

JSC MFC "Mikro Kapital"

Financial Statements and
Independent Auditor's Report
For the Year Ended 31 December 2020

JSC MFC «MIKRO KAPITAL»

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JSC MFC «MIKRO KAPITAL»

Statement of Management's Responsibilities for the Preparation and Approval of the Financial Statements for the Year Ended 31 December 2020

Management is responsible for the preparation of the financial statements that present fairly the financial position of the JSC MFC «MIKRO KAPITAL» (the "Company" or «Mikro Kapital») as at 31 December 2020, the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- Making an assessment of the Company's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Company;
- Maintaining adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company, and which enable them to ensure that the financial statements of the Company comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian Federation ("RF") legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Company; and
- Preventing and detecting fraud and other irregularities.

The financial statements of the Company for the year ended 31 December 2020 were approved by management on 30 March 2021.

On behalf of the Management:

Svetlana Chubakova
Chief Executive Officer

30 March 2021



INDEPENDENT AUDITOR'S REPORT

To the Shareholder and the Supervisory Board of
MFC «Mikro Kapital» Joint Stock Company

Opinion

We have audited the accompanying annual financial statements of MFC «Mikro Kapital» Joint Stock Company (OGRN 1056316050790, 443013 Russian Federation, Samara oblast, Samara, prospect Karla Marksa, 32) (hereinafter – «MFC», which comprise the statement of financial position as at 31 December 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year of 2020, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of MFC as at 31 December 2020, and its financial performance and its cash flows for the year of 2020 in accordance with International Financial Reporting Standards ("IFRSs").

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 Annual Financial Statements section of current report. We are independent of the Audited entity in accordance with the Rules for the Independence of Auditors and Audit Organisations and the Code of Professional Ethics of Auditors that comply with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 1 to the annual financial statements that states that since April 2020 there have been downward trends in business activities in Russia and restrictions related to COVID-19. In spite of this situation, the Company quickly re-adjusted and coped with the situation and by the second quarter of the year recovered its business performance.

As stated in Note 1 to the annual financial statements, from the second half of 2020 there has been a trend towards an increase in business volumes and loan portfolio growth. The COVID-19 related situation did not affect the delinquency rates and the Company achieved its earnings targets for 2020. Our opinion is not modified in this respect.

Responsibilities of Management and the Supervisory Board of the Audited Entity for the Annual Financial Statements

Management is responsible for the preparation and fair presentation of these annual financial statements in accordance with IFRSs, and for such internal control as Management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Audited entity'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 Audited entity or to cease operations, or has no realistic alternative but to do so.

Members of the Supervisory Board are responsible for overseeing the Audited entity's annual financial reporting process.

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual financial statements.

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

- a) Identify and assess the risks of material misstatement of the annual 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.
- b) 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 audited entity's internal control.
- c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- d) 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 audited entity'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 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 audited entity to cease to continue as a going concern.
- e) Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with members of the Supervisory Board 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.

The engagement partner on the audit resulting in this independent auditor's report is

Chief Executive Officer of OOO Moore ST



Gorbunova M. A.

Auditor:

OOO Moore ST

OGRN 1027739140857,

117638, Moscow, Odesskaya str., 2, floor 6, room 1

Member of the self-regulatory organisation of auditors Association "Sodruzhestvo"

ORNZ 11606055761.

30.03.2021

JSC MFC «MIKRO KAPITAL»

Statement of Financial Position as at 31 December 2020 (in EUR)

	Note	31 December 2020	31 December 2019
ASSETS			
Cash and cash equivalents	6	692 936	1 326 801
Loans to customers	7,8	17 735 462	22 201 723
Property and equipment	9	407 038	5 995
Intangible assets	10	37 428	62 998
Other assets	11	284 069	436 738
Deferred tax asset	19	294 525	311 916
Income tax claim		19 325	13 552
TOTAL ASSETS		19 470 783	24 359 723
LIABILITIES			
Loans payable	12	10 950 881	14 216 244
Other liabilities	13	789 360	409 673
Current income tax liability		3 061	-
Total liabilities		11 743 302	14 625 917
EQUITY			
Share capital	14	8 028 901	8 028 901
Paid-in capital		7 545 428	7 545 428
Retained earnings / (Accumulated deficit)		126 252	(186 652)
Currency translation differences		(7 973 100)	(5 653 871)
Total equity		7 727 481	9 733 806
TOTAL LIABILITIES AND EQUITY		19 470 783	24 359 723

Svetlana Chubakova,
Chief Executive Officer

30 March 2021
Samara



The notes on pages 5-43 form an integral part of these financial statements.

JSC MFC «MIKRO KAPITAL»

Statement of Comprehensive Income for the Year Ended 31 December 2020 (in EUR)

	Note	2020	2019
Interest income	15	6 992 016	8 366 547
Interest expenses	15	(1 731 549)	(2 265 795)
Net interest income before impairment losses on loans to customers		5 260 467	6 100 752
Movements in provision for impairment of loans to customers	8	(1 432 646)	(1 221 894)
Net interest income after movements in provision for impairment of loans to customers		3 827 821	4 878 858
Fee and commission expenses	16	(71 617)	(100 062)
Foreign exchange transactions loss		(111 389)	(25 768)
Personnel expenses	17	(2 377 446)	(3 061 191)
Depreciation of property and equipment and amortization of intangible assets	9,10	(207 191)	(34 851)
Other operating income	17	190 113	176 410
Other operating expenses	17	(937 734)	(1 460 257)
Operating profit		312 557	373 139
Other income	18	7 290	842
Other expense	18	(55 350)	(71 160)
Profit before tax		264 497	302 821
Income tax expense	19	48 407	85 571
Net income		312 904	388 392
Other comprehensive income			
Currency translation differences		(2 319 229)	838 877
Other comprehensive income/(loss)		(2 319 229)	838 877
Total comprehensive income/(loss)		(2 006 325)	1 227 269

Svetlana Chubakova,
Chief Executive Officer

30 March 2021
Samara



The notes on pages 5-43 form an integral part of these financial statements.

JSC MFC «MIKRO KAPITAL»

Statement of Changes in Equity for the Year Ended 31 December 2020 (in EUR)

	Note	Share capital	Paid-in capital	Currency translation differences	(Accumulated deficit)/ Retained earnings	Total equity
Balance as at 31 December 2018	14	8 028 901	4 603 935	(6 492 748)	(575 044)	5 565 044
Paid-in capital		-	2 941 493	-	-	2 941 493
Total comprehensive income		-	-	838 877	388 392	1 227 269
Balance as at 31 December 2019	14	8 028 901	7 545 428	(5 653 871)	(186 652)	9 733 806
Paid-in capital		-	-	-	-	-
Total comprehensive loss		-	-	(2 319 229)	312 904	(2 006 325)
Balance as at 31 December 2020	14	8 028 901	7 545 428	(7 973 100)	126 252	7 727 481

Chubakova Svetlana,
Chief Executive Officer

30 March 2021
Samara



The notes on pages 5-43 form an integral part of these financial statements.

JSC MFC «MIKRO KAPITAL»

Statement of Cash Flows for the Year Ended 31 December 2020 (in EUR)

	Note	2020	2019
Cash flows from operating activities			
Net income		312 904	388 392
Adjustments for:			
Other non-cash income and expenses		14 170	(145 277)
Recognition of previously unrecognized deferred tax		17 391	(174 118)
Impairment charge on loan losses		1 432 646	1 221 894
Amortization of fixed and intangible assets		207 191	34 851
Foreign exchange loss		326 080	25 768
Income tax expense		12 006	68 382
Cash flows from operating activities before changes in operating assets and liabilities		2 322 387	1 419 892
Movements in working capital:			
Change in loans to customers, including interest receivable		(834 621)	(363 508)
Change in other receivables and other assets		152 669	(250 867)
Change in other liabilities		62 881	(1 054 980)
Changes in operating assets and liabilities after deducting of non-cash items		(619 070)	(1 669 355)
Income tax paid		(10 024)	(96 196)
Net cash from/(used in) operating activities		1 693 293	(345 659)
Cash flows from investing activities			
Purchase of property and equipment		-	(3 337)
Purchase of intangible assets		(3 357)	(11 559)
Financial assets at fair value through profit or loss		-	-
Net cash used in investing activities		(3 357)	(14 896)
Cash flows from financing activities:			
Proceeds from shareholders		-	2 941 493
Proceeds from loans payable		4 352 643	9 574 617
Repayment of loans payable		(6 202 490)	(11 176 852)
Rental payments		(173 271)	-
Net cash received from / (used in) financing activities		(2 023 118)	1 339 258
Net increase / (decrease) in cash and cash equivalents		(333 182)	978 703
Cash and cash equivalents at the beginning of the year	6	1 326 801	370 084
Effect of exchange rate changes on cash and cash equivalents		(300 683)	(21 986)
Cash and cash equivalents at the end of the year	6	692 936	1 326 801

Interest paid and received by the Company during the year ended 31 December 2020 amounted to EUR 1 370 771 and EUR 5 369 637, respectively. Interest paid and received by the Company during the year ended 31 December 2019 amounted to EUR 2 134 023 and EUR 6 957 070, respectively.

Svetlana Chubakova
Chief Executive Officer

30 March 2021
Samara



The notes on pages 5-43 form an integral part of these financial statements.

JSC MFC «MIKRO KAPITAL»

Notes to the Financial Statements for the Year Ended 31 December 2020 (in EUR)

1. Principal activities of the Company

MFC «Mikro Kapital» Joint Stock Company (the "Company" or «Mikro Kapital») is a joint-stock company in the Russian Federation ("RF") established based on the Resolution of Shareholder of FINCA on the Incorporation of the Company dated 13 July 2005 and pursuant to the provisions of the RF Civil Code, Federal Law #5 208-FZ "On Joint Stock Companies" as at 26 December 1995. The Company started its operations in September 2005 and was legally registered in Samara on 5 September 2005 as a legal entity of Russian Federation. The address of the entity's registered office is Russia, 443032, Samara, Karl Marx av., 32.

On 17 December 2011 the Company was added to the State Register of microfinance organizations. On 13 October 2014 the Company changed its name from MFI «FINCA» Closed Joint Stock Company to MFI «FINCA» Joint Stock Company due to changes in Russian company's legislation. On 25 January 2017 the Company changed its name from MFI «FINCA» JSC to Microfinance Company «FINCA» Joint Stock Company (JSC MFC «FINCA»). On 13 October 2017 there was a change of control of the Company from FINCA MICROFINANCE HOLDING COMPANY LLC to MIKRO FUND, a securitization fund formed under the laws of Grand Duchy of Luxembourg, represented and acting by its management company Mikro Kapital s.à.r.l., a private limited liability company formed under the laws of Grand Duchy of Luxembourg, having its registered office at 10, Rue C. M. Spoo, L-2546 Luxembourg, Grand Duchy of Luxembourg. On 31 October 2017 due to the change of control the Company changed its name from JSC MFC "FINCA" to Joint Stock Company Microfinance Company "Mikro Kapital" (JSC MFC "Mikro Kapital").

The Company's objective is to provide financial services including loans to representatives of micro, small and medium sized businesses in the RF and also to individuals and groups of individuals engaged in sales and small-scale productive micro enterprises.

Since April 2020, the trend towards a decline in business activity in Russia and restrictions related to COVID-19 began. Despite this situation, the Company quickly restructured and managed the situation, and by the second quarter of the year it had restored business performance.

Since the second half of 2020, there was a trend towards increasing the volume of business and growth of the loan portfolio. The situation of COVID-19 did not affect the level of arrears and for 2020 the Company reached the planned profit figures.

As at 31 December 2020 and 2019 the following shareholders owned the Company:

Shareholder of the Company (Shareholder of the first level)	31 December 2020 Ownership (%)	31 December 2019 Ownership (%)
MIKRO FUND	100%	100%
Total	100%	100%

Ultimate shareholders of the Company	31 December 2020 Ownership (%)	31 December 2019 Ownership (%)
Mikro Kapital s.a.r.l	100%	100%
	100%	100%

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued) for the Year Ended 31 December 2020 (in EUR)

2. Going concern

Basis of preparation of financial statements. These financial statements have been prepared assuming that the Company is a going concern and will be able to realize its assets in the normal course of business and settle its liabilities when they become due.

As at 31 December 2020 the Company recognized net income amounting to EUR 312 904 and comply with all regulations established by law.

There are no facts that could significantly affect the ability of the Company to continue its activities in the foreseeable future. There are no plans to sell assets in the foreseeable future.

These circumstances indicate that the Company is able to continue as going concern.

3. Summary of significant accounting policies

Statement of compliance. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These financial statements are presented in EUR, unless otherwise indicated.

These financial statements have been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The Company, registered in the RF, maintains their accounting records in accordance with Russian Accounting Standards (RAS). These financial statements have been prepared from the statutory accounting records and have been adjusted to conform to IFRS.

The Company presents its statement of financial position broadly in order of liquidity.

Functional currency. Company's functional currency is Russian Roubles ("RUB"), as the majority of its operations are denominated in Russian Roubles. The financial statements are presented in EUR, which is the presentation currency.

Translation of financial statements from the functional currency into the presentation currency is performed as follows:

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued) for the Year Ended 31 December 2020 (in EUR)

3. Summary of significant accounting policies (continued)

- Assets and liabilities are translated at the exchange rate at the relevant reporting date;
- Items of revenue and expense are translated at the average exchange rate for the respective quarter, the annual amount in EUR comprises of 12 monthly figures;
- Equity is translated at the exchange rate at the date of the relevant transactions;
- The resulting translation differences are recognized directly into other comprehensive income and are presented as a component of equity referred as the "Currency Translation Difference".

Offsetting. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense is not offset in the statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

The principal accounting policies are set out below.

Cash and cash equivalents. Cash and cash equivalents consist of cash on hand, unrestricted balances in banks accounts and amounts due from credit institutions with original maturity of less or equal to 90 days and are free from contractual encumbrances.

Financial assets. The Company's main financial assets are loans to customers, receivables and financial assets at fair value through profit or loss.

The Company determines the classification of its financial assets at initial recognition. Classification of financial assets at initial recognition depends on the purpose for which they were acquired and their characteristics.

Initial recognition of financial instruments. The Company recognizes financial assets and financial liabilities in its statement of financial position when it becomes a party to the contractual obligation of the financial instrument. Regular way purchases and sales of the financial assets and liabilities are recognized using settlement date accounting.

All financial assets are initially recognized at fair value plus transaction costs that are directly attributable to acquisition or issue of the financial instrument.

The classification of financial instruments at the time of initial recognition depends on the contractual terms and the business model used to manage the instruments. Financial instruments are initially measured at fair value, including transaction costs, unless financial assets and liabilities are measured at fair value through profit or loss.

Categories of valuation of financial assets and liabilities. The Company classifies all its financial assets according to the business model used for asset management and the contract particulars of the assets as being measured at:

- amortized cost;
- fair value through other comprehensive income (FVOCI);
- fair value through profit or loss (FVPL).

The company classifies and evaluates derivatives and tools for trade at FVPL. The Company may classify financial instruments at FVPL if such classification would eliminate or significantly reduce inconsistencies in the application of valuation or recognition principles.

3. Summary of significant accounting policies (continued)

Amounts held with credit organizations, loans granted to clients, debt securities valued at amortized cost.

The Company measures a financial asset at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Loans to customers. Loans to customers that have fixed or determinable payments that are not quoted in an active market are classified as 'loans to customers'. Loans to customers are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of loans to customers. For loans to customers the Company first assesses whether objective evidence of impairment exists individually for loans that are individually significant or collectively for loans that are not individually significant.

Objective evidence that loans to customers are impaired includes observable data about the following events in respect of individually significant loans:

- default in any payments due;
- significant financial difficulty of the borrower supported by financial information at the Company's disposal;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- worsening national or local economic environment affecting the borrower;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider.

Loans that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

If the Company determines that no objective evidence of impairment exists for an individually assessed loan, it includes the asset in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's book value and the present value of estimated future cash flows. The book value of the asset is reduced through the use of the provision account and the amount of the loss is recognized in the statement of profit or loss.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

Loans that have not been individually assessed are then included in the group of loans that are collectively assessed for impairment. The collectively assessed loans are grouped based on similar credit risk characteristics, geographical location and on their past-due status and assessed accordingly. The collective assessment methodology strives to ensure the provision for impairment reflects the loss events that have occurred, but have not yet been identified on an individual loan basis.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

3. Summary of significant accounting policies (continued)

The process uses a combination of historical data and current observable data that reflect the existing situation and how it may affect the current loan portfolio. Historical data used is a set of actual loss rates calculated using the historical loan loss migration analysis. Existing economic data includes actual rates. Using these data sets as inputs, the management then determines the new set of rates to be used for the next six month period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the provision account in the statement of profit or loss.

Uncollectable loans are written off against the related provision for impairment if:

- Loans over 365 days past due;
- All the necessary procedures to recover the asset in full or in part have been completed and the final amount of the loss has been determined.

In accordance with the Russian legislation, in case of a write-off of the uncollectible loan and related interest, the Company shall take necessary and adequate steps, envisaged by law to collect this outstanding loan.

Derecognition of financial assets. The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset, the difference between the asset's book value and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Derivative financial instruments and hedge accounting. In the normal course of business, the Company enters into derivative financial instruments (primarily futures). These financial instruments are intended to cover foreign currency risks and are initially recorded at fair value. The fair value is determined based on quoted market prices or evaluation model based on the current market and contractual values of the underlying instruments and other factors. Derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. Profits and losses on transactions with these instruments are reflected in the statement of profit or loss as part of net gains / (losses) on foreign exchange transactions.

Financial liabilities. Initially, a financial liability is measured by the Company at its fair value net of transaction costs that are directly attributable to the acquisition or issue of the financial liability.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective book values is recognized in the statement of profit or loss.

Financial liabilities at amortized cost. Financial liabilities at amortized cost include loans payable. Loans payable are recorded when cash or other assets are provided to the Company by counterparty financial institutions.

Property and equipment. Property and equipment are stated at cost less accumulated depreciation and impairment losses.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued) for the Year Ended 31 December 2020 (in EUR)

3. Summary of significant accounting policies (continued)

At each reporting date the Company assesses whether there is any indication of impairment of property and equipment. If such indication exists, the Company estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. Where the book value of property and equipment is greater than their estimated recoverable amount, it is written down to their recoverable amount and the difference is charged as an impairment loss to the statement of profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their book value and recorded as operating expenses in the statement of profit or loss.

Repairs and maintenance are charged to the statement of profit or loss when the expense is incurred.

Construction in progress is carried at cost less impairment provision. As soon as construction is completed, assets are reclassified as property and equipment at their book value at the date of reclassification. Construction in progress is not depreciated until the asset is available for use.

Depreciation. Depreciation of property and equipment commences from the date the assets are ready for use. Depreciation is charged on a straight line basis over the estimated useful lives of the assets:

Groups of property and equipment	Estimated useful lives (years)	
	From (minimum)	To (maximum)
Leasehold improvements	5	8
IT equipment	2	5
Advertising constructions	7	10
Office equipment	5	15
Office furniture	5	7
Vehicles	3	7

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the book value of the asset and is recognised in profit or loss.

Intangible assets. Intangible assets include investment into software license and its customization.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Derecognition of intangible assets. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the book value of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets other than goodwill. At the end of each reporting period, the Company reviews book value of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued) for the Year Ended 31 December 2020 (in EUR)

3. Summary of significant accounting policies (continued)

When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Leases.

The Company applies a uniform approach to the valuation of all leases, except for short-term leases and the value of assets with low leases. The company recognizes lease liabilities in respect the lease payments and right-of-use assets, which represent the right to use the underlying assets.

Right-of-use assets. The Company recognizes right-of-use assets at the commencement date of the lease (from the date the underlying asset commences). The cost of right-of-use assets is carried net of accumulated depreciation and adjusted for revaluation of the lease liability. The cost of the right-of-use asset comprises: the amount of the initial measurement of the lease liability; any initial direct costs incurred by the lessee; any lease payments made at or before the commencement date, less any lease incentives received. Recognized right-of-use assets are amortized on a straight-line basis over the shorter from the following terms: useful lives or to the end of the lease term. The right-of-use asset is assessed for the form of impairment.

The lease liability. At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. Lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts that are expected to be paid by the Company under residual value guarantees. Lease payments also include the exercise price of a purchase option if the Company is reasonably certain to exercise that option and payments of penalties for terminating the lease, if the lease term reflects the Company exercising an option to terminate the lease. Variable lease payments, which are independent of the index or rates, are recognized as an expense on a one-off basis in the period to which they relate.

In determining the present value of the lease payments, the Company uses the incremental borrowing rate at the lease date. After the commencement date of the lease, the lease liability is increased by accrued interest income and decreased by the lease payments actually made. In addition, the lease liability is remeasured when the terms of the lease or the lease term or the underlying fixed payments change.

Short term leases and leases for which the underlying asset is of low value. The Company recognizes a lease as short-term if the lease has a lease term of 12 months or less at the commencement date and the lease does not contain a purchase option. The Company has also applied this practice to leases in which the underlying asset is of low value (the value of the underlying asset is less than RUB 500 000) or the lease payments for the year are less than RUB 500 000.

The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Significant judgments in determining the lease term for renewable contracts. The Company defines the lease terms the non-cancellable period of a lease, together with both: periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

The Company consider all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. After the commencement date of the lease, the Company revise the lease term when either a significant event or significant change in circumstances occurs that is within the Company's control and affects the assessment of whether it is sufficiently confident to exercise (or not exercise) an option (for example, a change in business strategy).

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

3. Summary of significant accounting policies (continued)

Share capital. Ordinary shares with discretionary dividends are classified as share capital.

Dividends. Dividends are recognized in equity in the period in which they were declared.

The payment of dividends and other profit distribution is carried out on the basis of financial statements prepared in accordance with Russian legislation. Distribution of profits is based on the net profit for the current year financial statements prepared in accordance with requirements of applicable law.

Contingent assets and liabilities. Contingent assets are not recognized in the statement of financial position but disclosed in the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the statement of financial position but disclosed in the financial statements unless the possibility of any outflow in settlement is remote.

Taxation. The income tax charge comprises current tax and deferred tax and is recorded in the statement of profit or loss. Income tax expense is recorded in the financial statements in accordance with the applicable legislation of the Russia. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted during the reporting period.

Current income tax. The amount of income tax expense in the current period is determined with considering the amount of taxable profit received for the year. Taxable profit differs from net profit before tax shown in the income statement because it does not include items of income or expense that are taxable or deductible for tax purposes in other years, and also excludes items that are not taxable and are not taken into account for tax purposes. Income tax expenses of the Company for the current year are accrued using tax rates introduced during the reporting period.

Deferred tax. Deferred tax is income tax assets or liabilities and is reflected balance method in relation to temporary differences between the amounts included in the financial statements and the related tax records used to calculate taxable profit. A deferred tax liability shall be recognised for all taxable temporary differences. As a general rule, the Company recognises deferred tax assets only when it is probable that taxable profits will be available against which the deductible temporary differences can be utilised. A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from: the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which: is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

At the end of each reporting period, an entity reassesses unrecognised deferred tax assets. The entity recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period, to recover or settle the book value of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset against each other if there is a legally enforceable right to set off current tax assets and liabilities. Deferred tax assets for deductible temporary differences and tax losses from prior years are recorded to the extent that it is probable that taxable profit will be available from which the benefits can be deducted. Determining the amount of deferred tax assets that can be recognized in the financial statements based on the possible timing and amount of future taxable profit and future tax planning strategies requires the use of subjective assumptions.

3. Summary of significant accounting policies (continued)

Current and deferred income tax for the year. Current and deferred tax shall be recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from: a transaction or event which is recognised, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity. In case when current and deferred taxes appear as the result of initial accounting of business combinations, the tax effect is reflected when these transactions are accounted for.

In the Russian Federation there are also various other taxes which are applicable to the Company's activities other than income tax. These taxes are recognised within operating expenses in the statement of comprehensive income.

Revenue recognition

Recognition of interest income and expense. Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably. Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period to the book value on initial recognition.

Once a financial asset or a group of similar financial assets has been written off (partly written off) as a result of an impairment loss, interest income is thereafter recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Recognition of fees and commission income. Loan origination fees together with the related direct costs are recognized as an adjustment to the effective interest rate of the loan. Where it is probable that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are deferred, together with the related direct costs, and recognized as an adjustment to the effective interest rate of the resulting loan. Where it is unlikely that a loan commitment will lead to a specific lending arrangement, the loan commitment fees are recognized in profit or loss over the remaining period of the loan commitment. Where a loan commitment expires without resulting in a loan, the loan commitment fee is recognized in profit or loss on expiry. Loan servicing fees are recognized as revenue as the services are provided. All other commissions are recognized when services are provided.

Employee benefits and social insurance contributions. The Company pays social fees in the territory of the Russia. Social fees are recorded on an accrual basis. Social fees comprise contributions to the Russia state pension, social insurance, and obligatory medical insurance funds in respect of the Company's employees. The Company does not have pension arrangements separate from the state pension system of the Russia. Wages, salaries, contributions to the Russia state pension and social insurance funds, paid annual leaves and paid sick leaves, bonuses and non-monetary benefits are accrued as the Company's employees render the related service.

Foreign currency. In preparing these financial statements, transactions in currencies other than the Company's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

3. Summary of significant accounting policies (continued)

Provisions. Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. If the amount of the provision for future expenses is calculated on the basis of estimated cash flows to settle obligations, then the provision for future expenses is determined as the present value of such cash flows (if the influence of the time value of money factor is significant).

4. Critical accounting judgments and key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to book values of assets and liabilities within the next financial year.

Impairment of loans and receivables. The Company regularly reviews its loans and receivables to assess for impairment. The Company's loan impairment provisions are established to recognize incurred impairment losses in its portfolio of loans and receivables. The Company considers accounting estimates related to provision for impairment of loans and receivables a key source of estimation uncertainty because (i) they are highly susceptible to change from period to period as the assumptions about future default rates and valuation of potential losses relating to impaired loans and receivables are based on recent performance experience, and (ii) any significant difference between the Company's estimated losses and actual losses would require the Company to record provisions which could have a material impact on its financial statements in future periods.

The Company uses management's judgment to estimate the amount of any impairment loss in cases where a borrower has financial difficulties and there are few available sources of historical data relating to similar borrowers. Similarly, the Company estimates changes in future cash flows based on past performance, past customer behavior, observable data indicating an adverse change in the payment status of borrowers in a group, and national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the group of loans. The Company uses management's judgment to adjust observable data for a group of loans to reflect current circumstances not reflected in historical data.

Provision for impairment of financial assets in the financial statements have been determined on the basis of existing economic and political conditions. The Company is not in a position to predict what changes in conditions will take place in the RF and what effect such changes might have on the adequacy of the provision for impairment of financial assets in future periods.

As at 31 December 2020 and 2019 the gross loans to customers totalled EUR 17 516 630 and EUR 25 788 055, respectively, and provision for impairment losses amounted to EUR 1 357 826 and EUR 3 597 449, respectively.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

5. Application of new and revised International Financial Reporting Standards (IFRS)

5.1 Amendments to IFRSs affecting amounts reported in the financial statements

During the current period the Company applied a number of amendments to IFRS issued by the Board of International Financial Reporting Standards (IASB), which are mandatory for the reporting period that begins on or after 1 January 2020.

The application of these amendments did not have a material effect on the financial statements of the Company.

- Amendments to IFRS 9 «Financial Instruments» and (IFRS) 7 «Interest Rate Benchmark Reform».
- Amendments to IFRS 3 «Business Combinations».
- Amendments to IAS 1 «Presentation of Financial Statements» and IAS 8 «Accounting Policies, Changes in Accounting Estimates and Errors».
- Amendments to IFRS 10 и IAS 28 «Investments in Associates and Joint Ventures».
- Amendments to the Conceptual Framework of IFRS (KOs), including amendments related to references in standards to KOs.

IFRS 16 Leases. IFRS 16 introduces a single model for determining lease and accounting arrangements by both the lessor and the lessee.

IFRS 16 distinguishes between leases and service contracts. The distinction occurs on the basis of the buyer controls the identified asset or not. There is no longer a separation between operating leases and financial leases for the lessee; instead, the model is used, according to which the lessee should recognize an asset in the form of a right of use and a corresponding liability for all leases, except for short-term leases and leases of low-value assets.

An asset in the form of a right of use is initially recognized at historical cost and then measured at historical cost (subject to several exceptions), net of accumulated depreciation and accumulated impairment losses, adjusted for revaluation of the lease liability. The lease liability is initially measured at the present value of the remaining lease payments. After initial recognition, the lease liability is adjusted for interest on the liability and lease payments, as well as, inter alia, for the effect of modifications to the lease contract. In addition, the classification of cash flows will also change, as payments under operating leases in accordance with IAS 17 are classified as cash flows from operating activities, while in accordance with IFRS 16 lease payments will be divided into principal payments liabilities and interest, which will be presented as cash flows from financial and operating activities, respectively.

In 2020, the Company first applied IFRS 16 Leases (issued by the Board of International Financial Reporting Standards (IASB) in January 2016), effective for annual periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Company is 1 January 2020. The Company has chosen the modified retrospective application model of IFRS 16 in accordance with IFRS 16.

Amendments to IFRS 9 «Financial Instruments». The implementation of IFRS 9 led to changes in accounting policies, classification and measurement of financial assets and liabilities, as well as in matters of impairment of financial assets. The standard itself came into force in January 2018.

Financial assets should only be classified at amortized cost if they meet two tests:

- Test business model and
- Test of contractual cash flow characteristics (SPPI test).

However, when lenders generate early repayable loans with negative repayment (when the borrower can repay the loan earlier than the original repayment schedule), the problem arises that cash flows from such loans may not represent **repayments of the principal amount of the debt and interest (SPPI)**, and therefore the loan will not satisfy the SPPI test.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

5. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

As a result, all loans with a similar condition of early repayment cannot be classified at amortized cost. Therefore, this amendment to IFRS 9 introduced a so-called limited exception to the classification rules, meaning that similar financial assets can be measured at amortized cost or at fair value through other comprehensive income (FVOCI).

In addition to the changes associated with the classification of financial assets with the possibility of early repayment, this amendment also clarified the accounting for changes in financial liabilities.

5.2 New and revised IFRSs in issue but not yet effective

Amendments to IAS 1 «Presentation of Financial Statements» and IAS 8 «Accounting Policies, Changes in Accounting Estimates and Errors» relate to the definition of material information. According to the new definition, information is material if its omission, distortion or concealment suggests that this may affect the decisions made by the main users of general financial statements on the basis of financial statements that provide financial information about a particular IFRS reporting entity.

Management does not expect these amendments to have a material impact on the financial statements.

The Company has not applied the following new and revised IFRSs, issued but not yet effective:

- **Amendments to IFRS 3 Business Combination** (amendments related to the definition of business).
- **Amendments to IAS 37, IFRS 7 and IFRS 9** - base interest rate reform – stage 2.
- **IAS 37 «Provisions, Contingent Liabilities and Contingent Assets»** which are taken into account when evaluating a contract for unprofitability.
- **IFRS 17 «Insurance Contracts»** (establishes principles for the recognition, measurement, presentation and disclosure of information about insurance contracts and replaces **IFRS 4 «Insurance Contracts»**).
- **Amendments to IAS 16 «Property, Plant and Equipment»** prohibit the deduction from the value of property, plant and equipment for amounts received from the sale of goods produced during the preparation of an asset for its intended use. Instead, these income and related costs are recognized in profit or loss.
- **Amendments to IFRS 10 and IAS 28 «Investments in Associates and Joint Ventures»**. The amendments to IFRS 10 and IAS 28 apply to the sale or contribution of assets between an investor and its associate or joint venture. An effective date has not yet been determined, but early adoption is permitted. The management of the Company does not expect that the application of these amendments could affect the financial statements of the Company in future periods if such transactions occur.

All amendments are effective 1 January 2022, with early adoption permitted. The Company's management does not expect that the application of these amendments could have an impact on the Company's financial statements in future periods should such transactions occur.

6. Cash and cash equivalents

	31 December 2020	31 December 2019
Current accounts with Russian banks	210 843	1 128 570
Brokerage account	482 093	198 231
Total cash and cash equivalents	692 936	1 326 801

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

7. Loans to customers

	31 December 2020	31 December 2019
Loans to customers	17 319 540	17 604 214
Assigned loans	1 751 921	8 183 841
Gross loans to customers	19 071 461	25 788 055
less impairment loss provision	(1 016 707)	(1 158 306)
less discount applied to assigned loans	(319 292)	(2 428 026)
Total loans to customers	17 735 462	22 201 723
Loans to customers	31 December 2020	31 December 2019
BUSINESS	13 619 785	11 885 479
CONSUMER	1 597 787	3 298 863
RURAL	2 101 968	2 419 872
Gross loans to customers	17 319 540	17 604 214
Less allowance for impairment of loans to customers	(1 016 707)	(1 158 306)
Total loans to customers	16 302 833	16 445 908
Assigned loans	31 December 2020	31 December 2019
BUSINESS	1 236 644	5 987 995
CONSUMER	484 425	2 051 376
RURAL	30 852	144 470
Gross loans to customers	1 751 921	8 183 841
less discount applied to assigned loans	(319 292)	(2 428 026)
Total loans to customers	1 432 629	5 755 815

The Company offers the following loan products:

- Individual loans represent loans issued to individual entrepreneurs, founders of legal entities and individuals with their own business, operating for at least 6 months and generating income. Loans are issued in RUB. Minimum loan amount is RUB 50 000; maximum loan amount is RUB 50000000 per borrower. Loans are guaranteed by collateral and guaranty letters. Loan term is from 8 to 60 months. Interest rate and commission fee depend on the loan amount.
- Agricultural loans represent loans issued to borrowers who have private plot of land, which has been used within the last agricultural year. Individual Agricultural loans are issued to individual entrepreneurs, founders of legal entities and individuals with their own business, operating for at least 12 months and generating income. Minimum loan amount is RUB 50 000, maximum RUB 3 000 000. Loan term is from 8 to 60 months.
- Consumer loans are loans for private entrepreneurs, founders of legal entities and individuals with their own business, operating for at least 3 months and generating income. Loans are issued in RUB. Minimum loan amount is RUB 20 000; maximum loan amount is RUB 1 500 000. Loans are guaranteed by collateral and guaranty letters. Loan term is from 8 to 60 months. The size of the interest rate and commission depends on the amount of the loan.

There is no significant borrower concentration.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

8. Loans, provision, portfolio quality

Movements in allowance for impairment of loans to customers during 2020 and 2019 are as follows:

	BUSINESS	CONSUMER	RURAL	OTHER	TOTAL
Allowance for impairment of loans to customers as at 31 December 2018	1 516 857	325 255	49 606	11 117	1 902 835
Changes of allowance that affect the financial result					
Charge	611 033	594 989	168 819	-	1 374 841
Recovery of allowance for repaid loans	(113 714)	(6 356)	(32 877)	-	(152 947)
Total impairment losses for 2019	497 319	588 633	135 942	-	1 221 894
Changes of allowance not affecting the financial result					
Allowances due to discount	931 503	1 314 201	4 288	-	2 249 992
Recovery of a previously written off allowances	113 714	6 356	32 877	-	152 947
Loans written off	(1 089 116)	(1 114 719)	(71 922)	-	(2 275 757)
Currency translation effect	244 720	88 369	12 449	-	345 538
Allowance for impairment of loans to customers as at 31 December 2019	2 214 997	1 208 095	163 240	11 117	3 597 449
Allowance for impairment of loans to customers as at 31 December 2019					
	BUSINESS	CONSUMER	RURAL	OTHER	TOTAL
Allowance for impairment of loans to customers as at 31 December 2019	2 214 997	1 208 095	163 240	11 117	3 597 449
Changes of allowance that affect the financial result					
Charge	956 338	726 628	92 861	26 933	1 802 760
Recovery of a previously written off allowances	(177 289)	(165 824)	(27 001)	-	(370 114)
Total impairment losses for 2020	779 049	560 804	65 860	26 933	1 432 646
Changes of allowance not affecting the financial result					
Allowances due to discount	490 711	112 564	8 661	-	611 936
Recovery of a previously written off allowances	177 289	165 824	27 001	-	370 114
Loans written off	(1 472 473)	(1 106 865)	(131 293)	(60 055)	(2 770 686)
Currency translation effect	(1 411 296)	(464 705)	(51 464)	43 832	(1 883 633)
Provision for impairment of loans to customers as at 31 December 2020	778 277	475 717	82 005	21 827	1 357 826

Recovery of loans represents cash collected from loans which were written off in previous periods.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

8. Loans, provision, portfolio quality (continued)

The table below provides information on the change in provision for expected credit losses on loans to customers in 2020:

	12-month ECL	ECL for the entire life span – unimpaired assets	ECL for the entire life span – impaired assets	Total
Provisions for expected credit losses on loans as at 31 December 2019	806 587	1 015 264	1 764 481	3 586 332
Provision charge	(439 181)	(259 265)	3 086 209	2 387 763
Provision due to discount	(211 728)	(173 542)	(838 602)	(1 223 872)
Loans written off	-	-	(2 710 632)	(2 710 632)
Recovery of previously written off loans provision	-	-	370 114	370 114
Recovery of previously written off loans	-	-	(370 114)	(370 114)
Currency translation	(130 727)	(199 642)	(373 224)	(703 593)
Total change in provision for expected credit losses on interest bearing assets	(781 636)	(632 449)	(836 248)	(2 250 333)
Provisions for expected credit losses on loans as at 31 December 2020	24 951	382 815	928 233	1 335 999

The table below provides information on the change in provision for expected credit losses on loans to customers in 2019:

	12-month ECL	ECL for the entire life span – unimpaired assets	ECL for the entire life span – impaired assets	Total
Provisions for expected credit losses on loans as at 31 December 2018	1 351 496	350 171	190 051	1 891 718
Provision charge	(1 051 595)	294 301	1 979 188	1 221 894
Provision due to discount	345 778	289 625	1 614 589	2 249 992
Loans written off	-	-	(2 275 757)	(2 275 757)
Recovery of previously written off loans	-	-	152 947	152 947
Currency translation	160 908	81 167	103 463	345 538
Total change in provision for expected credit losses on interest bearing assets	(544 909)	665 093	1 574 430	1 694 614
Provisions for expected credit losses on loans as at 31 December 2019	806 587	1 015 264	1 764 481	3 586 332

The Company uses group assessment in determining the Loan Loss Provision required at reporting date. All loans are included in the group of loans that are collectively assessed for impairment.

Collectively impaired loans comprise loans grouped in homogeneous pools, bearing common credit risk characteristics in respect of risk exposure collectively assessed by the Company for impairment.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

8. Loans, provision, portfolio quality (continued)

Credit quality of loans. The table below provides information on the credit quality of loans to customers, assessed on a collective basis as at 31 December 2020:

	Loans before impairment allowance	Impairment allowance	Loans less impairment allowance	Ratio of impairment provision to total loans before impairment allowance
Business loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	12 411 291	9 556	12 401 735	0,08%
From 1 to 30 days overdue	293 856	6 331	287 525	2,15%
From 30 to 90 days overdue	330 394	86 598	243 796	26,21%
From 90 to 180 days overdue	198 087	150 178	47 909	75,81%
From 180 to 365 days overdue	386 158	386 158	-	100,00%
Total Business loans	13 619 786	638 821	12 980 965	4,69%
Consumer loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	1 183 305	1 049	1 182 256	0,09%
From 1 to 30 days overdue	42 990	1 622	41 368	3,77%
From 30 to 90 days overdue	58 982	12 652	46 330	21,45%
From 90 to 180 days overdue	74 024	51 724	22 300	69,88%
From 180 to 365 days overdue	238 486	238 486	-	100,00%
Total Consumer loans	1 597 787	305 533	1 292 254	19,12%
Rural loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	1 990 054	1 050	1 989 004	0,05%
From 1 to 30 days overdue	17 175	630	16 545	3,67%
From 30 to 90 days overdue	25 265	4 065	21 200	16,09%
From 90 to 180 days overdue	26 761	23 895	2 866	89,29%
From 180 to 365 days overdue	42 713	42 713	-	100,00%
Total Rural loans	2 101 968	72 353	2 029 615	3,44%
Total loans to customers	17 319 541	1 016 707	16 302 834	5,87%

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

8. Loans, provision, portfolio quality (continued)

The table below provides information on the credit quality of assigned loans, assessed on a collective basis as at 31 December 2020:

	Loans before impairment allowance	Impairment allowance	Loans less impairment allowance	Ratio of impairment provision to total loans before impairment allowance
Business loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	946 612	1 027	945 585	0,11%
From 1 to 30 days overdue	91 400	1 590	89 810	1,74%
From 30 to 90 days overdue	81 533	23 706	57 827	29,08%
From 90 to 180 days overdue	10 014	6 049	3 965	60,41%
From 180 to 365 days overdue	107 085	107 085	-	100,00%
Total Business loans	1 236 644	139 457	1 097 187	11,28%
Consumer loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	236 316	524	235 792	0,22%
From 1 to 30 days overdue	40 566	1 556	39 010	3,84%
From 30 to 90 days overdue	41 872	9 379	32 493	22,40%
From 90 to 180 days overdue	18 353	11 406	6 947	62,16%
From 180 to 365 days overdue	147 318	147 318	-	100,00%
Total Consumer loans	484 425	170 183	314 242	35,13%
Rural loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	21 215	15	21 200	0,07%
From 1 to 30 days overdue	-	-	-	-
From 30 to 90 days overdue	-	-	-	-
From 90 to 180 days overdue	-	-	-	-
From 180 to 365 days overdue	9 637	9 637	-	100,00%
Total Rural loans	30 852	9 652	21 200	31,28%
Total assigned loans	1 751 921	319 292	1 432 629	18,23%

Credit quality of loans. The table below provides information on the credit quality of loans to customers, assessed on a collective basis as at 31 December 2019:

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
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8. Loans, provision, portfolio quality (continued)

	Loans before impairment allowance	Impairment allowance	Loans less impairment allowance	Ratio of impairment provision to total loans before impairment allowance
Business loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	11 029 436	68 849	10 960 587	0,62%
From 1 to 30 days overdue	281 093	31 570	249 523	11,23%
From 30 to 90 days overdue	201 451	96 203	105 248	47,76%
From 90 to 180 days overdue	151 799	115 901	35 898	76,35%
From 180 to 365 days overdue	221 700	221 700	-	100,00%
Total Business loans	11 885 479	534 223	11 351 256	4,49%
Consumer loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	2 635 224	20 218	2 615 006	0,77%
From 1 to 30 days overdue	144 411	25 166	119 245	17,43%
From 30 to 90 days overdue	88 465	43 462	45 003	49,13%
From 90 to 180 days overdue	188 550	143 456	45 094	76,08%
From 180 to 365 days overdue	242 213	242 213	-	100,00%
Total Consumer loans	3 298 863	474 515	2 824 348	14,38%
Rural loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	2 194 568	13 277	2 181 291	0,61%
From 1 to 30 days overdue	66 143	7 226	58 917	10,92%
From 30 to 90 days overdue	38 815	17 712	21 103	45,63%
From 90 to 180 days overdue	41 472	32 479	8 993	78,32%
From 180 to 365 days overdue	78 874	78 874	-	100,00%
Total Rural loans	2 419 872	149 568	2 270 304	6,18%
Total loans to customers	17 604 214	1 158 306	16 445 908	6,58%

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Notes to the Financial Statements (continued)
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8. Loans, provision, portfolio quality (continued)

The table below provides information on the credit quality of assigned loans, assessed on a collective basis as at 31 December 2019:

	Loans before impairment allowance	Impairment allowance	Loans less impairment allowance	Ratio of impairment provision to total loans before impairment allowance
Business loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	4 063 228	399 915	3 663 313	9,84%
From 1 to 30 days overdue	653 835	173 297	480 538	26,50%
From 30 to 90 days overdue	114 455	77 095	37 360	67,36%
From 90 to 180 days overdue	342 462	290 246	52 216	84,75%
From 180 to 365 days overdue	814 015	740 221	73 794	90,93%
Total Business loans	5 987 995	1 680 774	4 307 221	28,07%
Consumer loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	1 046 407	33 329	1 013 078	3,19%
From 1 to 30 days overdue	199 368	31 684	167 684	15,89%
From 30 to 90 days overdue	91 344	47 401	43 943	51,89%
From 90 to 180 days overdue	195 584	148 297	47 287	75,82%
From 180 to 365 days overdue	518 673	472 869	45 804	91,17%
Total Consumer loans	2 051 376	733 580	1 317 796	35,76%
Rural loans				
<i>Collectively assessed loans</i>				
Current loans (not past due)	131 187	2 055	129 132	1,57%
From 1 to 30 days overdue	-	-	-	-
From 30 to 90 days overdue	-	-	-	-
From 90 to 180 days overdue	4 260	3 000	1 260	70,42%
From 180 to 365 days overdue	9 023	8 617	406	95,50%
Total Rural loans	144 470	13 672	130 798	9,46%
Total assigned loans	8 183 841	2 428 026	5 755 815	29,67%

As at 31 December 2020, the effective loan provision rate amounts 5,87% against 6,58% as at 31 December 2019. This decrease in the effective provision rate is a consequence of the revised rates of provisioning derived from migration roll-rates updated with the latest historical statistics, set in March 2020.

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Notes to the Financial Statements (continued)
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8. Loans, provision, portfolio quality (continued)

Collateralization of loans

The tables below summarize the book value of loans to customers by type of collateral obtained by the Company.

Loans to customers	31 December 2020	31 December 2019
Pledge other than mortgage (motor vehicles, inventories, other)	6 059 983	7 591 959
Guarantees	5 151 208	4 754 160
Mortgage	3 114 232	3 096 346
No collateral	2 994 117	2 161 749
Total	17 319 540	17 604 214
Less - impairment allowance	(1 016 707)	(1 158 306)
Total loans to customers	16 302 833	16 445 908

For credit risk mitigation the Company requires borrowers to provide collateral of real estate, transport, commodities, goods and third party guarantees. The amount and type of collateral required depends on the credit risk assessment of the customer. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The tables below summarize the book value of assigned loans to customers by type of collateral obtained by the Company.

Assigned loans	31 December 2020	31 December 2019
Pledge other than mortgage (motor vehicles, inventories, other)	386 356	1 942 863
Guarantees	433 632	2 839 547
Mortgage	615 265	1 642 409
No collateral	316 668	1 759 022
Total	1 751 921	8 183 841
Less - impairment allowance	(319 292)	(2 428 026)
Total assigned loans	1 432 629	5 755 815

As at 31 December of 2020 and 2019 the outstanding amount of restructured loans was EUR 3 689 336 and EUR 206 627 respectively.

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Notes to the Financial Statements (continued)
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9. Property and equipment

The movements in property and equipment were as follows:

	Leasehold improvements	IT equipment	Furniture and equipment	Other	Total
At cost					
Balance as at 31 December 2018	-	66 691	11 453	9 123	87 267
Additions	-	-	3 310	-	3 310
Disposals	-	-	(704)	(861)	(1 565)
Currency translation effect	-	9 733	1 791	1 293	12 817
Balance as at 31 December 2019	-	76 424	15 850	9 555	101 829
Additions	634 306	-	-	-	634 306
Disposals	-	-	-	-	-
Currency translation effect	(57 593)	(17 986)	(3 730)	(2 249)	(81 558)
Balance as at 31 December 2019	576 713	58 438	12 120	7 306	654 577
Accumulated depreciation					
Balance as at 31 December 2018	-	52 030	11 107	5 751	68 888
Depreciation charge	-	16 066	832	780	17 678
Disposals	-	-	(704)	(820)	(1 524)
Currency translation effect	-	8 328	1 627	837	10 792
Balance as at 31 December 2019	-	76 424	12 862	6 548	95 834
Depreciation charge	190 561	-	574	527	191 662
Disposals	-	-	-	-	-
Currency translation effect	(17 302)	(17 986)	(3 079)	(1 590)	(39 957)
Balance as at 31 December 2019	173 259	58 438	10 357	5 485	247 539
Net book value as at 31 December 2020	403 454	-	1 763	1 821	407 038
Net book value as at 31 December 2019	-	-	2 988	3 007	5 995

As at 31 December 2020 and 2019 the Company did not have any pledged property and equipment.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

10. Intangible assets

The movements in the intangible assets were as follows:

	Software	Licenses	Total
At cost			
Balance as at 31 December 2018	67 473	-	67 473
Additions in 2019	2 814	8 745	11 559
Write-offs in 2019	-	-	-
Currency translation effect	9 658	1 600	11 258
Balance as at 31 December 2019	79 945	10 345	90 290
Additions in 2020	877	2 480	3 357
Write-offs in 2020	-	-	-
Currency translation effect	(18 810)	(2 421)	(21 231)
Balance as at 31 December 2020	62 012	10 404	72 416
Accumulated amortization and impairment			
Balance as at 31 December 2018	8 127	-	8 127
Amortisation expense	15 152	2 061	17 213
Disposals	-	-	-
Effect of foreign currency exchange differences	1 903	49	1 952
Balance as at 31 December 2019	25 182	2 110	27 292
Amortisation expense	13 493	2 036	15 529
Disposals	-	-	-
Effect of foreign currency exchange differences	(7 152)	(681)	(7 833)
Balance as at 31 December 2020	31 523	3 465	34 988
Net book value as at 31 December 2020	30 489	6 939	37 428
Net book value as at 31 December 2019	54 763	8 235	62 998

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Notes to the Financial Statements (continued)
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11. Other assets

	31 December 2020	31 December 2019
Other financial assets		
MINTOS	48 758	-
Nominal account on investment platforms	82 858	-
Receivables from cession of loans	27 650	142 243
Total other financial assets	159 266	142 243
Other non-financial assets		
Advances to suppliers	59 675	191 555
Prepaid expenses	39 837	59 128
Income tax prepayments	30 350	36 840
Intercompany receivables	14 933	-
Other	1 835	18 089
Provision for impairment	(21 828)	(11 117)
Total other non-financial assets	124 803	294 495
Total other assets	284 069	436 738

12. Loans payable

	31 December 2020	31 December 2019
External loans payable		
Principal amount	5 053 461	6 168 300
Accrued interest	11 873	48 284
Total external loans payable	5 065 334	6 216 584
Intercompany loans payable		
Principal amount	5 673 387	7 972 600
Accrued interest	212 160	27 060
Total intercompany loans payable	5 885 547	7 999 660
Total loans payable	10 950 881	14 216 244

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Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
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13. Other liabilities

	31 December 2020	31 December 2019
Other financial liabilities		
Rent		
Payables to employees	419 173	-
Taxes	200 476	189 490
Audit fee	22 275	39 083
Intercompany payables	10 990	5 754
MINTOS	2 523	27
Other	-	4 887
	98 938	67 242
Total other financial liabilities	754 375	306 483
Non-Financial liabilities		
Social security contributions payable	34 985	53 421
Other	-	49 769
Total other non-financial liabilities	34 985	103 190
Total other liabilities	789 360	409 673

14. Share capital

Authorized, issued and fully paid share capital comprises:

	31 December 2020		31 December 2019	
	Number of shares	Total	Number of shares	Total
Ordinary shares	4 300 900	8 028 901	4 300 900	8 028 901
Total share capital	4 300 900	8 028 901	4 300 900	8 028 901

At the end of 2020, all common shares had a par value of RUB 19 per share.

On 31 January 2018, the shareholder announced a decision to reduce the par value of one share from RUB 100 to RUB 19 per share. This decision was made in order to comply with the requirements of legislation 208-FZ "On Joint Stock Companies" on the observance of the amount of net assets at the level not lower than the size of the authorized capital of the joint stock company. The decrease in value was recorded on July 17, 2018 and amounted to EUR 4 785 638.

In December 2018, the Company received a cash injection from a shareholder in the amount of EUR 2 353 735. In December 2019, the shareholder made a contribution to the net assets of the company in the amount of EUR 2 941 493. As a result, as at 31 December 2020, the additional capital of the Company is EUR 7 545 428.

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Notes to the Financial Statements (continued)
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15. Interest income and interest expenses

	2020	2019
Interest income		
- Interest income from loans to customers	6 172 343	7 311 254
- Interest income from short-term deposits	207 737	272 650
- Recovery of discount	611 936	782 643
Total interest income	6 992 016	8 366 547
Interest expense		
- Interest expense from intercompany loans payable	(1 012 012)	(1 905 387)
- Interest expense from loans due to other credit institutions	(444 821)	(360 408)
- Interest expense from loans due to other creditors	(274 716)	-
Total interest expense	(1 731 549)	(2 265 795)
Net interest income	5 260 467	6 100 752

16. Fee and commission expenses

	2020	2019
Fee and commission expenses		
Remittance services expenses	(71 617)	(100 062)
Net fee and commission expenses	(71 617)	(100 062)

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Notes to the Financial Statements (continued)
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17. Personnel expenses and other operating expenses

	2020	2019
Wages and salaries	1 629 887	2 123 110
Compulsory social security obligations	497 931	631 552
Compensations, incentives and other benefits	197 516	306 529
Medical insurance	52 112	-
Total personnel expenses	2 377 446	3 061 191
Other operating expenses		
Other professional services	142 203	160 655
Intercompany expenses	141 506	140 454
Rent expenses	132 255	533 183
Marketing	75 798	117 194
Consumables and office supply	70 513	76 834
Communications	53 081	61 000
Bank charges	51 257	59 985
IT professional services	39 978	41 658
Legal expenses	34 503	30 718
Security	30 401	21 200
Audit expenses	21 613	24 521
Customer engagement agent commission	18 179	44 580
Motor vehicle expenses	10 592	29 169
Business travel and related expenses	7 758	48 717
Training and hiring	7 509	20 154
Meetings, conferences, meals & entertainment	3 365	18 904
Insurance	-	148
Other	97 223	31 183
Total other operating expenses	937 734	1 460 257

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
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18. Other income and other expenses

Other income and other expenses consist of:

	2020	2019
Other non-operating income	7 290	842
Other income	7 290	842
Costs from operations with borrowed funds	-	(28 107)
Other non-operating expenses	(55 350)	(43 053)
Other expenses	(55 350)	(71 160)
Total other income / (expenses)	(48 060)	(70 318)

19. Income tax expense

Deferred tax assets and liabilities as at 31 December 2020 and 2019 comprise:

	2020	2019
Deferred tax assets/(liabilities) in relation to:		
Property and equipment, and software	23	292
Provisions - estimated liabilities	36 525	24 057
Financial assets at amortized cost	43 878	41 246
Deferred tax asset for tax loss, carried forward	363 820	246 321
Deferred tax liability before offset with deferred tax assets	(149 721)	-
Net deferred tax asset	294 525	311 916

	2020	2019
Current income tax expense	(12 006)	(68 382)
Deferred income tax income	132 330	174 118
Currency translation difference	(71 917)	(20 165)
Income tax income for the year	48 407	85 571

20. Commitment and contingencies

Tax legislation. Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Company may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
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20. Commitment and contingencies (continued)

Operating environment. Emerging markets such as the RF are subject to different risks than more developed markets, including economic, political, social, legal and legislative risks. Laws and regulations affecting businesses in the RF continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

The impact of further economic and political developments on future operations and financial position of the Company might be significant.

Operating lease commitments. Where the Company is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2020	2019
Less than 1 year		
Between one and five years	132 255	495 678
	-	-
Total operating lease commitments	132 255	495 678

Insurance. The Company has obtained full insurance coverage for its rented property and equipment and cash held in vaults in respect of potential damage.

21. Financial risk management

Management of risk is fundamental to the Company's business and is an essential element of the Company's operations. The main financial risks inherent to the Company's operations are those related to credit, liquidity and market risk. A summary description of the Company's risk management policies in relation to those risks follows below.

Structure of risk management. The Supervisory Board is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks. The Company has entered into an agreement with MKCS LLC for the provision of services for the assessment and analysis of financial risks on transactions.

Supervisory Board. The Supervisory Board is responsible for the overall risk management approach and for approving the risk strategies and principles.

Management Board. The Management Board has the responsibility to monitor the overall risk process within the Company.

Other committees. In order to provide additional measures in terms of risk management permanent working committees are created in the Company:

- Asset and Liability Management Committee (ALM Committee) – the committee reviews every month the liquidity forecast covering 1 year period. Liquidity forecast is based on expected loan disbursement levels, expected funding plans and other expected cash movements. ALM Committee takes decisions related to new borrowings, sets open currency position and counterparty limits for operations with banks and financial institutions, monitors covenants with lenders. ALM Committee examines issues related to maturities of assets and liabilities and gives recommendations to Finance Department concerning elimination of divergences.

MFC JSC "MIKRO KAPITAL"

Notes to the Financial Statements (continued)
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21. Financial risk management (continued)

- Credit Department – the department evaluates quality of loans of the Company and prepares recommendations concerning provision for impairment and other provisions. Credit Department supervises the realization of methodology concerning credit risk management, takes measures towards credit risk minimization and makes decisions concerning operations bearing credit risk. This department places credit limits for branches, performs analysis and controls credit risk.

Finance Department. This department approves credit limits for branches, analyses and controls credit risk. Finance department is responsible for day-to-day management of assets and liabilities of the Company, computation and planning of liquidity position of the Company, redistribution of cash and cash equivalents between operating sites of the Company. Finance department controls application of limits and liquidity ratios set by ALM Committee and performance of decisions taken by ALM Committee with regard to liquidity risk optimization.

Internal audit. Internal audit of the Company performs an independent review of risk management process, informs management of the Company about the revealed shortcomings and gives appropriate recommendations concerning improvement of risk management process.

Risk measurement and reporting systems. Choice of risk management method depends on risk factors which are observed to determine relative importance or probability of risk occurrence which may affect adversely financial position of the Company. Therefore the Company analyses and measures not only each risk separately, but also determine the level of cumulative risks. Thus, for each kind of risk following methods of risk measurement are applied:

- Interest rate risk – maturity and interest rate gap analysis of assets and liabilities;
- Liquidity risk – gap analysis of payments in national and foreign currencies; analysis of liquidity ratios, determination of liquidity reserve;
- Currency risk – gap analysis of payments in foreign currency; analysis of currency position;
- Credit risk – analysis of a credit portfolio and credit risk ratios;
- Operational risk – for all operations having impact on the Company's financial position systems assuring separation of activities (such as initiation, execution and control) necessary for the finalization of operations have been implemented.

Risk measurement methods reflect expected loss which the Company will probably bear when performing its activities. Every month based on the analysis of separate risks the Finance Department prepares conclusion concerning the current state of the risk and main factors deteriorating or improving it.

At monthly Asset and Liabilities Management Committee ("AMLC") meeting status of the interest rate, liquidity, currency and market risks are reported.

Status of functional risks (operational – technological, legal, strategic, reputation risk) is reported to the Management Board each month. These reports are examined at Board of Directors and Audit Committee meetings held each quarter.

Risk mitigation. The Company uses the following methods of risk minimization:

- Reception of guarantees and collateral for credit risk mitigation;
- Diversification – selection of assets which are not connected between each other.

Credit risk. The Company is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The core business of the Company is to provide micro-loans. Respectively credit risk is of crucial importance in the Micro Financing Organizations risk management. To avoid significant financial damage caused by this the Company uses various methods to identify and manage effectively the credit risks.

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Notes to the Financial Statements (continued)
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21. Financial risk management (continued)

Risk management and monitoring is performed within set limits of authority. These processes are performed by the Credit Committees and the Company's Management Board. Before any application is made by the Credit Committee, all recommendations on credit processes (borrower's limits approved or amendments made to loan agreements, etc.) are reviewed and approved by the Credit Department. Daily risk management is performed by the Head of Credit Departments and Internal Control Department.

The Company's credit policy is determined by the Credit Manual, where all the related procedures and requirements, along with respective controls are clearly defined, including loan disbursement, monitoring of delinquent loans, etc.

The Credit Committee is the analytical body responsible for analysing the information in the loan applications, assessing and reducing the credit risks as far as possible. The Credit Committee is the body authorized to make the final decision about financing or rejecting the loan application.

Accuracy and correctness of information presented to the Credit Committee is the responsibility of the credit officer, who fills in the initial application after the due scrutiny of the applicant's business and its credit risks. Eventually the Credit Committee members assess the application against the established criteria (application's credit history, financial conditions, competitive ability, etc.).

The Company's credit department reviews ageing analysis of outstanding loans and follow up past due balances. Management therefore considers it to be appropriate to provide ageing and other information about credit risk.

The Company structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to industry (and geographical) segments.

Where appropriate, and in the case of most loans, the Company obtains collateral and a personal guarantee.

Maximum exposure of credit risk. The Company's maximum exposure to credit risk varies significantly and is dependent on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet financial assets. For financial assets in the balance sheet, the maximum exposure is equal to the book value of those assets prior to any offset of collateral or guarantees.

	Maximum credit risk exposure
31 December 2020	
Current accounts with Russian banks	
Brokerage account	210 843
Loans to customer	482 093
Other financial assets	17 735 462
	159 266
31 December 2019	
Current accounts with Russian banks	
Brokerage account	1 128 570
Loans to customers	198 231
Other financial assets	22 201 723
	142 243

Impairment assessment. The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 1 day or there are any known difficulties in the cash flows of counterparties. Any loan which is not past due is considered to be impaired at an average rate at 1%. The Company addresses impairment assessment in two areas: individually assessed provisions and collectively assessed provisions. The Company establishes provision for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this provision are a specific loss component that relates to individually significant exposures, and a collective loan loss provision established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

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Notes to the Financial Statements (continued)
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21. Financial risk management (continued)

Write-off policy. Non-performing loans which are those overdue for more than 180 days, and for which all collection efforts in accordance with the Credit Manual have been undertaken, are written off monthly, unless otherwise agreed with the Chief Executive Officer, after they have been reviewed by the internal auditor to determine if they are fraudulent or to related parties and that all policy-required collection efforts have been diligently pursued by management; all write-offs must be approved in writing by the Chief Executive Officer.

Collateral and guarantees. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. These procedures are described in the Credit Manual of the Company.

The main types of collateral and guarantees obtained for Individual loans are pledge of motor vehicles, pledge of inventories and guarantees (Note 7).

Management monitors the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

Country risk. Country risk is the risk that the Company will incur losses as a result of the influence of political or economic factors in the country of operations or location of assets. The Company operates in Russia, mainly with Russian clients, and therefore, as can be seen from the table below, is particularly exposed to Russian risks.

The Company's activities outside the Russian Federation are represented by transactions with counterparties from OECD countries.

The geographical concentration of the Company's financial assets and liabilities as at 31 December 2020 is set out below:

	Russia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	692 936	-	-	692 936
Loans to customers	17 735 462	-	-	17 735 462
Other financial assets	110 508	48 758	-	159 266
Total financial assets	18 538 906	48 758	-	18 587 664
Financial liabilities				
Loans payable	1 440 527	9 510 354	-	10 950 881
Other financial liabilities	754 375	-	-	754 375
Total financial liabilities	2 194 902	9 510 354	-	11 705 256
Net position	16 344 004	(9 461 596)	-	6 882 408

The geographical concentration of the Company's financial assets and liabilities as at 31 December 2019 is set out below:

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Notes to the Financial Statements (continued)
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21. Financial risk management (continued)

	Russia	OECD	Non-OECD	Total
Financial assets				
Cash and cash equivalents	1 326 801	-	-	1 326 801
Loans to customers	22 201 723	-	-	22 201 723
Other financial assets	142 243	-	-	142 243
Total financial assets	23 670 767	-	-	23 670 767
Financial liabilities				
Loans payable	-	14 216 244	-	14 216 244
Other financial liabilities	306 456	27	-	306 483
Total financial liabilities	306 456	14 216 271	-	14 522 727
Net position	23 364 311	(14 216 271)	-	9 148 040

Market risk. Market risk is the risk that changes in market conditions, such as interest rate, equity prices, foreign exchange rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Currency risk. The Company is exposed to effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Supervisory Board sets limits on the level of exposure by currencies (primarily EUR), for the Company in general. As at 31 December 2020 the Company's exposure to foreign currency exchange rate risk is as follows:

As at 31 December 2020 the Company's exposure to foreign currency exchange rate risk is as follows:

	RUB	USD	EUR	Total
Financial Assets				
Cash and cash equivalents	575 966	142	116 828	692 936
Loans to customers	17 735 462	-	-	17 735 462
Other financial assets	115 664	43 126	476	159 266
Total financial assets	18 427 092	43 268	117 304	18 587 664
Financial Liabilities				
Loans payable	7 809 711	-	3 141 170	10 950 881
Other financial liabilities	754 375	-	-	754 375
Total financial liabilities	8 564 086	-	3 141 170	11 705 256
Derivative financial instruments				
Futures for Euro Purchase	-	-	2 700 000	2 700 000
Net balance position	9 863 006	43 268	(323 866)	9 582 408

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Notes to the Financial Statements (continued) for the Year Ended 31 December 2020 (in EUR)

21. Financial risk management (continued)

As at 31 December 2019 the Company's exposure to foreign currency exchange rate risk is as follows:

	RUB	EUR	Total
Financial assets			
Cash and cash equivalents	838 646	488 155	1 326 801
Loans to customers	22 201 723	-	22 201 723
Other financial assets	142 243	-	142 243
Total financial assets	23 182 612	488 155	23 670 767
Financial liabilities			
Loans payable	11 628 337	2 587 907	14 216 244
Other financial liabilities	306 456	27	306 483
Total financial liabilities	11 934 793	2 587 934	14 522 727
Net balance position	11 247 819	(2 099 779)	9 148 040

The Company's principal cash flows are largely generated in RUB. Nevertheless, future movements in the exchange rate between the RUB and EUR will affect the book value of the Company's monetary assets and liabilities denominated in EUR.

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at 31 December 2020 if all other conditions remain unchanged. Reasonably expected exchange rate changes for each currency were projected on the basis of maximum exchange rate fluctuations in January-February 2021.

	2020	
	Effect on profit or loss before taxation	Effect on Equity
EUR appreciation by 1%	(3 207)	(2 565)
EUR depreciation by 1%	3 207	2 565

The table below shows the change in the financial result and equity due to possible fluctuations of exchange rates used as at 31 December 2020 if all other conditions remain unchanged. Reasonably expected exchange rate changes for each currency were projected on the basis of maximum exchange rate fluctuations in January-February 2021.

	2019	
	Effect on profit or loss before taxation	Effect on Equity
EUR appreciation by 15%	(4 833)	(3 867)
EUR depreciation by 15%	4 833	3 867

Interest rate risk. Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of the financial instruments or the future cash flows on financial instruments. The Company's interest rate policy is reviewed periodically by the Management Board in order to place and attract funds based on market conditions. Interest rate risk is managed principally through monitoring interest rate gaps.

The table below summarizes the Company's exposure to interest rate risks as at 31 December 2020. Included in the table are the Company's financial assets and liabilities at book values, categorized by the earlier of contractual re-pricing or maturity dates.

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Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

21. Financial risk management (continued)

	On demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Non-interest bearing	Total
Financial assets						
Cash and cash equivalents	-	-	-	-	-	-
Loans to customers	882 842	2 293 077	6 686 162	7 873 381	692 936	692 936
Other financial assets	76 408	-	-	-	-	17 735 462
					82 858	159 266
Total financial assets	959 250	2 293 077	6 686 162	7 873 381	775 794	18 587 664
Financial liabilities						
Loans Payable	218 705	588 780	2 703 487	7 439 908	-	10 950 880
Other financial liabilities	223 009	-	-	-	531 366	754 375
Total financial liabilities	441 714	588 780	2 703 487	7 439 908	531 366	11 705 255
Net interest rate gap as at 31 December 2020	517 536	1 704 297	3 982 675	433 473	244 428	6 882 409
Cumulative interest rate gap as at 31 December 2020	517 536	2 221 833	6 204 508	6 637 981	6 882 409	

The table below summarizes the Company's exposure to interest rate risks as at 31 December 2019:

	On demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Non-interest bearing	Total
Financial assets						
Cash and cash equivalents	-	-	-	-	-	-
Loans to customers	1 637 020	2 005 961	8 598 807	9 959 935	1 326 801	1 326 801
Other financial assets	-	-	-	-	-	22 201 723
					142 243	142 243
Total financial assets	1 637 020	2 005 961	8 598 807	9 959 935	1 469 044	23 670 767
Financial liabilities						
Loans payable	-	1 838 594	10 665 083	1 712 567	-	14 216 244
Other financial liabilities	-	-	-	-	306 483	306 483
Total financial liabilities	-	1 838 594	10 665 083	1 712 567	306 483	14 522 277
Net interest rate gap as at 31 December 2019	1 637 020	167 367	(2 066 276)	8 247 368	1 162 561	9 148 040
Cumulative interest rate gap as at 31 December 2019	1 637 020	1 804 387	(261 889)	7 985 479	9 148 040	

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of the reporting period. A 100 (1%) basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 (1%) basis points higher/lower and all other variables were held constant, the Company's:

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Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
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21. Financial risk management (continued)

	2020		2019	
	Effect on profit or loss before taxation	Effect on Equity	Effect on profit or loss before taxation	Effect on Equity
Interest rate increase on 1%	66 380	53 104	79 855	63 884
Interest rate decrease on 1%	(66 380)	(53 104)	(79 855)	(63 884)

As at 31 December 2020 and 2019, the effective average interest rates by currencies for interest bearing assets instruments were as follows:

	2020 RUB	2019 RUB
Short term deposits with credit institutions	3,94%	6,16%
Loans to customers	33,98%	34,52%
Loans payable	15,27%	15,95%

Liquidity risk. Liquidity risk refers to the availability of sufficient funds to meet financial commitments associated with financial instruments as they actually fall due. In order to manage liquidity risk, the Company performs daily monitoring of existing cash balances and monthly analysis of future expected cash flows on clients' and other financial operations, which is a part of assets/liabilities management process.

The table below shows the expected maturity analysis as at 31 December 2020:

	On demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	No stated maturity	Total
Financial assets						
Cash and cash equivalents	692 936	-	-	-	-	692 936
Loans to customers	882 842	2 293 077	6 686 162	7 873 381	-	17 735 462
Other financial assets	159 266	-	-	-	-	159 266
Total financial assets	1 735 044	2 293 077	6 686 162	7 873 381	-	18 587 664
Financial liabilities						
Loans payable	218 705	588 781	2 703 487	7 439 908	-	10 950 881
Other financial liabilities	218 200	45 921	157 190	209 586	123 478	754 375
Total financial liabilities	436 905	634 702	2 860 677	7 649 494	123 478	11 705 256
Net liquidity gap as at 31 December 2020	1 298 139	1 658 375	3 825 485	223 887	(123 478)	6 882 408
Cumulative liquidity gap as at 31 December 2020	1 298 139	2 956 514	6 781 999	7 005 886	6 882 408	

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Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)

21. Financial risk management (continued)

The table below shows the expected maturity analysis as at 31 December 2019:

	On demand and less than 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	No stated maturity	Total
Financial Assets						
Cash and cash equivalents	1 326 801	-	-	-	-	1 326 801
Loans to customers	1 637 020	2 005 961	8 598 807	9 959 935	-	22 201 723
Other financial assets	142 243	-	-	-	-	142 243
Total financial assets	3 106 064	2 005 961	8 598 807	9 959 935	-	23 670 767
Financial Liabilities						
Loans payable	-	1 838 594	10 665 083	1 712 567	-	14 216 244
Other financial liabilities	233 486	67 243	-	-	5 754	306 483
Total financial liabilities	233 486	1 905 837	10 665 083	1 712 567	5 754	14 522 727
Net liquidity gap as at 31 December 2019	2 872 578	100 124	(2 066 276)	8 247 368	(5 754)	9 148 040
Cumulative liquidity gap as at 31 December 2019	2 872 578	2 972 702	906 426	9 153 794	9 148 040	

Operational risk. Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Company cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes.

22. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with clients that have positive credit history, the ability to continuously monitor the current financial position of the client with receipt of necessary financial and other data, which may influence upon loan repayment. The responsibility for monitoring shall rest upon the Loan Officer in charge of granting the loan.

23. Fair value of financial instruments

	31 December 2020		31 December 2019	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and cash equivalents	692 936	692 936	1 326 801	1 326 801
Loans to customers	17 735 462	21 441 405	22 201 723	23 588 665
Other financial assets	159 266	159 266	142 243	142 243
Total financial assets	18 587 664	22 293 607	23 670 767	25 057 709
Financial liabilities				
Loans payable	10 950 881	10 700 246	14 216 244	10 025 546
Other financial liabilities	754 375	754 375	306 483	306 483
Total financial liabilities	11 705 256	11 454 621	14 522 727	10 332 029

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Notes to the Financial Statements (continued)
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23. Fair value of financial instruments (continued)

Assets and liabilities for which fair value approximates book value. For financial assets and financial liabilities that are liquid or having a short-term maturity (less than one year) it is assumed that book value approximates to their fair value.

Financial instruments with fixed interest rates. The fair value of fixed rate financial assets and liabilities at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of loans with interest bearing at a fixed rate is based on discounted cash flows using prevailing market interest rates for loans with similar credit risk and maturity.

The Company's valuation approach and fair value hierarchy categorization for certain significant classes of financial and non-financial instruments recognized at fair value as at 31 December 2020 is as follows:

Financial assets and liabilities carried at amortized cost	Book value	31 December 2020			Total
		Level 1	Level 2	Level 3	
Cash and cash equivalents	692 936	-	692 936	-	692 936
Loans to customers	17 735 462	-	-	21 441 405	21 441 405
Other financial assets	159 266	-	-	159 266	159 266
Loans payable:					
-intercompany loans payable	5 791 814	-	-	5 779 181	5 779 181
- external loans payable	5 159 067	-	-	4 921 065	4 921 065
Other financial liabilities	754 375	-	-	754 375	754 375

The Company's valuation approach and fair value hierarchy categorization for certain significant classes of financial and non-financial instruments recognized at fair value as at 31 December 2019 is as follows:

Financial assets and liabilities at amortized cost	Book value	31 December 2019			Total
		Level 1	Level 2	Level 3	
Cash and cash equivalents	1 326 801	-	1 326 801	-	1 326 801
Loans to customers	22 201 723	-	-	23 588 665	23 588 665
Other financial assets	142 243	-	-	142 243	142 243
Loans payable:					
-intercompany loans payable	6 216 584	-	-	5 398 321	5 398 321
- external loans payable	7 999 660	-	-	4 627 225	4 627 225
Other financial liabilities	306 483	-	-	306 483	306 483

24. Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The control over the capital adequacy of the Company is carried out in accordance with the requirements of the Order of the Ministry of Finance №42Н dated 30 March 2012, according to which the Company is obliged to maintain the ratio of capital and risk-weighted assets at the level of at least 5%, and the minimum liquidity ratio at the level of 70%, which are calculated on the basis of accounting data in accordance with Russian standards. As at 31 December 2020 and for the whole year of 2020, the Company was in full compliance with all mandatory capital and liquidity requirements.

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Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
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25. Related party transactions

In accordance with IAS 24 "Related Party Disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The volumes of related party transactions, outstanding balances at the year-end are as follows:

	2020		2019	
	Related party balances	Total by category in accordance with financial statements	Related party balances	Total by category in accordance with financial statements
Other assets				
- shareholders	124 441	284 069	142 243	410 245
Loans payable				
- shareholders	5 885 547	10 950 881	7 999 660	14 216 244
Loans issued				
- the shareholders	-	17 735 462	630 869	17 615 998
Other liabilities				
- shareholders	2 523	789 360	-	383 179

The remuneration of Board of Directors (Supervisory Board) and Company's management was as follows:

	2020		2019	
	Related party transactions	Total by category in accordance with financial statements	Related party transactions	Total by category in accordance with financial statements
Key management personnel remuneration:				
- short-term benefits	354 575	2 377 446	397 817	3 063 085
Total	354 575	2 377 446	397 817	3 063 085

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Notes to the Financial Statements (continued)
for the Year Ended 31 December 2020
(in EUR)


25. Related party transactions (continued)

Below are income and expense items arising from related party transactions in 2020 and 2019:

	2020		2019	
	Related party balances	Total by category in accordance with financial statements	Related party balances	Total by category in accordance with financial statements
Interest expense	-	1 731 549	-	2 265 795
- the shareholders	1 011 906	-	1 979 562	-
- key management personnel	12 086	-	-	-
Personnel Expenses		2 377 446		3 061 191
- key management personnel	442 715		397 817	
- insurance expenses related to key management personnel	27 866		48 737	
Other operating expenses		937 734		1 460 257
- the shareholders	162 329		-	

26. Events after the reporting date

In 2021, there have been no significant changes in business.


Svetlana Chubakova
Chief Executive Officer

30 March 2021

Samara

