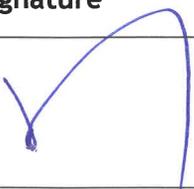


# Administrator Report

OCN Microinvest SRL

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Date	Position	Name	Signature
20.04.2021	Administrator	Svinarenco Dumitru	

*Svinarenco  
Dumitru*

## 1. Economic overview

According to World Bank, COVID-19 and the recent drought have drastically worsened the outlook for Moldova with an economic contraction expected in 2020 of a magnitude not seen since the great global recession in 2009. GDP is estimated to decline by 7.2% in 2020. Unemployment, losses and declining remittances due to the lockdown in Moldova and its main economic partners are expected to hit households hard. Since the end of the lockdown, the economy has gradually started recovering, but most of the short-term indicators remain in negative territory.

Uncertainties around the evolution of the pandemic are expected to keep the economy below potential. Economic growth is expected to reach 3.8% in 2021, assuming more favorable conditions thanks to the development of vaccines. Consumer and investment confidence are expected to rebound on the back of the resumption of real remittances volume, increase in social transfers, and accommodative monetary stance. Most sectors are also expected to rebound, though the 2019 levels are estimated to be reached only in 2022. The agricultural sector is estimated to strongly rebound after a bad yield this year. While the current account deficit is expected to narrow in 2020, it will gradually widen as the economy accelerates. Similarly, average inflation is expected to be below the target of 5% in 2020-2021, but to pick up as the recovery strengthens.

It is worth to mention that, despite the pandemic and payment moratorium measures imposed by regulator, during 2020 the share of non-performing loans at the level of the banking sector decreased, reaching 7.3% (8.5% as the end of 2019).

The evolution of the non-banking sector in the Republic of Moldova shows that although it has a small share in the state economy, compared to the banking sector, its influence is very wide, offering credit services complementary to banking, available to individuals and small and medium enterprises throughout of the country. Even if 2020 was an unpredictable year, the non-banking sector remained stable, with over one hundred registered players. The market remained highly competitive in consumer, employee, and asset lending.

## 2. Company's general presentation

Over the years, Microinvest has built a solid position on the market and positioned itself as a strong brand. The Company is the leader in the microfinance segment in the Republic of Moldova with over 220 employees, which pursue and develop a successful career in a network of 14 secondary offices across the country thus serving over 36,900 customers. One more strength of Microinvest is its professional management team, with experience and expertise in banking and microfinancing.

The Company provides microloans and business assistance to small entrepreneurs covering all regions of the Republic of Moldova. Many of the beneficiaries of Microinvest loans are private entrepreneurs living in rural areas.

In the competitive market, Microinvest stands out as a responsible, prudent, and transparent lender, which performs a detailed financial analysis of each client and offering prices proportional to the client's credit risk.

In developing long-term strategies and day-to-day activities, the company relies on the following key principles: building strong and transparent corporate governance, developing a sustainable and profitable business model, promoting a conservative approach to credit risk management combined with individual approach to its clients. Management is confident that by integrating these values into its day-to-day activities, the company will be able to grow and develop its loan portfolio while maintaining its quality, achieving high efficiency while ensuring the minimum level of credit risk even in difficult and unpredictable time.

2020 was a very challenging year for Microinvest. In addition to political instability and economic decline, two serious events emerged in Moldova in 2020 - the Global Pandemic, which manifested itself in blockages, restrictions, disruptions in already established business relationships, in new approaches to business administration and of course a severe drought, which affected a big share of Moldovan agricultural sector.

Nevertheless, we consider 2020 a successful year. The year-end results reflect that Microinvest developed a good-working action plan, while prompt responses to such big shocks allowed the Company to remain confident in the dialog with the lenders, to maintain a sufficient level of liquidity and financial stability.

The transaction with Banca Transilvania did not take place in the agreed conditions and terms. Microinvest continues its activity as usual and develops further with the existing shareholder's structure:

**O.C.N „MICROINVEST” S.R.L. shareholder structure:**

	<u>2020</u>	<u>2019</u>
BFSE Holding B.V. ( B.F.S.E)	54.86%	54.86%
Soros Foundation Moldova	24.42%	24.42%
S.A. "S.I.D.I." Solidarite Internationale pour le Developpement et l'Investissement	3.13%	3.13%
"Oikocredit" Ecumenical Development Cooperative Society U.A.	12.81%	12.81%
Driehaus Richard	<u>4.78%</u>	<u>4.78%</u>
	<u>100.0%</u>	<u>100.0%</u>

The forecast for 2021 remains positive, it provides a real hope at a time of great uncertainty for all. Even if Moldova remains in the painful grip of the pandemic and its social and economic consequences, all too evident, the company still aims to focus on supporting its borrowers and improving LP quality.

Microinvest remains responsible and at the same time empathetic to the clients' needs. The customers, always, have the opportunity to call or visit the secondary office, at the same time business clients are assigned to responsible loan officer, who offers an individual approach and is focused on what would be most beneficial for the growth and development of the client's business in this challenging period, constantly avoiding the occurrence of over-indebtedness.

### 3. Financial performance indicators

The company's efforts in terms of maintaining high quality standards even during the pandemic, creating a comfortable business environment and continuous staff development have significantly influenced the level of the financial performance indicators. As the end of 2020, the return on capital (ROE) constituted 30.1% and CIR 27.5%.

Indicator	2018	2019	2020
ROE	34.4%	47.9%	30.1%
ROA	5.0%	7.0%	4.7%
CIR	43.1%	32.2%	27.5%

According to the Management Accounts, the profit after tax, according to IFRS, is equal to 104.8m MDL. During 2020, Microinvest recorded a 36.5% increase of interest and fee income compared to 2019, corresponding to loan portfolio growth of 23.9%. On the other side, one of the main challenges during 2020 was attracting local currency funds at affordable prices in order, to assure loan portfolio growth, to maintain a sufficient level of liquidity and financial stability. Considering the global nature of the COVID-19 pandemic, all lenders have shown their willingness to support the Company during this difficult period. During 2020, the Operating Expenses (Overhead) were managed efficiently, which allowed the decrease of CIR to 27.5%.

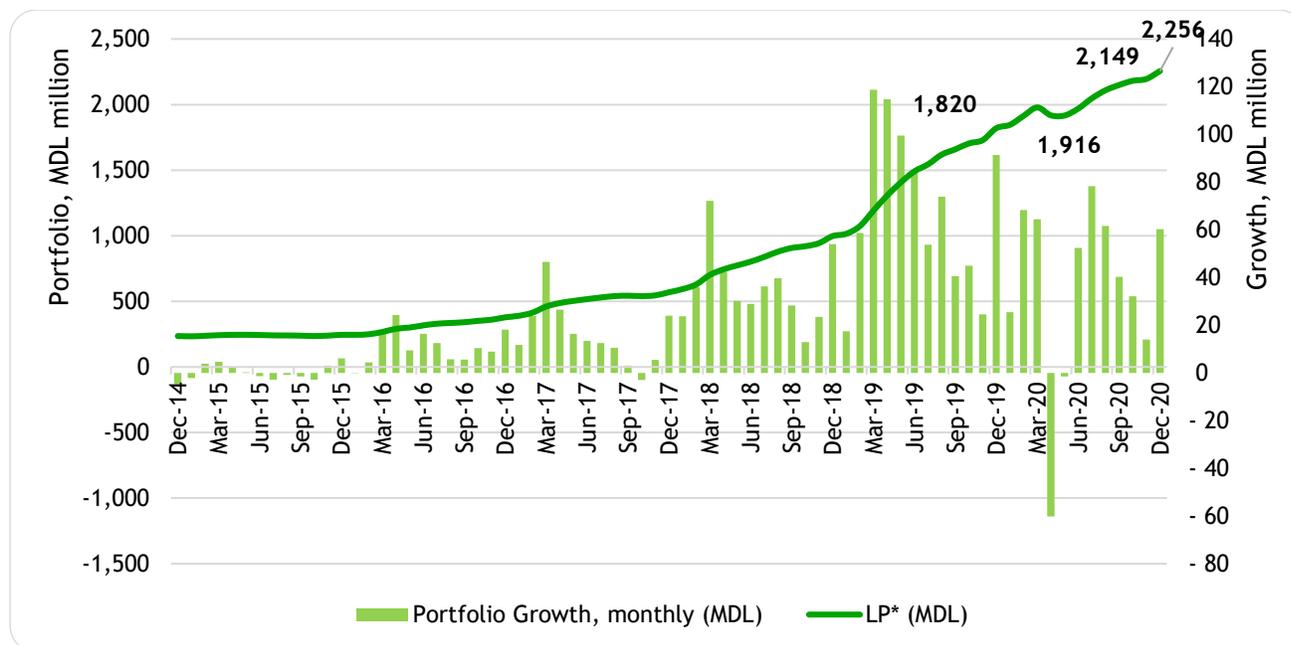
In the coming year, the Management intends to maintain LP yield in the context of high market pressure on the pricing, continue expanding the loan portfolio with qualitative moderate growth in all segments, while ensuring its systemic monitoring to maintain the value of operating expenses and risk costs within pre-established limits, thus contributing to the increase of the company's operating income.

## 4. Non-financial specific indicators

### 4.1. Loan portfolio evolution

Even if 2020 was an unusual year, Microinvest maintained its 6th place in the top of the entire financial sector of the Republic of Moldova, according to the value of the loan portfolio, and strengthened the company's leading position on the country's non-banking financial market.

At the end of 2020, the loan portfolio reached the level of 2.3 billion MDL (+23.9% compared to 2019), and its quality, in context of global crisis and COVID-19 pandemic, was maintained at an acceptable level: PAR 30 (according to IFRS) registered the value of 2.4% (1.6% in 2019).



\*Principal outstanding portfolio

The extraordinary result of 2020 was determined by the following factors: (A) well-trained team in Secondary Offices and HO, (B) good reputation in the business and retail segments; (C) strong seasonal demand and concentration in agriculture which was less affected by COVID-19 in the first part of the year, balanced by targeting other non-agri segments in non-seasonal periods which were not affected by extreme drought; (D) the rapid development and flexibility of credit products and business directions which permitted to adapt in a prompt way to market changes.

The focus during 2020 was on growth of the Business loan portfolio (+32.4%), maintaining the existing business borrowers, restructuring of the loan exposures of business clients affected by covid-19 and agri clients affected by drought. Due to pandemic year and instability of people's incomes the results recorded in the field of non-business retail lending shows the stagnation and even the decrease of some non-business credit products portfolio.

## 4.2. Gross loan portfolio structure

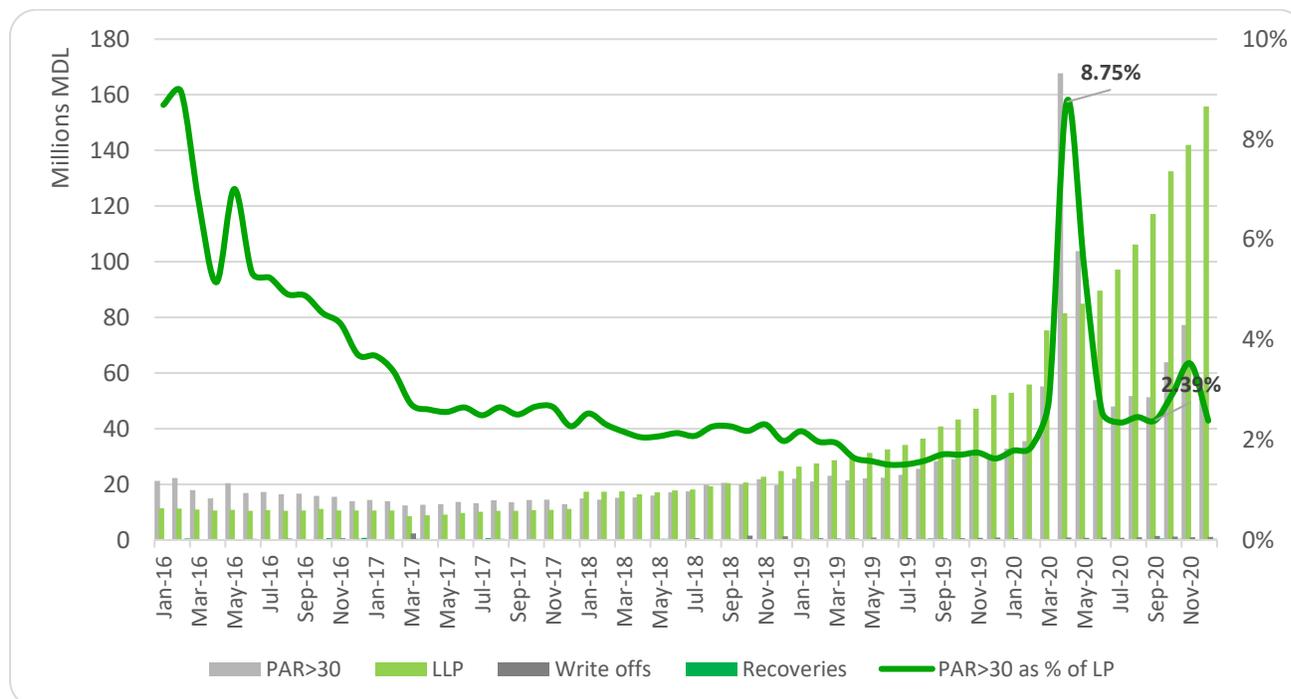
The distribution of the loan portfolio at the end of 2020 is presented in the tables below:

Category*	LP, MDL	Share, %
Business	1,500,988,898	66.5
Car and HIL	529,722,217	23.5
Partners	124,696,829	5.5
Cash Loans	100,154,449	4.4
<b>Total</b>	<b>2,255,562,394</b>	<b>100.0</b>

\*Breakdown by financial products

## 4.3. Loan Portfolio quality

2020 was a challenging year for the whole Moldovan economy. Nevertheless, due to a good-working anti-crisis action plan and reaction to such big shocks the Company succeed to maintain a good LP quality. As the end of 2020, PAR 30 reached the level of 2.4%, not much higher than 1.6% registered as the end of 2019. The main factor that has contributed to maintaining the quality of the loan portfolio is close communication with clients regarding the solutions proposed by Microinvest for decreasing the impact of Covid-19. During 2020 Microinvest maintained a good risk management and the continuous improvement of collection processes.



The volume of restructured loans increased from 37.8m MDL in 2019 to 276.8m MDL in 2020 from which 63.8m MDL are usual restructured exposures, 62.6m MDL are COVID-19 restructured exposures

and 150.4m MDL AGRI restructured exposures. The quality of restructured exposures stays high, registering only 8.1% Par30 for total restructured LP.

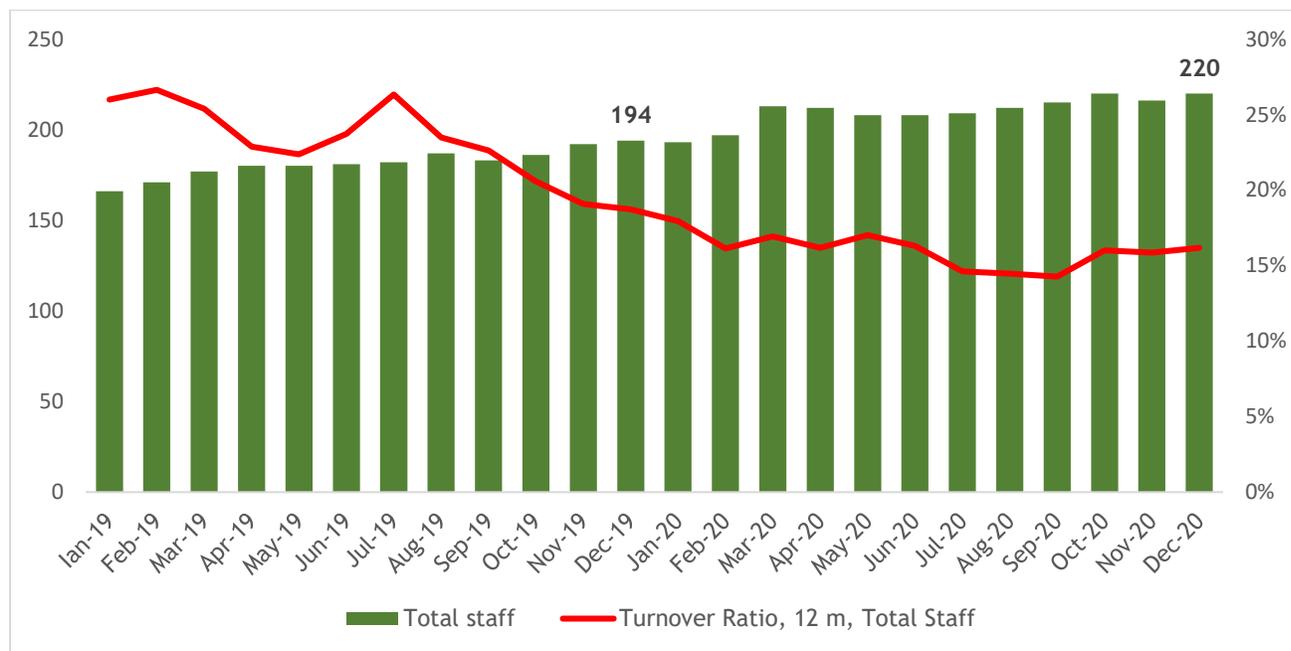
In 2021, the Company will continue to build sustainable assets with a low level of risk, thoroughly analyzing risk origination, ensuring systemic monitoring of the loan portfolio, improving coverage ratio of accumulated credit risk.

Main priorities for credit risk for 2021 remain to be maintaining LP quality at high level considering situation with COVID-19 pandemic, economic impact of the extreme drought happened a year before and LP growth within uncertainty, increased risk environment and continuously speeding competition.

## 5. Human Resources Management

The main objectives in the field of human resources management in 2020 were: (A) to ensure the stability of the team and decrease the staff turnover rate below 25%; (B) enforcing safety measures in pandemic; (C) raise-up new generation of potential leaders; (D) engaged and committed employees in Covid Environment; (E) fast and qualitative on-boarding of new colleagues; (F) increase HR Brand awareness among potential candidates and increase flow of applications.

Despite Pandemic reality the Microinvest team has grown to 220 people, which is also reflected in the turnover chart. Although the HR market in the Covid-19 year's crisis was a different one, financial field became the toughest competition field for professionals and company faced a lot of challenges, nevertheless managed to reach an ambitious level of staff turnover- 16%. The focus is to continue to ensure the stability of the team and keep the long-term staff turnover rate below 25%.



Main HR priority in the Coronavirus crisis has been to protect the health of our members of staff and their families by introducing the necessary safety measures while ensuring the continuity of the business and compliance with legislation requirements. Company reacted very rapidly and in a matter of days, switched over to a largely remote working arrangement. All the necessary steps were taken to ensure the safety of those teams whose on-site presence was still essential to notably serve Microinvest customers. Due to extraordinary dedication of each team member the Company

managed to successfully perform multiple tasks and redirect focus to priority field in a highly volatile environment of 2020.

Microinvest promotes involvement, professional and personal development for its colleagues. The company pays attention to the quality of the dialog with the employee from the very beginning of his/her career via Welcome Seminars, on the job training and specialized seminars. To ensure business continuity, to retain talent and strengthen staff loyalty, Microinvest invests in Leadership trainings, refresh seminars for front-office colleagues, and promotes professional mobility and career changes within the Company.

Microinvest believes that company's development and success is based on extremely high levels of engagement and commitments of each colleague and team member. Main priority remains to offer comfortable working environment, to have relationship based on trust and mutual respect across all organizational levels. Annual Employee engagement survey done by HR shows high engagement index of 94%. Unique Microinvest culture and identity is the core competitive advantage which supports further Company development.

## 6. Financial risk management

Financial Risk Policy of OCN Microinvest SRL sets out the basic framework for managing financial risks associated with activity of the Company, aiming to achieve healthy development of the company and ensure proactive and systematic risk management practice, develops capacity to manage material risks it has identified, in a cost-effective manner, commensurate with organization's resources. Risk taking is an integral part of company operations. However, poor management of risks will result in losses, and endanger sustainability of the organization. Systematic and proactive risk management is essential for long-term sustainability.

Risk management is a continuous process that will implement the following on the systematic base:

- Risk identification
- Risk measurement
- Risk control
- Risk monitoring
- Risk management.

Microinvest is exposed to a spectrum of financial Risks: Credit, Liquidity, Currency, Counterparty, Interest rate and Capital Management.

### *Credit risk management*

Due to two significant events which emerged in Moldova in 2020 - the Global Pandemic and a severe drought accumulated credit risk substantially increased. The growth is reflected in portfolio quality figures. As the end of 2020, PAR 30 reached the level of 2.4%, higher than 1.6% registered as the end of 2019. Also increased the volume of restructured loans from 37.8m MDL in 2019 to 276.8m MDL. The value of PAR 30 including restructured loans reached the level of 13.7% compared to 3.4% registered as the end of 2019. Microinvest continues to monitor closely the borrowers' financial situation to promptly react to their needs.

### *Liquidity risk management*

The gaps are prepared and monitored on a monthly basis for contractual maturities, separately for local and FX currency. There were no violations of the liquidity triggers and limits during the year. As of 31.12.2020 the liquidity ratio was equal to 15.4%, much higher than the minimum liquidity buffer and internal trigger (3.0% and 5.0% respectively). The liquidity coverage ratios for 1 and 3 months also registered the values much higher than internal approved limits 60.4% and 60.7% respectively. The company ensured a comfortable level of liquidity throughout the year.

The company's approach of the liquidity management is to continuously assess its liquidity position and maintain sufficient liquid resources in order to meet its outstanding payment obligations.

### ***Currency risk management***

As of December 2020, the Company's aggregated OCP (including Off-Balance Sheet items) amounted 3.7%, which is within the limits and the internal trigger of 5%.

The management is realistic about the reliability of the mitigation measures in times of crisis/currency volatility and is developing/using a stress test that gives a realistic assessment of risk management tools failure in cases of high crisis.

### ***Counterparty risk management***

The main financial risk that the company faced is the Counterparty risk, driven by local banks used for back-to-back currency swaps. If a local bank refuse to provide swap options or fail, the company will face exposure to a combination of liquidity, funding, credit and FX risks.

### ***Interest rate risk***

The principal tools for measuring interest rate risk are IRR gap analysis, IRR stress test according to predefined expected and maximum stress criteria, limits set on the resulting IRR relative to capital of the company.

During 2020 the structure of BS by Interest Rate Sensitivity shows that the Company was exposed to IR risk for short term periods, which could influence the Net Interest Margin.

### ***Capital Management***

Microinvest considers its capital as adequate when it can be assumed with sufficient certainty that the company has sufficient capital to adequately cover all of the risks that have been incurred in the course of its business operations even under extreme circumstances. In order, to measure the Capital risk the Company uses 2 indicators: Tier 1 Capital adequacy (>13%) and Total Capital adequacy (>15%).

As of December 2020, the internal CARs were equal to 17.0% and 17.8%, above the minimum levels of 13% and 15%.

## **7. Corporate governance**

The company's ownership structure remained unchanged. The Senior management team stayed stable. The Composition of the Administrative Board has been changed and for the year 2020-2021 the Administrative Board has four members instead of five.

## **8. Subsequent events**

The first quarter of 2021 is marked by persistency of pandemic and emergency situation in field of public health. The climatic conditions seem to be favorable for a good agricultural year, so much needed after the severe drought registered in 2019-2020. This gives hope for a better year.

To improve the leadership and managerial capacity of the Company to assure its sustainable development in future Senior Management Team was enlarged with Chief Business Officer since March 2021.

### Annex 1. OCN Microinvest SRL secondary offices

Secondary office name	Region	Address
Balti	North 1	27/1, Ștefan cel Mare ave. MD 3121, Bălți
Cahul	South	15/5, Republicii bd. MD 3909, Cahul
Causeni	South	25, M. Eminescu str. MD 4304, Căușeni
Chisinau Botanica	Center	23/2, Decebal bd. MD 2002, Chișinău
Chisinau Riscani	Center	15/7, Moscovei bd. MD 2068, Chișinău,
Chisinau Sculeni	Center	171/1, Ștefan cel Mare ave. MD 2004, Chisinau
Comrat	South	111, Pobedî str. MD3805, Comrat
Drochia	North 2	33, 31 August 1989 str. MD 5202, Drochia
Edinet	North 2	61, Independenței str. MD 4601, Edineț
Floresti	North 1	42, 31 August 1989 str. 42 MD 5001, Florești
Head Office	Center	12, bd. Renașterii Naționale bd., 12, floor 2 MD 2024, Chisinau
Ocnita	North 2	116, 50 Ani ai Biruinței str. MD 7101, Ocnita
Orhei	South	5/3, M. Eminescu str. MD 3505, Orhei
Riscani	North 1	14a, Independenței str. MD 5601, Râșcani
Soroca	North 1	75a, Independenței str. MD 3006 Soroca

## Annex 2. OCN Microinvest SRL financial statements

	<u>2020</u>	<u>2019</u>
Interest income	498,536,714	364,704,437
Interest expense	<u>(167,854,122)</u>	<u>(116,030,558)</u>
<b>Net interest income</b>	<b>330,682,592</b>	<b>248,673,879</b>
Provision for impairment of loans	(123,733,619)	(35,495,081)
Provision for impairment of other financial assets	<u>(7,429)</u>	<u>(1,710,508)</u>
<b>Net interest income after provision for impairment of loans</b>	<b>206,941,544</b>	<b>211,468,290</b>
Recoveries of loans previously written off	3,999,616	3,213,559
Other operating income	6,180,786	4,258,323
General and administrative expenses	(93,756,880)	(82,392,997)
Regulatory fee	(2,087,920)	(1,540,667)
Net foreign exchange (loss)/ gains	<u>159,139</u>	<u>(3,571,286)</u>
<b>Income/(Loss) before income tax</b>	<b>121,436,285</b>	<b>131,435,222</b>
Income tax (expense)/ credit	<u>(16,603,389)</u>	<u>(19,008,191)</u>
<b>Income/(Loss) for the year</b>	<b><u>104,832,896</u></b>	<b><u>112,427,031</u></b>
<b>Total comprehensive income/(loss) for the year</b>	<b><u>104,832,896</u></b>	<b><u>112,427,031</u></b>

	<u>31 December 2020</u>	<u>31 December 2019</u>
<b>ASSETS</b>		
Cash and cash equivalents	196,472,900	95,341,914
Due from banks and other institutions	164,571,097	88,241,950
Loans and advances to customers, net	2,109,800,803	1,768,643,207
Premises, equipment and right of use assets	27,684,376	28,692,403
Deferred tax assets	6,399,068	4,933,188
Intangible assets	4,557,021	3,865,568
Other assets	<u>7,580,987</u>	<u>2,695,874</u>
<b>Total assets</b>	<b><u>2,517,066,251</u></b>	<b><u>1,992,414,104</u></b>
<b>LIABILITIES</b>		
Interest-bearing borrowings	2,018,378,626	1,607,362,953
Grants for projects in process	1,895,091	
Subordinated debts	31,639,144	28,781,478
Other liabilities	54,597,658	52,093,549
Lease liabilities	9,592,874	8,046,162
<b>Total liabilities</b>	<b><u>2,116,103,392</u></b>	<b><u>1,696,284,142</u></b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	112,771,693	112,771,693
Secondary capital	(616,586)	(616,586)
Share premium	3,357,782	3,357,782
Statutory reserves	11,280,168	10,304,668
Accumulated deficit/profit	<u>274,169,801</u>	<u>170,312,405</u>
<b>Total shareholders' equity</b>	<b><u>400,962,858</u></b>	<b><u>296,129,962</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>2,517,066,251</u></b>	<b><u>1,992,414,104</u></b>