

Regulation
on Services provided to customers
within O.C.N „Microinvest” SRL
(version 1.1)

Endorsement

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Introduction

Regulation on Services provided to customers within O.C.N "Microinvest" SRL sets out the basic framework for loan-granting activity of the Company, aiming to achieve the business goals of the Company while ensuring thorough loan assessment and high loan portfolio quality. This Regulation describes credit process for business clients and private individuals with non-business incomes, including the criteria and conditions for providing services, the disclosure of the total costs components of services provided, penalty and interest rate calculation method and the guaranties required from the client to secure loan repayment at maturity, sets out the approach for proper credit risk management within the company.

The Regulation is designed in accordance with internal policies, the current legislation/normative acts under the law and is approved by the Administrative Board of the Company. This document will be revised and updated annually.

Criteria and conditions for providing services

Target Groups for Lending activity

The Company's core client group is Moldavian micro and small entrepreneurs, who can operate in the form of legal entity as well as physical person (LLC, PP, GT, II, COOP, etc.). Special attention of the Company is devoted to the agricultural producers, since they represent one of the most important sectors of Moldavian economy.

The Company also offers housing improvement, car and consumer purpose loans for physical persons, who are not involved in entrepreneurial activity, whose main income derives from salaries, remittances or pensions.

Client's categories and loan products

Approach to clients can be differentiated by types of income, clients category, types of products and analysis technology.

Clients financial potential within the company can be determined by requested amount, total prospective exposure or credit limit.

By type of income, clients are grouped in:

- Business clients:
 1. Business-Small – clients with credit limit between MDL 600 001 – 4 000 000, the main source of income - client's business;
 2. Business - Upper Micro – clients with credit limit between MDL 50 001 – 600 000, the main source of income - business;
 3. Business – Micro – clients with credit limit less than MDL 50 000, business income has to be > 50% from all types of income of the client;
 4. Client with mixt income – clients with credit limit less than MDL 50 000, business income is between 20 and 50% from all types of income of the client;
- Non-business clients - business income is less than 20% from all types of income of the client.

Business clients category embraces enterprises and private individuals involved in entrepreneurial activity. Currently, Business clients can apply for the following range of products: Business Installment Loans, Credit lines, Consumer Installment Loans, Housing improvement, Retail Partners Loans, Cash Loans, Credit Limit, Car Loans, Mortgage loans.

Payment plans for instalment loans may take the form of equal instalments or unequal instalments. Depending on the project to be financed and the client's cash flow, grace periods (client pays only

interest) or seasonal payment schedule (interest and principle payments are transferred to next instalments) may be granted.

By non-business clients category the Company distinguishes private individual clients with non-business income, as salary, remittances or pensions and client with business income less than 20% from total income.

Non business clients can apply for Retail Partners Loans, Cash Loans, Consumer Installment Loans, Housing improvement loans, Credit lines, Credit limit, Car Loans, Mortgage loans.

Loan Category	Exposure to single entity/group of affiliated parties	Maximum Maturity
Credit limit	Up to MDL 4 000 000	24 months
Business Installment Loans	Maximum amount up to MDL 4 000 000	84 months
Flexible Business Investment loans	Maximum amount up to MDL 1 000 000	84 months
Credit lines	MDL 30 000 - 2 100 000	12-36 months
Consumer Installment Loans for non-business clients	Up to MDL 400 000	48 months
Consumer Installment Loans for business clients	Up to MDL 2 100 000	48 months
Housing improvement Loans for non-business clients	Up to MDL 400 000	84 months
Housing improvement Loans for business clients	Up to MDL 2 100 000	84 months
Retail Partners Loans	Up to MDL 100 000	60 months
Cash loans	Up to MDL 50 000	48 months
Car Loans	Up to MDL 300 000 or EUR 15 000 or echivalent in other currency	60 months
Mortgage loans	Up to MDL 1 000 000 or EUR 50 000 or echivalent in other currency	120 months

The loans offered to private individuals with amount \leq MDL 50 000 (or equivalent of the foreign currency at the date of disbursement) or/and a maturity \leq 24 months the company cannot apply any payments (interest, commissions, fees and any type of payments) whose total value exceeds the value disbursed according to the respective loan agreement.

Decisions for credit exposures exceeding MDL 4 million shall be taken by the Majority of Board members.

Eligibility Criteria

Eligibility Criteria for Business Clients

The following borrower groups are eligible for Company's products: individuals, private entrepreneurs and legal entities. Borrowers – private individuals have to be residents of Moldova, and borrowers - legal entities shall comply with Moldovan legislation.

Enterprises have to have all required approvals, permits, authorizations and other necessary documents for the business activity they are engaged in.

Enterprises and individuals involved in business activity, as well as business groups, they may be part of, must have good business reputation in the community, present stable, financially viable (according to Company criteria) and verifiable business activity with a long-term business horizon, stable and knowledgeable ownership and management, that is not subject to short-term competition, market and consumption shifts, regulatory, financial and other risks.

The Company will exercise high diligence and should normally not finance businesses, which or whose owners, key managers or related parties, have negative credit history, criminal record or recent or ongoing lawsuits if it may impact the sustainability of the business or its ability to serve its debts.

Eligibility criteria for non-business clients

The non-business borrowers should be Moldovan citizens or residents with permanent employment or/and stable and reliable source of income (remittances, pensions, self-employed). The applicant's age shall be minimum 18 years, have no negative credit history, criminal record, engaged in current or recent law suits if it may undermine their ability to serve and repay their debts.

The assessment of the beneficiary's creditworthiness

The Company thoroughly analyzes and assesses the degree of indebtedness of clients. The standards and indicators for payment capacity assessment are reflected in Company's internal policies and procedures.

In process of analysing the clients, the company relies on qualitative and quantitative indicators. Approach to credit assessment vary based on the client category - business or non-business.

Analysis of creditworthiness of a business client

The client's creditworthiness shall be assessed by conducting:

- Qualitative assessment:
 - Business history, growth dynamic, business reputation, resilience
 - Skills and qualifications of owners/managers/key staff
 - Market and competitive positioning of the borrower
 - Assessment of entrepreneur's willingness to repay the credit exposure
 - Assessment of the financed project
 - Assessment of the credit history of the borrower
- Financial assessment
 - Quality, plausibility and reliability of the financial records of the client
 - Client payment capacity
- Collateral/guarantor assessment (if/when required)

Qualitative assessment of the client

During the interview with the client at his/her place of business, the loan officer also forms an opinion about the personality and the character of the client and other family members, to the extent possible, whether the person is reliable and responsible and has the willingness to enter into the envisaged credit relationship and repay the credit exposure. This factor will play an important role in the decision on whether the credit exposure should be granted. The applications of clients, who do not project mature, open and responsible attitude shall not be accepted.

Additionally, LO will assess the history of the business, whether the developments were stable and reliable, whether the business operates in a stable market; whether there are any threats to the borrower operations in the foreseeable future.

The LO will also visually check the business, and ascertain that it corresponds to the business history and performance as described by the client.

The LO will assess the client project, and assure that it is feasible, as proposed, to invest, carry out and be managed by the client, that the client will have available financial means to complete the project, and that the project will contribute positively to the profitability of the business.

Credit History - The client's payment discipline shall be properly checked and analysed. The client with long, frequent and unmotivated delays in payments typically shall be rejected. However, depending on the reasons for the arrears, these clients may still be eligible to receive loans, but credit decisions must be based on clear, sound and strong reasons. The quality of credit history shall also affect the collateral requirements and pricing of loan.

Financial assessment of the business

The client's payment capacity shall be calculated based on the client's financial strength and hence on his/her capacity to meet his/her payment obligations towards the Company.

In order to access financial situation of the client, loan officer shall compile the balance sheet and profit and loss statement of the business.

The main sources of information to sketch financial statements are client's internal records, verbal information and visual check. This information has to be cross-checked by loan officers through asking different questions, verifying information in credit bureau and other available sources of information.

After the compilation of the financial statements, loan officer shall analyse them in order to establish the payment capacity of the client to obtain financing for business and private purposes. The assessment of payment capacity is based on understanding the financial strength of business in terms of level of liquidity, profitability and solvency, and on analysing the risks to the business client's financial strength that he/she may face and how he/she could manage them.

Assessment of collateral and guarantors

Guarantors should hold assets or income, respectively, to be able to cover all or a substantial part of the exposure in case the business will be unable to repay it or their relationship to the client is such that they could affect the business decisions and the willingness of the client to repay the credit exposure. Collateral can be composed of client's assets sufficient to cover the substantial amount of the client's exposure in case of insolvency.

Analysis of creditworthiness of non-business clients

The client's payment capacity shall be calculated based on the disposable income of the client taking into account regular family expenses or minimum consumer basket. The main source of income are wages, pensions, dividends, interest income, rent income, sales commissions, remittances.

The loan officer/underwriting specialist may also check the information with employer, state organizations, credit bureaus or against documentation provided. If the loan is intended to finance home improvements and/or the purchase/construction of an apartment/house, the loan officer may be required to visit the client's current or future residence in order to better understand and evaluate the investment plan.

For certain exposures/client's profile the Company can use indirect approach for client's financial capacity estimation (assets based/expenses based/credit history tracking) and can implement automated approval process.

The loan officer/ underwriting specialist will assess the willingness of the client to repay the credit exposure based on his/her character and the social situation of his/her family. Applications of the clients, who do not project a mature and responsible attitude shall not be processed.

If the client has a credit history with the Company and/or with other financial institutions, the loan officer shall check the repayment behaviour for past and current loan exposures.

In case of **Retail Loan portfolio** the analysis of creditworthiness and loan approval are merged in one step and performed by the employee of **Credit Risk Department**. Main aspects of considerations are stable source of income and credit history.

All credit risk decisions are subject to the approval of a Credit Committee.

Credit Committee is centralized, all credit risk decisions shall be taken with participation of specialists of **Credit Risk Department** who reviewed the credit proposal.

The Senior Management Team is responsible to define members of credit committees of different levels, impose limits on the authority of the individual members and of the credit committee.

Disclosure of services total costs components

The Company discloses and declares transparently all cost components to its clients, while responsible lending is one of the decisive factors in establishing partnership relationship with clients.

Pricing per every product or service shall be determined by ALCO Committee, which is held on a monthly base, or when it is necessary. The proposal for price setting/revision shall come from the Business department, paying attention to the following factors:

- Market development and competitors' behavior;
- Cost of attracted resources by the Company;
- Margin for the macro-economic risks; historical cost of risk for the specific product or customer group;
- Admin costs for the specific product – to the best estimate of the Business, Credit Risk and Finance departments;
- Profitability expectations of the Company.

Within the approved interest rate ranges, Credit Committee can propose certain adjustments of standard interest rates, taking into account individual factors, including:

- Applicant's credibility and his professional/personal reputation,
- Client risk level evaluation (market, credit risk, ownership, strategy, etc.),
- Credit history with the Company and relations with other creditors,
- Customer's loyalty,
- Collateral liquidity and quality (if applicable),

that have to be approved by the individual ALCO Committee.

In case of borrowers private individuals the full cost of the loan is regulated by EAIR (Effective Annual Interest Rate) and is stipulated in the loan agreement.

In addition to the contractual interest rate, the loan includes other related costs such as: administration fee, disbursement fee, early prepayment fee, partial early prepayment fee.

Interest rate and penalty calculation methods

Two methods of calculation of interest rate are distinguished within the company:

1. Interest rate is calculated daily, from the outstanding of the loan, starting from the next day of disbursement until the date of the full repayment of the loan, based on the following calculation basis – the 365/366 days year and number of the effective days of utilization of the outstanding part of the loan principle.
1. The interest rate, established by the contract is calculated starting from the date of signing of the contract, from the initial amount, based on 365/366 days year.

Interest rate changes depend on the risk factors and the cost of financial resources in time. The company takes into consideration external factors, as refinancing rate of the national bank of Moldova, inflation rate, the evolution of financial market.

The company applies customer incentive tools, for installments payment in due time, minimizing credit risk, by applying a penalty for each day in arrears applied to due instalment amount.

Depending on the type of products Company applies two different types of contractual clauses in regard to penalty calculation: fixed or percentage share of the due amount.

Loans guarantees

The company offers loans with guarantees/collateral, and unsecured loans. Loan's collateral coverage depends on disbursed amount, client exposure, loan products and client category.

Eligibility of collateral

In principle, the Company accepts all types of collateral. Proposed collateral has to be permitted by law and deemed appropriate by the Credit Committee. The collateral serves as a guarantee that the Company, as creditor, can recover the credit exposure as well as means of motivating the borrower to repay the credit exposure.

The Company will accept collateral with the following characteristics:

- Value – the collateral has to have a stable and provable market value.
- Saleability – in order to be accepted as collateral, an item of property must be saleable, i.e. a real market for such property has to exist.
- Liquidity – the property can be easily realised, with the costs and formalities of the transaction being within reasonable limits; this also requires that collateral is accessible, can be inspected and can be seized.
- Lawfulness – the property offered as collateral has to have been acquired/created in a lawful manner (legally construed) and its lawful acquisition must be certified by the appropriate documentation. There shall be no limits on the lender in regard to putting a lien on the collateral. The de facto status of the property and its legal status (status in terms of real rights) have to coincide; generally, there should not be any discrepancies between them.
- No encumbrances – in general, the collateral may not be encumbered in favour of third parties and creditors (mortgages, levies, statements of claim, use rights, rental agreements (demise)

and other encumbrances on the property). The Credit Committee may decide on exceptions to this rule in specific cases if there has been an adequate analysis and assessment of the risks related to such an exception.

- Good condition – the collateral has to be in good condition and ready for use and must be well maintained so that its value and quality remain stable over time, notwithstanding normal wear and tear. The Company can also accept items in transition as collateral, which in this case would mean that a proper assessment of the risks that this collateral bears should be performed.
- Affection – it is important that the proposed collateral be an item which is of value to the borrower/owner of the collateral, ensuring a high degree of motivation to retain ownership of the property.

Collateral valuation

The purpose of the valuation is to estimate the fair market value of an asset offered as collateral. The fair market value of the asset is the amount against which this asset could change ownership, being transferred by the seller to the buyer in a transaction in which both parties a) participate voluntarily without any pressure being exerted on them and b) are sufficiently well aware of the related circumstances.

Professional evaluation is required for all individual immovable items regardless of the value.

For movable items valuation is carried by responsible loan officer, referring to a sufficient number of comparable items in similar categories.

The Company shall ensure that the validity of the collateral and its value are checked before disbursement.

All assessments of the fair market value of a collateral item need to be checked, in a second step, for their plausibility, which shall be performed by an employee of the Underwriting Department during the Credit Committee.

Collateral coverage for different products might vary depending on collateral type, overall structure of collateral and credit risk consideration. Detailed standards in collateral coverage are described in respective policies and procedures.

Registration of collateral

Immovable and movable items accepted as collateral must be properly registered according to legislation of the republic of Moldova.

Thereby, real estate must be registered in the real estate register according to all legal requirements.

Vehicles, equipment to be registered in register of movable collateral.

State securities to be registered in the register of holders of securities of the State.

Personal guarantor

In some cases, the Company accepts personal guarantees as tangible guaranty, which can partly or fully cover the requested loan.

Personal guarantor is a physical person (owner, spouse, business partner, friend, etc.) or a legal entity that undertakes responsibility for the repayment of a credit exposure. These persons/entities may be

required to serve as personal guarantors/guarantors because their relationship to the client is such that they could affect the business decisions and the willingness of the client to repay the credit exposure. The minimum requirements for insurance of the loans are established in respective policies and procedures of the company.

The company has a series of internal procedures, in which besides the processes described in the text of the current regulation, are described Company's approach to restructuring loans, provisioning and writes off, in order to reduce and cover the risks in lending process.

Final provisions

1. This Regulation, after Company's Administrative Board approval, will be communicated to all responsible employees by email by the Office Manager or the person replacing it.
2. If, after the date of this regulation coming into force, a statutory and/or statutory provision amends/supplements/repeals its provisions, the statutory and/or legal provisions in force with the application of the subsequent amendment of the regulation(s) (with regard to "Complaints Management" inclusive) within 6 months, unless the legal provision provides otherwise, or the Company's senior management bodies do not set another term.