



ANNUAL REPORT

2016



Foreword

Microinvest is a leader in responsible financing of the microenterprise segment in Moldova. We operate with more than 100 staff in 14 locations across the country and serve over 15,000 micro customers. Our company serves micro business, agro and consumer clients, providing financing for working capital, investments, consumption and educational needs. In a market dominated by payday lenders, Microinvest stands out as a responsible, cautious and transparent lender that conducts thorough financial analysis of its clients and charges sustainable rates commensurate with client risk. In 2015 we obtained SMART certification confirming our attention to standards of responsible lending. In our strategy and day-to-day activities we pay attention to the following key principles: building strong and transparent corporate governance, developing a sustainable and profitable business mod-

el, promoting a conservative risk management approach throughout the institution, respecting and supporting our clients and developing our staff. We believe that by building those values into our strategy and day to day operations we are able to build a large and high quality portfolio of micro customers, achieve high efficiency, low credit risk and stable returns for our shareholders. In 2016 the company increased its loan portfolio by MDL 133,4 m to MDL 378,2 m, reduced PAR 30 to 2.32*%, and achieved ROE of 7.24%.

*According to Local Standards

Microinvest at a Glance

14 **243** 378 **261 762** MDL **122**

Total Clients

Total Portfolio

Employees

December 31, 2016



Foreword from the CEO

We see 2016 as a successful year for Microinvest. We were focused on building up staff and management capacities at the company, continuing with portfolio growth, improving portfolio quality and increasing company efficiency. We are happy to report that we managed to increase our ability to attract, train and retain very good staff in our company and we believe that the level of professionalism and service quality is improving across the company. We were able to keep arrears below 3%, reduce cost-income ratio to 80.02% and achieve 7.24% ROE.

After a period of political turmoil and economic slowdown, markets have largely stabilized, and credit demand has improved. We saw growing demand in all our core segments, especially strong in the agricultural segment. The competition started to show some signs of revival, but is still subdued, thus in the majority of markets we compete with only two or three banks and microfinance companies.

We position our company as faster and simpler than banks, and affordable and more responsible than other MFIs. So far, this positioning proved to be successful, and we were able to steadily in-

crease the number of businesses and households looking for a reliable long-term finance partner. Microinvest is a staff-driven company. We put high demands to our employees in terms of customer acquisition, credit assessment, portfolio and arrears management. To the best of our knowledge, no other financial organization on the market has such high requirements. Labor market is quite limited in regards to active people ready to invest efforts in becoming high professionals. That is why we continuously invest considerable efforts promoting company as good employer to attract and train potential employees. We are glad that our team succeeded to build up a systematic hiring, induction program and training approach that ensures high staff capacity.

In 2016 we also started investing in promoting Microinvest brand, and believe that we achieved higher recognition on the market as a responsible, staff and quality-driven company.

Of course, significant amount of work remains to be done. In 2017 we will continue to focus on generating further growth while improving our portfolio quality. Our main focus will be efficien-



cy, aiming to reduce cost-income ratio below 60%. We will continue optimizing processes, as well as broader use of technology to achieve this goal. But we strive to remain a company with a human face and a human touch. Our customers will always have the opportunity to call or visit and talk to us face to face, and each of our clients will have a responsible manager, who will focus not only on sales, but also on what is best for the customer business and household, and also on preventing customers from taking on more debt than they can bear.

Looking back at 2016, we are optimistic about our capacity to build up the company and on achieving even better results in 2017 and beyond. We are grateful to our customers, our staff, shareholders, IFI and local bank lending partners, who made those achievements possible and we count on their continued support in the future.

Dumitru Svinarencu,
CEO

A handwritten signature in blue ink, consisting of a stylized, cursive script.



Company Overview

Market overview and strategy

Markets in 2016 were stable and growth oriented. GDP increased by 4%, the local currency was stable and funding rates started declining. The banking sector continued shrinking and rebalancing after the turmoil of 2014-2015.

The market vacated by banks filled out by payday lenders, who apply almost no customer screening, but charge very high interest rates, and are not attractive to the majority of rate-conscious businesses and households.

Against worsening credit supply, the demand started increasing, especially in the fast-grow-

ing agro sector, but also in trade, production and services.

In this environment, our offer of fast, responsible and sustainably-priced loans found strong demand. We were able to increase our market share from 8% to 12% and we see strong potential for further growth. We work to position our brand closer to banks, and see ourselves as how a bank “should be” - fast and simple, leaning towards customer, with excellent customer service, and strictly adhering to responsible lending principles.

Portfolio development, 2012-2016 (MDL ‘000)

Item	2012	2013	2014	2015	2016
Business LP	159 732	165 099	170 373	164 298	277 473
Consumer LP	54 303	64 940	65 349	80 602	100 787
ROE, %	4.19	6.68	-2.76	-8.47	7.24
ROE*, %	4.19	6.68	3.79	-0.67	7.24
PAR 30**, %	3.87	4.38	6.15	6.27	2.32
Nr of staff	104	109	109	102	122
Nr of branches	16	16	16	14	14

* Net of extra organizational restructuring and legal expenses

**According to Local Standards



Our customers

Needless to say, we love our customers. Beyond numbers, we see in each business and household real people with desire to improve their livelihood, grow their business, and achieve their dreams. We try to be of help in whatever ways a responsible lender can. Of course, there is still much to be done in becoming a true example of fully responsible lending, and in many ways we are restricted, for example, by our relatively high costs of funds, but we see ways to improve and are working steadily to this objective.

In 2016 we financed about 13,000 customers, of which over 2,000 were business customers.

Our typical customer is a mature well established micro business, with several years of operational experience, who successfully went through the recent crises. We make sure to attract businesses with good reputation, business history and sufficient business assets. We have an almost equal share of male and female customers, majority of our clients are married and have kids. Our average business exposure is seven thousand dollars, whereas an average retail exposure is much smaller, at 500 dollars. We believe that our clients have a clear prefer-

ence for Microinvest approach, which combines speed with responsibility. We work closely with clients, disclose all important information and help them make a correct credit decision. We very strongly underline that we will not disburse a loan and try to explain to the client not to apply for it elsewhere, if we see insufficient payment capacity and risk of default.

We are also very proud of our strong growth in the agro sector. Our broad branch network and regional penetration set us apart from competition, and we allowed us to reach nearly every micro farmer in the country. We consider agriculture one of the driving forces of the Moldavian economy and will continue supporting agro customers throughout the country.

Our products

We try to keep it simple product wise. We have three lending products - credit limit and instalment loan. They are designed as with flexible facilities, and we make sure to match client`s business and cash cycle. We are developing now an online interface for our clients to control their exposures, request new loans, as well as, in the future, money transfers and payments.



Our staff

As with our customers, we love our employees. Almost invariably, they are very hardworking, customer oriented, constantly develop new skills, very loyal to the company and look to achieve financial stability for their families. We are firmly convinced that we have one of the best finance team in the country, and we will be able to continue acquiring customer satisfactions and achieving our goals with them.

Of course, we are very demanding in terms of commitment and performance. We hire almost all our colleagues via a standard 3-month induction program and provide continuous training along their career.

The labor market in Moldova is challenging. Many young people emigrate, and the level of basic skills is not very high. Finding a sufficient number of qualified applicants even without prior job experience is challenging. Well trained and highly performing specialists are in high demand, and both banks and microfinance companies are looking to lure away our best employees. We are aware of those challenges, and work continuous-

ly on improving our hiring, create better work environment for our colleagues, provide more attractive and competitive remuneration and improve their skills and fulfillment.

Overall, the staff situation is a challenge, but it is one that we can overcome. We strongly believe that developing world-class staff management is a competitive advantage that is extremely hard to replicate, and will be the biggest asset for company development.



Risk Management

Financial and operational risk management

We pay close attention to financial and operational risk management via careful process design, detailed documentation of key processes, exhaustive staff training, setting up warning limits and controls. A conservative risk culture is spread throughout the institution.

Our risk approach is characterized by cautious limits for open currency position, liquidity, interest rate risk, funding and counterparty risks. We aim to keep those risks close to zero, and in any case, limit their impact at below 10% of equity. The 4-eyes controls principle is in place for all key processes.

In cases when risks cannot be avoided, like with the local bank counterparty risk, we aim to minimize them.

We also have fully structured ALCO, Credit Risk, Financial and Operational Risk and HR committees, standard reports and limits that allow us to consistently monitor and to react in a timely way to any emergencies. All warning limit violations are immediately escalated to Management, and all maximum limit violations to the Board.

The risk function conducts stress tests on a regu-

lar basis to assess company vulnerability in various extreme scenarios. The results are reported to the risk committees, which are responsible for assessing the risks and taking mitigation measures when necessary.

Corporate governance and shareholders

An integral part of Microinvest business model are strong shareholders and the Board who carry forward the company mission of profitable, but responsible lending. This is also a condition for collaboration with international lenders, and it is important for our positioning on the market.

We watch carefully that the business, risk and finance areas are structurally separated from each other, and we make sure that the business side cannot override the limits set forward by the risk and finance areas.

At the same time, we have an intensive formalized communication between the areas in the form of committees, which allows us to address any important topics in a structured and systematic manner.

Importantly, we practice full transparency in inter-



nal and external communications, and maintain an open door policy. You will see in our offices that people can easily talk to each other or to senior management, and no topic is blocked for discussion. We also believe that it is critical to ensure a close cooperation between branches and the head office. In particular the management team is committed to investing a significant part of their working time to branch visits and working with branch managers and staff, setting the tone and ensuring two-way communication, awareness and timely reaction to the realities on the ground.

Board of Directors

Andrew Walsh - Board Chairman, Balkan Financial Sector Equity Fund (“BFSE”), member of the board from 2013

Uwe Const - OikoCredit, member of the board from 2008

Marcel Varmari - Soros Foundation in Moldova, member of the board from 2014

Stephan Boven - Independent consultant, member of the board from 2016

Svinarenco Dumitru - Executive Director, Microinvest, member of the board from 2015

2016	
Balkan Financial Sector Equity Fund (BFSE Holding B.V) represented by Development Financial Equity Partners (DFE). - Netherlands	52.26%
Soros Foundation-Moldova - Republic of Moldova	26.73%
Oikocredit Ecumenical Development Cooperative Society U.A. - Netherlands	12.81%
Driehaus Richard - USA	4.78%
S.I.D.I. Solidarite Internationale pour le Developpement et l’Investissement - France	3.42%
	100%

IFI support

Similar to our shareholders and the Board, our IFI lending partners are also crucial for the mission and governance of Microinvest. We enjoyed continuous support from our partners throughout 2016, and added several new lender partners during the year. These relationships are important not only from the perspective of funding, but also for being aware and implementing best practices in governance, capacity building, risk and finance management.

Î.M. OMF MICROINVEST SRL

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS**

Î.M. OMF MICROINVEST SRL

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are in Moldovan Lei (MDL), unless otherwise stated)

	Notes	2016	2015
Interest income	4	97,578,654	72,083,328
Interest expense	5	(48,319,842)	(34,152,695)
Net interest income		49,258,812	37,930,633
Provision for impairment of loans	12	(2,088,252)	(5,473,910)
Net interest income after provision for impairment of loans		46,270,560	32,456,723
Recoveries of loans previously written off	6	4,603,753	2,945,157
Other operating income	7	2,277,201	628,723
General and administrative expenses	8	(44,921,016)	(42,721,612)
Net foreign exchange (loss)/ gains		(171,542)	(1,287,540)
Income/(Loss) before income tax		8,058,956	(7,978,558)
Income tax (expense)/ credit	9	(1,134,580)	(333,461)
Income/(Loss) for the year		6,924,376	(8,312,019)
Total comprehensive income/(loss) for the year		6,924,376	(8,312,019)

The financial statements were authorized for issue on 08 June 2017 by the Executives of the Group represented by:

Mr Dmitrii Svinareco
Administrator




Mr Dumitru Strogoteanu
Chief Financial Officer



The notes from pages 5 – 64 are an integral part of these consolidated financial statements.

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Î.M. OMF MICROINVEST SRL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(All amounts are in Moldovan Lei (MDL), unless otherwise stated)

	Notes	31 December 2016	31 December 2015
ASSETS			
Cash and cash equivalents	10	9,873,519	5,072,704
Due from banks and other institutions	11	207,341,779	179,851,870
Loans and advances to customers, net	12	368,656,649	233,413,308
Premises and equipment	13	13,661,974	12,640,208
Deferred tax assets	9	1,351,797	2,486,377
Intangible assets	14	3,378,163	2,214,409
Other assets	15	<u>3,708,179</u>	<u>2,910,854</u>
Total assets		<u>607,972,060</u>	<u>438,589,730</u>
LIABILITIES			
Interest-bearing borrowings	16	496,256,363	343,953,624
Other liabilities	18	12,925,126	2,769,912
Total liabilities		509,181,489	346,723,536
SHAREHOLDERS' EQUITY			
Share capital	19	103,046,693	103,046,693
Secondary capital		(858,398)	(858,398)
Share premium		3,357,781	3,357,781
Accumulated deficit		<u>(6,755,506)</u>	<u>(13,679,881)</u>
Total shareholders' equity		<u>98,790,571</u>	<u>91,866,195</u>
Total liabilities and shareholders' equity		<u>607,972,060</u>	<u>438,589,730</u>

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Î.M. OMF MICROINVEST SRL

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

(All amounts are in Moldovan Lei (MDL), unless otherwise stated)

	Notes	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Interest receipts		93,839,592	74,034,783
Interest payments		(53,744,874)	(37,521,348)
Recoveries from loans previously written off		4,603,753	2,945,157
Other income received		2,277,201	476,297
Payment to employees and suppliers		(41,501,299)	(38,827,357)
Foreign exchange (losses)/gains		(35,150)	-
Income taxes paid		<u>(801,362)</u>	<u>(2,091,938)</u>
		(4,637,861)	(984,406)
<i>(Increase) / decrease in assets:</i>			
Loans and advances to customers, net		(136,078,196)	(9,452,035)
Due from banks and other institutions		(32,870,076)	83,284,891
Other assets		(812,257)	16,065,664
<i>Increase in liabilities:</i>			
Increase in provisions for legal services		-	(2,975,716)
Other liabilities		<u>10,268,198</u>	<u>209,852</u>
Net cash used in operating activities		(154,854,470)	86,148,250
Cash flows from investing activities			
Purchase of intangibles		(2,396,057)	(1,758,559)
Purchase of Premises and equipment		(2,407,818)	(461,158)
Purchase of state securities		-	<u>9,999,056</u>
Net cash used in investing activities		(4,803,875)	7,779,339
Cash flows from financing activities			
Borrowings received		760,059,032	186,679,275
Borrowings repaid		(595,180,605)	(275,626,435)
Contributions in share capital		-	<u>(4,301,000)</u>
Net cash from/(used in) financing activities		164,878,427	(93,248,160)
Foreign exchange difference		<u>(419,267)</u>	<u>(719,660)</u>
Net increase/(decrease) in cash and cash equivalents		4,800,815	(40,231)
Cash and cash equivalents at 1 January		<u>5,072,705</u>	<u>5,112,936</u>
Cash and cash equivalents at 31 December	10	<u>9,873,519</u>	<u>5,072,705</u>

The notes from pages 5 – 64 are an integral part of these consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Î.M. OMF Microinvest SRL

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Microinvest SRL (the Company) and its subsidiaries (together 'the Group') as at 31 December 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

ICS PricewaterhouseCoopers Audit SRL
ICS PricewaterhouseCoopers Audit SRL

Chisinau, 9 June 2017



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