

MICROFINANCE ORGANIZATION

ASIAN CREDIT FUND LLP

**APPROVED by
General Meeting of the Members
MFO ACF LLP dated December 11, 2019**

RULES OF MICROCREDIT ISSUE

Almaty, 2019

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Attachment No. 110

1. GENERAL PROVISIONS

- 1.1. These Rules were developed pursuant to Law of the Republic of Kazakhstan No 56-V ZRK dated November 26, 2012 “On Microfinance Activity” (hereinafter referred to as the MA Law), regulatory legal acts of the authorized body as well as ACF Articles of Association and they regulate the procedure of filing a credit application and consideration thereof, entering into the contracts, issue and repayment of microcredits.
- 1.2. ACF offers the individual and group microcredits. Conditions of ACF microcredits issue are defined by the Credit Policy and by the lending procedures.
- 1.3. ACF borrowers may be individuals and legal entities (hereinafter referred to as the Borrower).
- 1.4. ACF provides microcredits on the basis of interest payment, repayment, maturity, security, designated use and on the basis of other conditions defined by the microcredit contract (hereinafter referred to as the Microcredit Contract).

2. PROCEDURE FOR FILING A MICROCREDIT APPLICATION BY AN APPLICANT AND PROCEDURE OF CONSIDERATION THEREOF

- 2.1. The Loan Officer holds consultations with the customers by telephone and in the course of direct on-site sales as well as the customers who apply to the Company office. After consultation, the potential customers are offered to file an application to consider the possibility to receive a microcredit.
- 2.2. The Loan Officer shall provide complete and accurate information about lending process and terms of consideration of a microcredit application, fees related to repayment (return) of a microcredit and other conditions of a microcredit.
- 2.3. If an applicant applied to ACF for a microcredit (hereinafter referred to as the Applicant), the Loan Officer shall get the Applicant acquainted with these Rules and conditions of ACF microcredit issue and ACF rates, and with the options of the microcredit repayment schedule indicated in Attachment 1 (Drafts of repayment schedules 1 and 2) hereto.
- 2.4. If the Applicant is interested in certain type of a microcredit, the Loan Officer shall provide the Applicant with the list of the documents required to file a microcredit application.
- 2.5. The Applicant shall have the right to refuse from entering into the microcredit contract at any time.
- 2.6. The process of consideration of a microcredit application is implemented according to the lending procedures.
- 2.7. The Applicant’s application is considered by the authorized body (person) of ACF having the lending powers. Herewith, they shall have the right to review the sum, term and other conditions under the Applicant’s microcredit application.
- 2.8. The main conditions of the credit powers provided and procedures of decision-making are defined by the lending procedures.

3. PROCEDURE OF ENTERING INTO A MICROCREDIT CONTRACT

- 3.1. After approval of the credit project and making by the authorized body (person) of a decision to issue a microcredit, the Loan Officer shall prepare the Contracts pursuant to the applicable law of the RK and internal normative documents.
- 3.2. The Microcredit Contract and other required contracts shall be entered into in writing in stage language and in Russian.
- 3.3. The Contract contains the provisions stated by the law of the Republic of Kazakhstan for the contracts of the corresponding type, provisions defined upon agreement of the parties as well as the following mandatory provisions:
 - 3.3.1. general provisions of the contract;
 - 3.3.2. borrower’s rights;
 - 3.3.3. rights of the entity;
 - 3.3.4. duties of the entity;
 - 3.3.5. restrictions for the entity;
 - 3.3.6. responsibility of the parties for breach of obligations;
 - 3.3.7. procedure of making amendments to the contract provisions.
- 3.4. General provisions of the Microcredit Contract shall contain:
 - 3.4.1. contract date;

- 3.4.2. name of the entity and surname, name and patronymic (if available) of the borrower (co-borrower) of the individual or name of the borrower (co-borrower) of the legal entity;
- 3.4.3. sum of the microcredit, for the credit facility agreement - total sum of the microcredit;
- 3.4.4. terms of microcredit repayment, for the credit facility agreement - total duration of the contract;
- 3.4.5. rate of remuneration per cent per annum, annual effective interest rate (real cost of a microcredit) calculated pursuant to Resolution of the Board of the National Bank of the Republic of Kazakhstan No. 208 "On approval of the Rules of calculation of the annual effective interest rate on the microcredits issued" dated November 26, 2019, registered in the Register of the state registration of the regulatory legal acts under No. 19677, as of the date of entering into the contract.
- 3.4.6. form of microcredit repayment (by cash or cashless);
- 3.4.7. method of microcredit repayment (annuity, differentiated, or other method in accordance with the rules of microcredits issue);
- 3.4.8. method of microcredit repayment (single payment or by instalments);
- 3.4.9. the details of the entity's bank account - for cashless transfer of the funds as well as addresses of the entities accepting cash for repayment of the microcredits;
- 3.4.10. microcredit debt repayment order;
- 3.4.11. procedure of accrual and sum of liquidated damages (fine, penalty) for untimely repayment of the principal and payment of interest;
- 3.4.12. security for the borrower's obligations under the contract (if any);
- 3.4.13. measures taken by the entity in the event of failure to perform or improper performance by the borrower of the obligations under the contract;
- 3.4.14. duration of the contract;
- 3.4.15. information about post and email address of the entity as well as the data about its official Internet resource (if any);
- 3.4.16. provision stating that in the event of assignment by the entity of the right (claim) under the contract to the third party the requirements and restrictions established by the law of the Republic of Kazakhstan to mutual relations of the loaner with the borrower within the limits of the contract shall be applicable to the legal relationships of the borrower with the third party to whom the right (claim) was assigned.
- 3.5. The Loan Officer shall agree with the borrower the schedule of microcredit repayment.
- 3.6. The borrower shall read the text of the Microcredit Contracts, repayment schedule and if the borrower approves, he/she shall sign it in presence of the authorized employee of the company.
- 3.7. If the borrower is a legal entity, or individual - private entrepreneur who has seal, then in addition to the borrower's signature the Microcredit Contract shall be sealed.
- 3.8. If so provided by the conditions of credit product issue, the Borrower shall sign the contracts together with the guarantors/pledgers (pledge contracts, credit facility contract, guarantee contract and so on).
- 3.9. In the event that the pledge is subject to state or other registration, the Pledger shall register the pledge contracts in the authorized state or other bodies.
- 3.10. The Loan Officer shall deliver one copy of the Contracts to the Borrower/Pledger/Guarantor; another copy shall be kept in the credit folder.

4. MAXIMUM SUMS AND TERMS OF THE MICROCREDITS

- 4.1. The maximum sum of the microcredit issued by ACF shall not exceed eight thousand-fold monthly calculation index stated for the corresponding financial year by the Republican Budget Law per one Borrower.
- 4.2. ACF issues the microcredits for the following maximum terms:
 - 4.2.1. Individual microcredits for the term 60 months inclusively;
 - 4.2.2. Group microcredits for the term 24 months inclusively.

5. MAXIMUM VALUES OF THE INTEREST RATE FOR USE OF MICROCREDIT

- 5.1. Maximum values of interest rate on the microcredits issued are approved by the Senior Credit Committee of ACF based on assessment of microcredit risk degree and degree of compliance thereof with ACF mission indicated in the ACF Articles of Association. The Senior Credit Committee shall have the right to change the interest rates downwards or upwards up to the maximum interest rate so

that the annual effective rate does not exceed the maximum rate stated by the law of the Republic of Kazakhstan (MA Law and corresponding regulatory legal acts of the authorized body).

- 5.2. The credit interest rate is defined in percentage terms to the microcredit principal based on the annual size.
- 5.3. Depending on the credit product, the nominal interest rate may vary from 12% to 44% per annum.
- 5.4. Different interest rates are stated for each microcredit depending on the sum and term of the microcredit.
- 5.5. The nominal annual interest rate and annual effective interest rate the procedure of calculation of which is defined by the regulatory legal acts of the authorized body shall be indicated in the Microcredit Contract in a mandatory manner.

6. PROCEDURE OF PAYMENT OF INTERESTS ON ISSUED MICROCREDITS

- 6.1. The Borrower shall pay monthly interests to ACF for use of the microcredit.
- 6.2. The interest rate for use of the microcredit issued shall be indicated in the Microcredit Contract in per year terms regardless of the microcredit term.
- 6.3. Interests on the microcredit are accrued based on actual number of days of microcredit use. The calendar year equal to 360 days is used in calculation.
- 6.4. Repayment of interests by the Borrower for use of the microcredit is made according to the repayment schedule attached to the Microcredit Contract.
- 6.5. Microcredit repayment schedule is prepared considering repayment by the differentiated payments method or by annuity payments method.
- 6.6. In the event of delay in repayment of the next payment on the microcredit, interests shall be accrued for the time of actual use of the microcredit and penalty for delay shall be accrued according to the provisions of the Microcredit Contract.

7. REQUIREMENTS TO SECURITY ACCEPTED

- 7.1. Performance by the Borrower of the Borrower's obligations pursuant to the Microcredit Contract shall be secured by the guarantee, pledge and/or other ways complying with the law of the Republic of Kazakhstan.
- 7.2. An individual or a legal entity may act as a guarantor. Herewith, the guarantor shall bear joint and several responsibility together with the Borrower for performance of the Borrower's obligations to ACF. If there are several guarantors, responsibility of each of the guarantors and responsibility of the borrower for the obligations to ACF is joint and several.
- 7.3. A pledger may be a borrower or a third party - an individual or a legal entity. A pledger other than a borrower shall be a guarantor unless otherwise agreed between ACF and a borrower.
- 7.4. Movable and immovable property not withdrawn from circulation or not restricted in circulation may be accepted for pledge. ACF does not accept the shares or participatory interests in the charter capital of the legal entities as the pledge except for the shares or participatory interests in the charter capital of the legal entities provided by the MA Law.
- 7.5. ACF treats the pledge as a secondary source of microcredit repayment and accepts the following pledge types:
 - a. Real Estate:
 - buildings;
 - land;
 - house, flat;
 - other.
 - b. Movable property:
 - cars, trucks, special vehicles;
 - equipment, production equipment;
 - commodities and receivables;
 - other.
 - d. Personal property.
 - e. Cattle.
- 7.6. The right of ownership of property to be pledged shall be registered in a manner provided by the law.
- 7.7. Pledge of property subject to state or other registration shall be registered in an authority carrying out

state or other registration of the rights for this property.

- 7.8. The principle of group solidarity of the Borrowers is applied in issue of the group microcredit. The Borrowers on the group microcredit shall bear joint and several responsibility for full repayment of the entire sum of the group microcredit pursuant to the Microcredit Contract.

8. RULES OF CALCULATION OF THE ANNUAL EFFECTIVE INTEREST RATE ON THE MICROCREDITS ISSUED

- 8.1. The annual effective interest rate is the interest rate on an accurate, year-to-year, effective, comparable basis on the microcredit.
- 8.2. The annual effective interest rate on the microcredit shall not exceed the maximum rate defined by the regulatory legal act of the authorized body.
- 8.3. The rules of calculation of the annual effective interest rate on the microcredits issued are developed and approved by the authorized body.
- 8.4. The annual effective interest rate on the microcredits issued is calculated based on the formula as follows:

$$\sum_{j=1}^n \frac{S_j}{(1 + APR)^{tj/365}} = \sum_{i=1}^m \frac{P_i}{(1 + APR)^{ti/365}}$$

where:

n - sequence number of the last payment to a borrower;

j - sequence number of payment to a borrower;

S_j - sum of the j-th payment to a borrower;

APR - annual effective interest rate;

t_j - period of time from the day of microcredit issue to the moment of the j-th payment to a borrower (in days);

m - sequence number of the last payment of a borrower;

i - sequence number of payment of a borrower;

P_i - sum of the i-th payment of a borrower;

t_i - period of time from the day of microcredit issue to the moment of the i-th payment of a borrower (in days);

9. MICROCREDIT REPAYMENT METHODS

- 9.1. The way and method of microcredit repayment shall be agreed with the Borrower and indicated in the Microcredit Contract including the procedure of payment according to the repayment schedule.
- 9.2. Before entering into the Microcredit Contract, the Loan Officer shall provide the Applicant with the drafts of the microcredit repayment schedules calculated by the following methods of repayment (Attachment No. 1 to the Rules):
- *by the annuity payments method*, when repayment of the microcredit debt is carried out by equal payments during the entire term of the microcredit including increasing payments on the principal and decreasing payments on the interests accrued for the period on the principal balance. The sums of the first and last payments may differ from others;
 - *by the differentiated payments method*, when repayment of the microcredit debt is carried out by decreasing payments including equal sums of payments on the principal and interests accrued on the principal balance for the period.

A combined method including the grace period, rescheduling and etc. may be offered based on these methods.

10. MICROCREDIT ISSUE SECRET

- 10.1. ACF guarantees confidentiality of the information about the Borrower's transactions unless otherwise provided by the law of the Republic of Kazakhstan.
- 10.2. The secret of microcredit issue includes the data about the Borrowers, microcredits sums, other provisions of the Contract related to the Borrower and about the transactions of the microfinance organization.
- 10.3. The secret of microcredit issue does not include the data on the contracts concluded and on issue of the microcredit by a microfinance organization being in the process of winding up.

- 10.4. The secret of microcredit issue may be disclosed only to a borrower, any third party based on written consent of a borrower given during his/her personal presence in the microfinance organization, credit bureau on the microcredits issued pursuant to the laws of the Republic of Kazakhstan and to the persons specified in clause 10.5 of these Rules.
- 10.5. The data about the Borrowers, microcredits sums, other provisions of the Contract related to the Borrower, transactions held by ACF shall be disclosed to:
- government authorities and officials exercising the functions of criminal prosecution: on criminal cases investigated by them based on written request sealed and authorized by the prosecutor;
 - authorities of national security and State Guard Service of the Republic of Kazakhstan with the approval of the prosecutor upon their request for disclosure of the information required to prevent, detect and suppress intelligence and (or) subversive activities;
 - courts: on the cases pending before them based on the determination, resolution, decision and sentence of the court;
 - state and private law enforcement officials: on cases of enforcement proceedings pending before them based on resolution of the law enforcement official approved by the prosecutor and sealed by the justice authorities or sealed by the private law enforcement official;
 - prosecutor: based on resolution on inspection within his/her powers on the materials the prosecutor has to consider;
 - public revenue authorities only for the purposes of tax administration: on the issues related to taxation of a person being inspected, based on the order;
 - representatives of the borrower: based on the power of attorney, on the borrower who is an individual, based on the power of attorney certified by the notary;
 - authorized body in the field of rehabilitation and bankruptcy: in respect to a person on whom the court decision on recognition of such person's bankruptcy which came into legal force is available, for the period within five years before institution of proceedings on bankruptcy and (or) rehabilitation with approval of the prosecutor.
- 10.6. The data about the borrower, microcredit sum, other provisions of microcredit issue related to the borrower, in the event of the borrower's death, in addition to the persons provided by Clause 10.5 of these Rules, shall also be disclosed based on written request to:
- persons specified by the borrower in a testament;
 - notaries: on inheritance cases pending before them, based on the written request of the notary sealed by such notary. The written request of the notary shall be accompanied by the copy of the certificate of death;
 - foreign consular institutions: on inheritance cases pending before them.
- 10.7. The secret of microcredit issue may be disclosed to the banking ombudsman on the requests of the borrowers - individuals being considered by such ombudsman on settlement of disagreements arising out of the microcredit contract, the right (claim) on which was assigned to a person specified in clauses 4 and 5 of Article 9-1 of the MA Law of the RK.
- 10.8. The following disclosure is not deemed to be disclosure of the secret of microcredit issue:
- submission by the microfinance organizations of negative information to the credit bureaus and submission by the credit bureaus of negative information about the credit history subject in a part of past-due indebtedness over one hundred eighty calendar days;
 - submission by the microfinance organizations of the information related to a microcredit with past-due indebtedness on the principal and (or) accrued interests to the persons specified in clauses 4 and 5 of Article 9-1 of the MA Law of the RK;
 - submission by the microfinance organizations to the collection agency of the information about the microcredit within the limits of the contract for debt collection entered into with this collection agency;
 - exchange of information, including the data constituting the secret of the microcredit issue, between the National Bank of the Republic of Kazakhstan and authorized body;
 - submission by an official of a government authority or a person exercising management functions in the microfinance organization of the documents and data containing the secret of microcredit issue as confirming documents and materials when sending a message on criminal offence to a criminal prosecution authority.
 - disclosure of information to the third parties providing software for ACF subject to confidentiality based on the Contract.

11. OTHER CONDITIONS OF MICROCREDIT ISSUE

- 11.1. Preliminary consultation and further work on documents collection shall not obligate ACF to issue a microcredit. ACF is entitled to refuse an Applicant to issue a microcredit without explaining the reasons.
- 11.2. In the event of positive decision, microcredit is issued after submission of all documents properly executed and signing of the Microcredit Contract and other required contracts and, where appropriate, registration of the pledge, if the conditions of microcredit issue so require.
- 11.3. Microcredits shall be issued in tenge by cash or cashless transfer of the funds to the Borrower's account in the second-tier bank according to the details specified in the Microcredit Contract.
- 11.4. The microcredit shall be issued and repaid only in the national currency of the RK - tenge, by payments according to the repayment schedule attached to the Microcredit Contract, to the cash offices or bank accounts of ACF.
- 11.5. ACF shall have the right to exercise control over designated use of the microcredit by different ways, including examination of property, inspection of confirming documents, request for information, on-site visit of business place, and the Borrower shall enable ACF to exercise such control.

12. FINAL PROVISIONS

- 12.1. These Rules are not related to the data constituting the commercial secret and confidential information.
- 12.2. The copy of these Rules in state language and in Russian shall be placed in ACF offices at a place available for review of the Rules by the parties concerned.

Repayment schedule drafts

Sum of the microcredit - KZT 300,000

Interest rate - 45%

Microcredit term - 12 months

Annual effective interest rate - 55,52%

Repayment schedule draft No. 1 Annuity (Accrual of interests on principal balance)

KZT

Payment date	Payments for the period			Principal (debt) balance
	Payment amount	including		
		Interests	Principal	
1	2	3	4	5
01.01.2020				300,000.00
01.02.2020	31,503.69	11,250.00	20,253.69	279,746.31
01.03.2020	31,503.69	10,490.49	21,013.20	258,733.11
01.04.2020	31,503.69	9,702.49	21,801.20	236,931.91
01.05.2020	31,503.69	8,884.95	22,618.74	214,313.16
01.06.2020	31,503.69	8,036.74	23,466.95	190,846.22
01.07.2020	31,503.69	7,156.73	24,346.96	166,499.26
01.08.2020	31,503.69	6,243.72	25,259.97	141,239.29
01.09.2020	31,503.69	5,296.47	26,207.22	115,032.07
01.10.2020	31,503.69	4,313.70	27,189.99	87,842.09
01.11.2020	31,503.69	3,294.08	28,209.61	59,632.48
01.12.2020	31,503.69	2,236.22	29,267.47	30,365.00
01.01.2021	31,503.69	1,138.69	30,365.00	0.00
Total:	378,044.28	78,044.28	300,000	2,081,180.9
Annual effective interest rate:				55,52%

Sum of the microcredit - KZT 300,000

Interest rate - 45%

Microcredit term - 12 months

Annual effective interest rate - 55,88%

Repayment schedule draft No. 2 Differentiated (Accrual of interests on principal balance)

KZT

Payment date	Payments for the period			Principal (debt) balance
	Payment amount	including		
		Interests	Principal	
1	2	3	4	5
01.01.2020				300,000.00
01.02.2020	36,250.00	11,250.00	25,000.00	275,000.00
01.03.2020	35,312.50	10,312.50	25,000.00	250,000.00
01.04.2020	34,375.00	9,375.00	25,000.00	225,000.00
01.05.2020	33,437.50	8,437.50	25,000.00	200,000.00
01.06.2020	32,500.00	7,500.00	25,000.00	175,000.00
01.07.2020	31,562.50	6,562.50	25,000.00	150,000.00
01.08.2020	30,625.00	5,625.00	25,000.00	125,000.00
01.09.2020	29,687.50	4,687.50	25,000.00	100,000.00
01.10.2020	28,750.00	3,750.00	25,000.00	75,000.00
01.11.2020	27,812.50	2,812.50	25,000.00	50,000.00
01.12.2020	26,875.00	1,875.00	25,000.00	25,000.00
01.01.2021	25,937.50	937.50	25,000.00	0.00
Total:	373,125.0	73,125.0	300,000	1,950,000
Annual effective interest rate:				55.53%