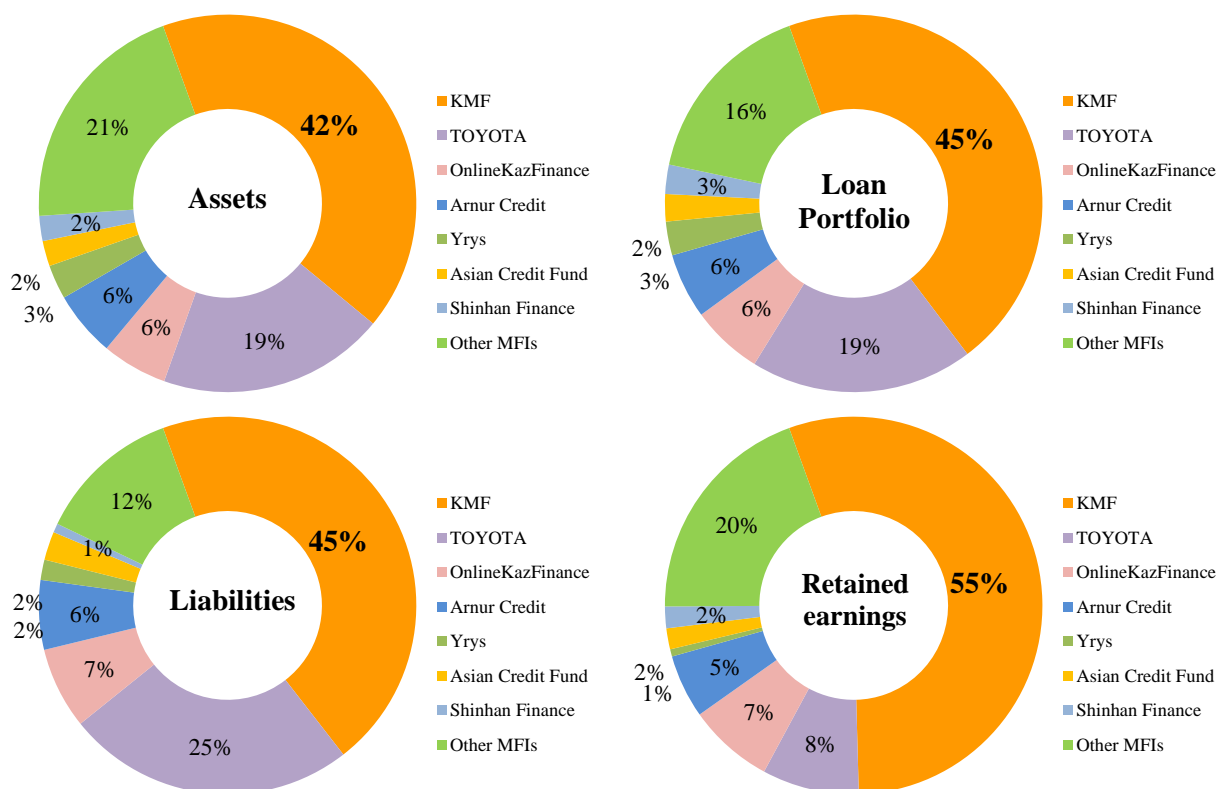
Charity plays an important role among other social activities of the Company. Employees share and support this vision of the Company. Since 2014, “Kindness Campaign” has been held at all KMF branches,

within which KMF employees on their own initiative help people in need, gathering voluntary monetary and non-monetary contributions, and also helping with household chores, etc. The Company also regularly provides charitable assistance within the framework of the “Way to School” project, when school supplies, uniforms, winter clothes and shoes are purchased for children from low-income families throughout Kazakhstan. KMF employees also patronize WWII veterans, large families, and shelters. Since 2018, the Company also participates in the Almaty Marathon, the ultimate goal of which is to provide financial assistance to children with special needs and help them reach their potential by giving the opportunities for active lifestyle and physical development. Almaty Marathon allocates part of proceeds from entry fees to build the sports infrastructure for children with special needs.

### 3. Brief overview of microfinance market performance in 2019

Sector assets increased by 38% (KMF assets increased by 14%) since the beginning of 2019, and amounted to KZT 355 billion. The loan portfolio (net of reserves) of the sector grew by 34% (against KMF growth of 13%) and amounted to KZT 293 billion. KMF’s share in sector assets decreased by 8 percentage points since the beginning of 2019, and amounted to 42%. In terms of the loan portfolio (net of reserves), KMF’s share decreased from 54% at the beginning of the year to 45% at the year-end.

#### KMF’s share in microfinance sector at the end of 2019



In the context of population’s over indebtedness, increased portfolio-at-risk, and the anticipated amendments into legislation, the Company shifted its focus to the quality of loans accompanied with moderate portfolio growth.

The Company maintains a leading position in the microfinance market of Kazakhstan with the largest loan portfolio (more than 45% of the market share) and the most extensive regional network (110 points of sale).

Optimization of the management structure of the branches and the Head Office, launch of the new and upgrade of the existing technologies, optimization of business processes, increase in brand awareness activities in the regions, and a high level of customer loyalty, staff improvement programs and active participation in socially significant projects have created additional prerequisites for increasing KMF’s competitiveness.

The table below shows **the main financial performance indicators for 2019:**

Indicators	2019	2018	2017
Return on assets (ROA),%	9.0%	8.9%	7.1%
Return on equity (ROE),%	40.1%	41.2%	35.3%
Profitability of net loan portfolio, %	9.8%	9.8%	7.9%
PaR>30 days, %	2.9%	2.0%	1.6%
Leverage	3.0	3.4	3.7
Capital adequacy, %	24.7%	22.6%	21.1%
Portfolio yield, %	39.4%	41.8%	42.7%
Overhead ratio, %	44.3%	46.2%	59.4%

#### 4. KMF 2019 financial performance overview

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

All information herein is based on the financial statements confirmed by audit reports for the years ended December 31, 2017, 2018, and 2019.

Net profit for the reporting period was received in the amount of KZT 12.7 billion, which is 55% of the total net profit of the MFI sector. In comparison with the results of 2018, net profit increased by KZT 2.7 billion or 27%. KMF's profitability ratios in 2019 were as follows: ROA – 9 %, while the average ratios for the microfinance market were 6.5%, (according to AMFOK<sup>2</sup>). The increase in net profit was primarily caused by 14% increase in the loan portfolio, a decrease in the cost of raising funds, and a number of measures aimed at increasing the efficiency of operating expenses.

As in the previous years, 99% of total interest income is derived from loans to clients. For the reporting period (2019), interest income on loans was received in the amount of KZT 51.2 billion, which is more than previous year's result by KZT 8.4 billion or 20%. Income on short-term investments was received in amount of KZT 706 million, which is by KZT 210 million or by 42% higher than in the previous year. The decrease in the earning yield is caused by the continuing effect of a reduction (in November 2018) of nominal interest rates on products, as well as an increase in the average portfolio. The share of large loans with a lower nominal rate is increasing in the portfolio structure.

Interest expenses amounted to KZT 18.6 billion; they are by KZT 2.9 billion or by 19% higher as compared to 2018. The interest expenses growth rate is 2 pp lower than the interest income growth rate, due to a decrease in the cost of borrowed funds.

##### KZT millions

Item of income	2019	2018	2017	2019/ 2018	2018/ 2017
<b>Financial income:</b>	<b>51 895</b>	<b>43 257</b>	<b>29 976</b>	<b>20%</b>	<b>44%</b>
Interest income on loans	48 841	40 181	27 825	22%	44%
Commission fees on loans	2 046	2 310	1 820	-11%	27%
Other portfolio yield	302	269	154	12%	75%
Short-term investment income	706	496	178	42%	179%
<b>Financial expenses</b>	<b>18 519</b>	<b>15 699</b>	<b>10 947</b>	<b>18%</b>	<b>43%</b>
Borrowed funds portfolio	18 369	15 699	10 947	17%	43%
Lease obligations	150	-	-	-	-
<b>Margin</b>	<b>33 376</b>	<b>27 558</b>	<b>19 030</b>	<b>21%</b>	<b>45%</b>

As compared to the previous year, expenses on provision for impairment of assets increased by KZT 261 million and amounted to KZT 2.3 billion by the end of 2019. The increase in expenses was caused by a 14% increase in the loan portfolio.

Net expenses from transactions in financial instruments at fair value through profit or loss in the 2019 statement of comprehensive income include expenses from changes in the fair value of foreign currency

<sup>2</sup> Association of Microfinance Organizations of Kazakhstan



swaps in the amount of KZT 511 million (2018: expenses from changes in the fair value of foreign currency swaps in the amount of KZT 77 million and forwards in the amount of KZT 54 million).

Operating expenses amounted to KZT 14.5 billion, which is more than in 2018 by KZT 1.8 billion or 14%. At the same time, the growth rate of expenses is significantly lower than the growth rate of revenue (revenue increased by 20%), which indicates an improvement in the efficiency of expenses on Company's operating activities.

The most significant increase in absolute terms was recorded for personnel expenses, which represent the largest item of operating expenses (70% of total operating expenses). The increase in personnel expenses amounted to KZT 1.2 billion or 13%, which is caused by an increase in staff, as well as an increase in salaries for employees within introduction of the grading system.

At the end of 2019, the number of personnel was 1,960 people. The share of credit department employees was 52%.

The increase in other administrative expenses amounted to KZT 657 million or 18%, due to investments in the development, improvement of the regional network and information systems, expansion of the network of in-house terminals accepting loan repayments, and strengthening security in offices.

Despite the increase in operating expenses in absolute terms, the operating expenses efficiency indicator improved by 1.1% and amounted to 11.3% by the end of 2019 (12.4% by the end of 2018). Including the efficiency of personnel expenses of 7.9%, which is better than in 2018 (8.8%), and the efficiency of other administrative expenses of 3.4%, having improved by 0.2% as compared to 2018 (3.6%).

The operating expense to financial income ratio for 2019 was 28%, having improved by 1.4% as compared to 2018 (29.4%).

## 5. Statement of financial position

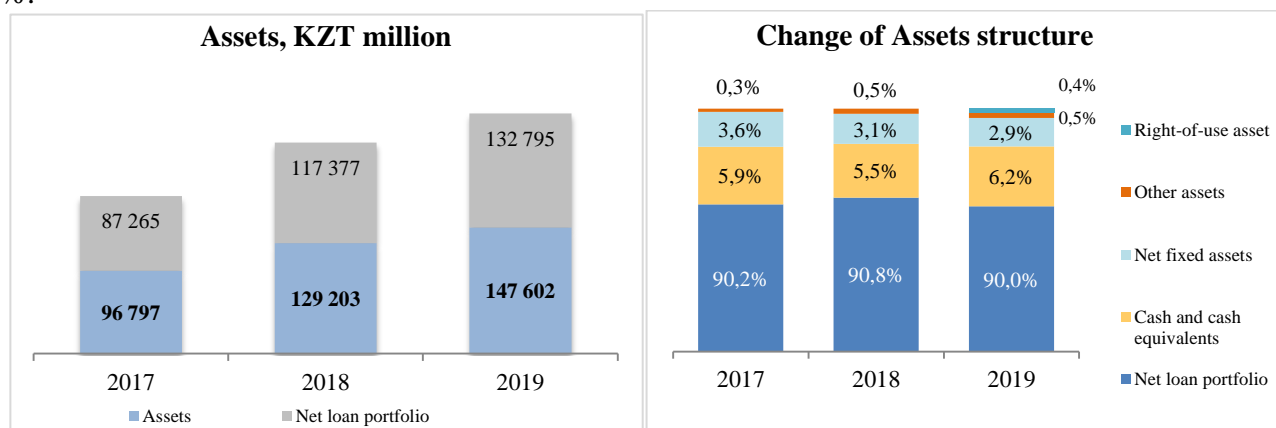
### Assets

At the end of 2019, KMF assets increased by 14% and amounted to KZT 147.6 billion as compared to KZT 129.2 billion at the end of 2018. In many respects, the dynamics of assets is determined by the change in the net loan portfolio.

KZT millions

Assets	2019	2018	2017	2019/ 2018	2018/ 2017
Cash and cash equivalents	9 056	7 158	5 721	27%	25%
Amounts due from credit institutions	31	11	12	175%	-6%
Net loan portfolio	132 795	117 377	87 265	13%	35%
Other assets	747	535	324	40%	65%
Investment property	64	148	0	-57%	-
Right-of-use assets	632	-	-	-	-
Net fixed assets and intangible assets	4 277	3 973	3 475	8%	14%
<b>TOTAL ASSETS</b>	<b>147 602</b>	<b>129 203</b>	<b>96 797</b>	<b>14%</b>	<b>33%</b>

The net loan portfolio, by definition, is the largest asset item: it accounts for 90% of total assets. The share of liquid assets, which includes cash and cash equivalents, was 6.2%. The share of net fixed assets was 2.9%.



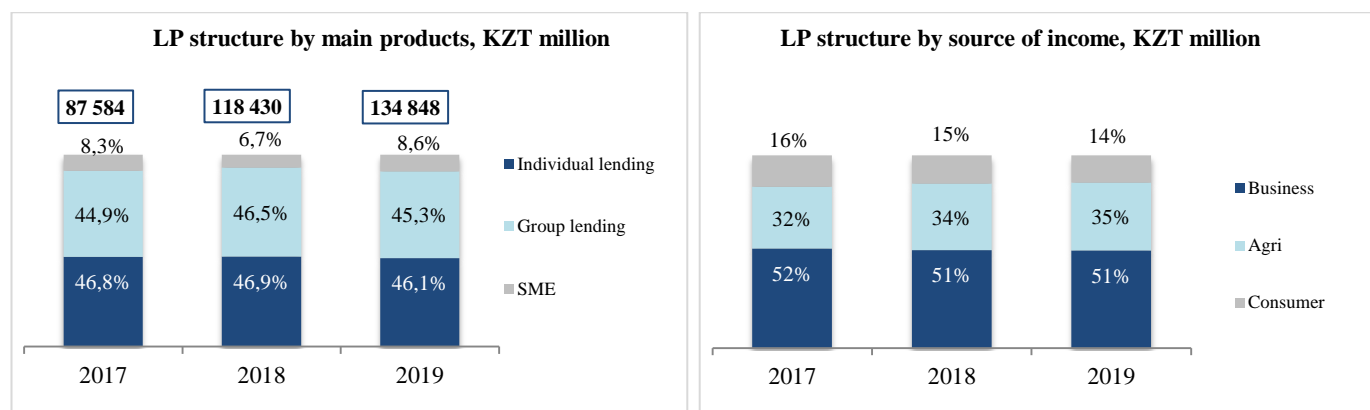
## Net fixed assets

The book value of KMF's fixed assets and intangible assets at the reporting date was KZT 4,277 million, having increased by KZT 304 million or 7.6% since the beginning of the year.

	Fixed assets			Structure of fixed assets	
	2018	2019	change	2018	2019
Buildings	2 040 181 343	2 123 652 752	83 471 409	54.1%	54.5%
Computer hardware	652 518 995	679 168 604	26 649 609	17.3%	17.4%
Other fixed assets	336 794 162	389 185 980	52 391 819	8.9%	10.0%
Vehicles	254 785 413	252 293 642	-2 491 771	6.8%	6.5%
Machinery and equipment	234 960 681	249 056 776	14 096 095	6.2%	6.4%
Production tools and household inventory	83 862 930	87 633 730	3 770 800	2.2%	2.2%
Land plots	80 947 388	80 906 071	-41 317	2.1%	2.1%
Fixed asset upgrading and capital repairs	83 591 186	30 453 647	-53 137 539	2.2%	0.8%
Transfer devices	1 283 557	3 020 203	1 736 646	0.0%	0.1%
Constructions	323 750	316 350	-7 400	0.0%	0.0%
<b>TOTAL</b>	<b>3 769 249 403</b>	<b>3 895 687 754</b>	<b>126 438 351</b>	<b>100%</b>	<b>100%</b>
<b>Intangible assets</b>	<b>2018</b>	<b>2019</b>	<b>change</b>	<b>2018</b>	<b>2019</b>
Other intangible assets	9 605 358	8 540 267	-1 065 091	4.7%	2.2%
License agreements	2 595 783	4 384 790	1 789 007	1.3%	1.1%
Software	191 823 151	368 588 424	176 765 274	94.0%	96.6%
<b>TOTAL</b>	<b>204 024 292</b>	<b>381 513 481</b>	<b>177 489 189</b>	<b>100%</b>	<b>100%</b>

## Loan portfolio

KMF's loan portfolio before reserves increased by 14% over the year and amounted to KZT 134.8 billion. The positive dynamics and significant volume of the loan portfolio was achieved due to competitive conditions and individual approach to each client, through the implementation of measures aimed at increasing client loyalty.



The dynamics of changes in the loan portfolio in the chart shows a stable LP growth rate. In 2018-2019, the volume of the portfolio increased by 54% or by KZT 47.3 billion.

In 2019, the share of SMEs in the portfolio structure increased by almost 2% to 8.6%, while the share of group lending decreased by 1.1%, and the share of individual lending decreased by 0.8%. The total volume of SME products amounted to KZT 11.6 billion.

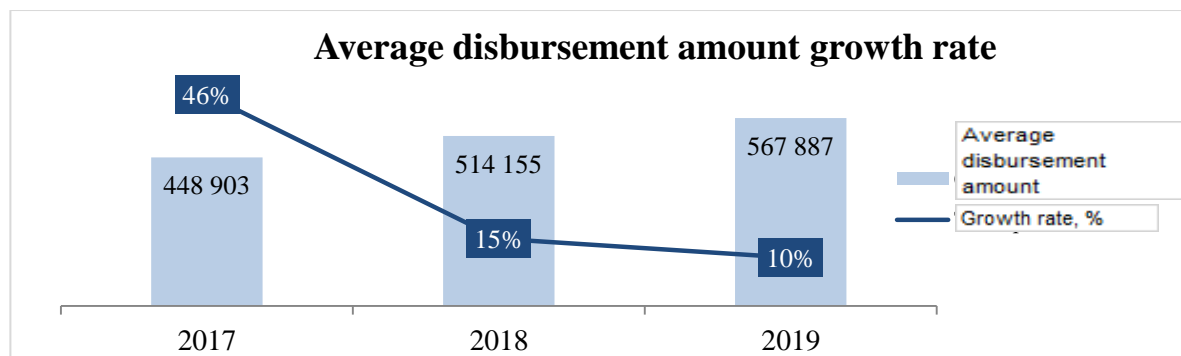
In the loan portfolio structure by client revenue sources, the share in "Business" products remained at the level of 51%. The share of "Agri" products increased from 1% to 35%. This is due to the fact that in 2018 the Company focused on agribusiness development. The share of "Business" products decreased slightly by 0.8%, while the largest share (more than 50%) remains for loans aimed at business development. The share of loans on salary decreased to 15% at the end of 2018.

All changes in the portfolio structure correspond to the Company's strategic goals.



The loan portfolio growth rate is caused by the demand for KMF products and the construction of processes aimed at increasing the efficiency and productivity of employees. The total base of active clients in 2019 increased by 4,292 clients or 1.8% to 248 thousand people.

For 12 months of 2019, 335,589 loans were issued for the total amount of KZT 190,576 million. The volume of new disbursements for the reporting period amounted to KZT 31,343 million, which is 16% of the total volume of disbursements.



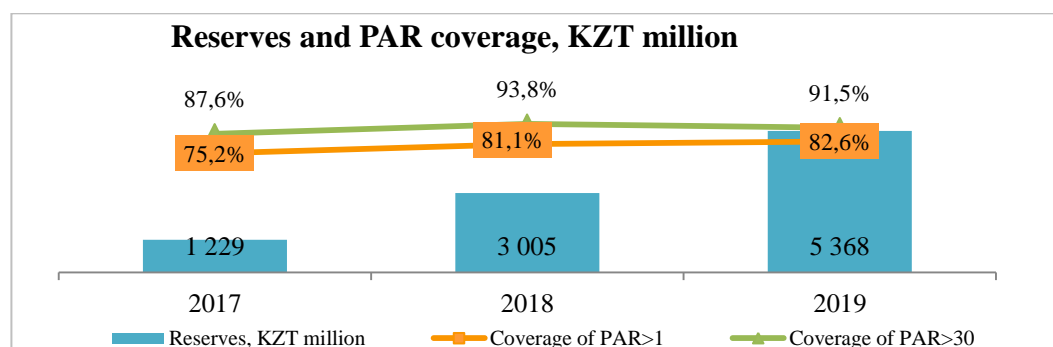
The average disbursement amount growth rate is decreasing; at the end of 2019, the average disbursement amount was KZT 568 thousand, having increased by 10% or KZT 54 thousand over the year. Given the significant growth of the US dollar, we believe that in the future, the average amount of disbursement will grow.

The company takes a responsible approach to assessing the risks of its assets. The method of calculating the provision for impairment of an asset fully complies with IFRS 9 and is confirmed by the international audit company “Ernst&Young”.

Provisions for impairment on loans issued amounted to KZT 5.4 billion, having increased by 79% or KZT 2.4 billion since the beginning of the year. PAR >30 is covered by reserves at a fairly high level – 91%.

The advantage of KMF is that the procedure for providing credit within each credit product is strictly regulated. When assessing credit risk, the payment discipline, credit history, and frequency of default are taken into account.

Considering the circumstances that arose in the 2<sup>nd</sup> half of 2019 (Arys, the Presidential decree on vulnerable social groups), the Company managed to maintain high quality of the portfolio, due to timely client support measures, effective monitoring and control over PAR, and the high quality of the analysis carried out when issuing new loans.



The portfolio quality is maintained at a high level. PAR>30 was 2.9%, the share increased by 0.9 percentage points due to several factors: a) the increase in indebtedness of borrowers caused by external economic factors; b) lower growth in the loan portfolio in 2019 under a policy of moderate portfolio growth; 3) the ongoing growth of the average loan amount due to inflation caused by the national currency volatility.

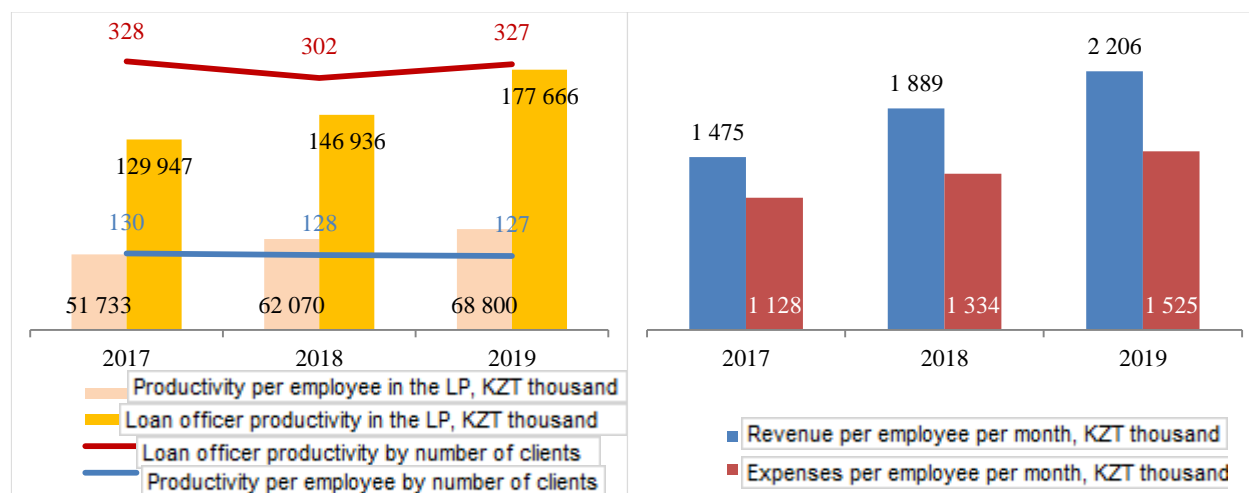
As to the volume of non-performing loans (PAR 90), the share thereof remains at the level of 2.4%, which can be described as a fairly good result.

### Employee productivity

Since the beginning of the year, the loan officer productivity indicators in terms of the LP volume and the

number of clients have improved. The improvement of loan officer productivity is mainly caused by a decrease in the number of loan officers by 47 employees since the beginning of the year.

The table below shows the productivity per Company employee and the loan officer workload.



In 2019, the increase in revenue per employee was 17%, while the increase in expenses was 14%, which indicates an increase in employee performance.

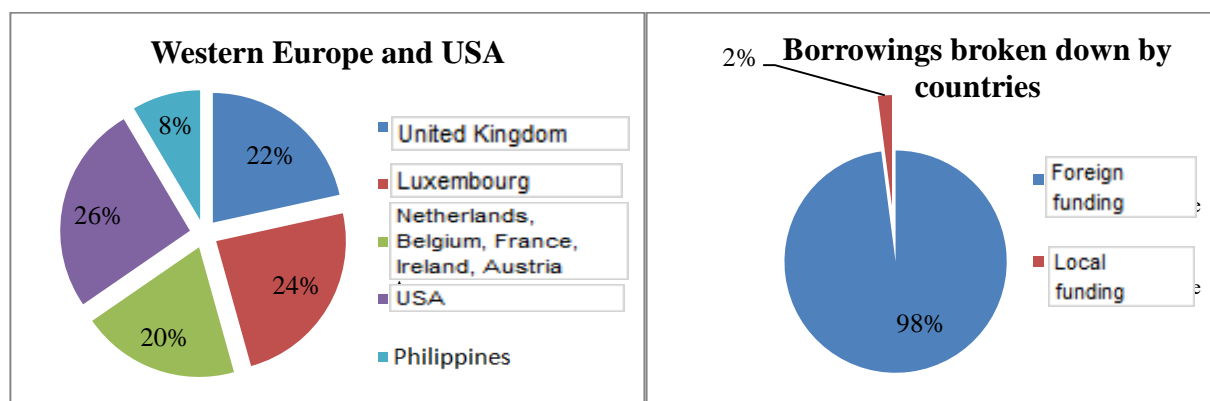
## Liabilities

Total liabilities of KMF as of the end of 2019 increased by 11% and amounted to KZT 111 billion as compared to KZT 100 billion at the end of 2018.

The Company's liabilities include loan and other liabilities. The ratio of liabilities to the balance-sheet total is 75.3%. The growth of loans from international development institutions and foreign investment companies supporting microfinance remains to be the main driver of liabilities growth.

The volume of liabilities to creditors for the period increased by 10% or KZT 10 billion and amounted to KZT 106 billion.

The Company has quite a large list of funding sources, which are represented by both international financial institutions and local banks. About 92% of the total amount of borrowing was received in KZT.

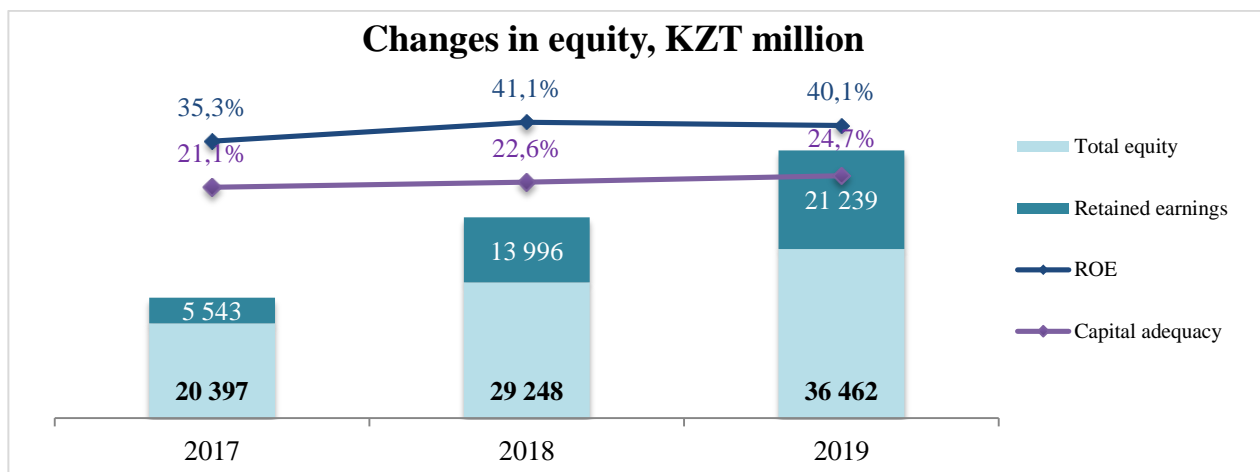


In 2019, new loan liabilities were mainly denominated in the local currency (KZT). The Company maintained a restrictive policy with respect to foreign currency loans in order to reduce currency risks. At the end of 2019, the share of USD loans amounted to 8% of the total volume of borrowings, having increased a year earlier from 3% mainly due to a loan from the Austrian Development Bank (OeEB) in the amount of USD 15 million. In order to hedge currency risks, a currency swap was done with IFC for the loan amount.

EBRD was the largest lender in 2019, having provided a loan in the amount of KZT 19 billion or 40% of the total amount of loans raised in 2019.

## Equity

As of December 31, 2019, the amount of share capital remained in the amount of KZT 14.4 billion, the equity capital amounted to KZT 36.5 billion, which is 25% or KZT 7.2 billion higher than the same indicator in 2018. As of the reporting date of 2019, the retained earnings (including the profit of the previous period) amounted to over KZT 21 billion. The return on equity is maintained at over 40%.



The capital adequacy ratio for 2019 was 24.7%, which is significantly higher than the minimum level set by the National Bank of Kazakhstan.

The prudential ratios set by the National Bank of Kazakhstan are higher than the established ones:

Prudential ratio	Limit	Actual	Performance
Paid-in share capital	$\geq$ KZT 30 million	KZT 14,431 million	✓
Estimated equity capital	$\geq$ KZT 30 million	KZT 36,462 million	✓
Capital adequacy ratio	$k1 \geq 0.1$	0.247	✓
Maximum level of exposure per borrower	$k2 \leq 0.25$	0.001	✓
Maximum limit of total liabilities	$k3 \leq 10$	1.673	✓