O.C.N. "Mikro Kapital Company" SRL

Financial Statements
For the Year Ended 31 December 2020
Prepared in Accordance with
International Financial Reporting Standards

CONTENTS

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Independent Auditor's Report

To: Shareholders of O.C.N. "Mikro Kapital Company" SRL

Opinion

We have audited the accompanying financial statements of O.C.N. "Mikro Kapital Company" SRL ("the Company"), which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year then ended, including a summary of significant accounting policies and other explanatory notes.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Group Auditor Instructions. Our responsibilities under those standards are further described in the *Auditor's responsibility for the audit of financial statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in the Republic of Moldova, including the law and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

As described in Note 1.1 of the financial statements and following the Coronavirus outbreak in 2020 the Company has implemented an emergency working plan in order to minimize the impact of the pandemic on the Company. The Company's performance, however, closely depends on the duration of this outbreak, the effective measures taken by the general public and the authorities in curbing the outbreak. The economic consequences and uncertainties resulting from the Coronavirus itself or from actions taken by governments and the private sector to respond to the outbreak may have an impact on various financial indicators and ultimately on the Company's going concern. As of 31 December 2020, the coronavirus outbreak is still active, severely affecting some local and global industries, slowing the entire economy. Our opinion is not modified in respect of this matter.

Other matters

This report is addressed exclusively to the Company's shareholders. Our audit was conducted to report to the Company's shareholders those matters that need to be reported in the financial audit report, and not for other purposes. To the fullest extent permitted by applicable law, we do not accept and do not assume liability to anyone other than the Company and the Company's shareholders for our audit, for this report, or for our opinion. Our opinion is not modified in respect of this matter.

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

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

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as 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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Company.

Auditors’ responsibility for the audit of financial statements

The objectives of our audit are to obtain reasonable assurance about whether the 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 financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as 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 Company to cease to continue as going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Grant Thornton Audit S.R.L.
Chisinau, Republic of Moldova
23 March 2021

Grant Thornton

Statement of profit and loss and other comprehensive income

	Note	2020	2019
Interest income		77,476,322	59,421,638
Interest expense		(26,367,600)	(25,922,875)
Net interest income	4	**51,108,722**	**33,498,763**
Fee and commission income		630,945	605,979
Fee and commission expense		(19,640)	-
Net fee and commission income	5	**611,305**	**605,979**
Net financial income		**51,720,027**	**34,104,742**
Allowance for loan impairment	12	(10,513,591)	(1,545,612)
Total net income		**41,206,436**	**32,559,130**
Net gain/(loss) from loans written-off	6	**(2,627,489)**	**(66,278)**
Other expenses	7	(8,682,822)	(8,448,853)
Staff and management expenses	8	(15,808,247)	(12,638,258)
Depreciation and amortization		(2,988,051)	(1,956,101)
Total operating expenses		**(27,479,120)**	**(23,043,212)**
Net financial profit/(loss)	9	(1,840,245)	(1,920,476)
Profit before tax		**9,259,582**	**7,529,164**
Income tax expense	10	(1,054,632)	(2,490,765)
Profit for the year		**8,204,950**	**5,038,399**
Other comprehensive income			-
Total comprehensive Income		**8,204,950**	**5,038,399**

The accompanying notes are an integral part of these financial statements.
The financial statements were authorized for issue on 23 of March 2021 by:

Mr.
Administrator

REPUBLICA MOLDOVA, mun. CHIȘINĂU
O.C.N.
MIKRO KAPITAL COMPANY S.R.L.
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SOCIETATEA CU RĂSPUNDERE LIMITATĂ

Statement of financial position

Assets	Note	31 Dec. 2020	31 Dec. 2019*
Cash and cash equivalents	11	20,273,249	6,282,411
Loans granted to customers	12	351,883,841	271,172,761
Other assets and receivables	13	3,303,065	900,011
Financial investment	14	11,431,138	623,700
Property and equipment*	15	8,500,739	4,094,448
Intangible assets*	16	785,376	758,830
Total assets		**396,177,408**	**283,832,161**
Liabilities			
Trade and other liabilities	17	3,515,050	2,577,430
Lease liability	18	6,230,366	2,538,824
Borrowings from banks and other parties	19	294,330,572	216,710,321
Advances from customers	20	4,025,837	3,459,399
Provisions	21	1,764,905	777,851
Deferred tax liabilities	22	1,019,972	118,779
Total liabilities		**310,886,702**	**226,182,604**
Equity			
Share capital		73,454,605	54,018,406
Legal reserve		2,700,920	2,700,920
Retained earnings		9,135,181	930,231
Total equity	23	**85,290,706**	**57,649,557**
Total liabilities and equity		**396,177,408**	**283,832,161**

All amounts marked * in Financial Statements were reclassified as disclosed in Note 2 c).

The accompanying notes are an integral part of these financial statements.
The financial statements were authorized for issue on 23 of March 2021 by:

Mr.
Administrator

Statement of changes in equity

	Share capital	Reserves	Retained earnings	Total equity
Balance at 1 January 2019	**47,239,325**	-	**(1,407,248)**	**45,832,077**
Transactions with owners	**6,779,081**	-	-	**6,779,081**
Result of the year	-	-	5,038,399	5,038,399
Transfers to reserves	-	**2,700,920**	**(2,700,920)**	-
Balance as at 31 December 2019	**54,018,406**	**2,700,920**	**930,231**	**57,649,557**
Balance at 1 January 2020	**54,018,406**	**2,700,920**	**930,231**	**57,649,557**
Share capital increase	19,436,199	-	-	19,436,199
Transactions with owners	**19,436,199**	-	-	**19,436,199**
Result of the year			8,204,950	8,204,950
Transfers to reserves	-	-	-	-
Balance as at 31 December 2020	**73,454,605**	**2,700,920**	**9,135,181**	**85,290,706**

During 2020 the share capital was increased by the main shareholder Securitization Fund ALTERNATIVE. from MDL 54,018,406 to MDL 73,454,605– increase by EUR 1M (MDL 19,436,199).
In accordance with local legislation, a minimum of 5% out of the Company's net statutory profits must be allocated to the legal reserves until this represents 10% out of the Company's share capital without possibility to be distributed to the shareholders.

At the end of 2020, the Company did not create any further legal reserve, but as it is presented in the **Note 26 - Subsequent events,** the amount of MDL 2,000,888 was booked subsequently in 2021.

Statement of cash flows

	2020	2019
Operating activities		
Net profit	**8,204,950**	**5,038,399**
Income from dividends	(108,408)	(235,716)
Income tax expenses	1,054,632	2,490,765
Allowances for loans	10,513,591	1,545,612
Untaken holiday provision	274,901	175,088
Provision expense	712,153	-
Depreciation and amortization	2,988,051	1,956,101
Interest and fee expense	26,387,240	25,922,875
Net cash flows from operating activities before changes in operating assets and liabilities	**50,027,110**	**36,893,124**
(Increase)/decrease in operating assets		
Lease and loans receivables	(91,224,670)	(62,427,537)
Trade and other receivables	(174,877)	502,520
Increase/(decrease) in operating liabilities		
Trade and other payables	4,629,161	632,169
Customer advances	566,439	1,417,215
Net cash flows from operating activities before income tax	**(36,176,838)**	**(22,982,509)**
Income tax paid	(2,381,616)	(2,992,442)
Net cash from operating activities	**(42,249,995)**	**(25,974,951)**
Investing activities		
Purchase of property, plant and equipment	(7,159,991)	(1,276,546)
Out of which Right of use according to IFRS 16	*(5,472,823)*	*(989,523)*
Purchase of other intangible assets	(260,898)	(1,172,874)
Financial investments	(10,807,438)	(13,680)
Dividends received	108,408	235,716
Net cash used in investing activities	**(18,119,919)**	**(2,227,384)**
Financing activities		
Proceeds from borrowings	173,847,225	127,839,013
Repayment of borrowings	(113,080,338)	(100,377,420)
Payment of interest	(9,533,877)	(11,677,974)
Proceeds from issue of share capital	19,436,199	6,779,081
Net cash from (used in) financing activities	**70,669,209**	**22,562,700**
Net change in cash and cash equivalents	**13,990,837**	**(5,639,634)**
Cash and cash equivalents, beginning of year	6,282,411	11,922,045
Cash and cash equivalents, end of year	**20,273,249**	**6,282,411**
Net increase/ (decrease) in cash and cash equivalents	**13,990,838**	**(5,639,634)**

NOTES TO FINANCIAL STATEMENTS

1. Nature of operations & general information

O.C.N. "Mikro Kapital Company" SRL ("the Company") was initially established in 2013 as "Credit CMB" SRL by Mr. Vincenzo TRANI – the President and Chairman of Management board of Mikro Kapital Group and during 2019 has passed through a rebranding process.

The main activities of the Company include loans granted to legal entities and individuals from the Republic of Moldova and leasing of vehicles, complex or small equipment.

The company operates through its headquarters, located in Chisinau, and through 8 other agencies throughout the Republic of Moldova: Chisinau (two agencies), Balti, Comrat, Soroca, Drochia, Edinet and Cahul. The financial statements comprise all Mikro Kapital's branches.

The only shareholder of the Company is Alternative Fund managed by Mikro Kapital Management which belongs to Mr. Vincenzo TRANI, the ultimate beneficiary and during 2020 the share capital of the Company was increased by EUR 1,000,000 (MDL 19,436,200) representing an increase of 36%.

The Company is incorporated in the Republic of Moldova and the registered office of the Company is located at Puskin Street, 45 B, Chisinau.

As at 31 December 2020 the Company employed 61 employees (as at 31 December 2019: 46 employees).

Operating environment of the company

The Company, through its operations, has a significant exposure to the economy and financial markets of Moldova.

The Republic of Moldova displays certain characteristics of an emerging market, including relatively high inflation growth. The banking sector in Moldova is sensitive to adverse fluctuations in confidence and economic conditions and may occasionally experience reductions in liquidity and increased levels of volatility in the market. Management is unable to predict all developments which may have an impact on the banking sector and consequently what effect, if any, they could have on the financial position of the Company.

The tax, currency and customs legislations in Moldova are subject to varying interpretations and frequent changes. The future economic direction of Moldova is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

a) COVID pandemic impact

Starting with 2020, when the Covid pandemic has affected the entire world, the management has implemented an emergency working plan in order to minimize the impact. The specifics of 2020 year have imposed new adaptation to the conditions generated by the existing epidemiological situation at national and international levels. Between March 17th and May 15th, 2020, pursuant to Article 1 of the Parliament Decision no. 55/2020, a state of emergency was

1. Nature of operations & general information (continued)

declared on the entire territory of the Republic of Moldova. Subsequently, the Extraordinary National Commission for Public Health, following the analysis of the current epidemiological situation, has declared several times the state of emergency in public health throughout the Republic of Moldova, a status which continued till the end of the year and on.

The negative effects caused by the epidemiological situation on the sectors of the national economy imposed the need to adapt the activity to the market trends. Respectively, the undertaking of the measures resulting from the situation created, as were the restructuring of loans at the request of customers aimed to support the continuity of the client`s businesses.

At the same time, the year 2020 was marked by a series of challenges in the agricultural field because of a heavy drought. This sector is exposed to the permanent risks on the productivity of the sector but also to the considerable volatility of the commercialization prices of the obtained production. In addition to the economic and environmental risks and the impact of COVID 19 infection, the problems of the justice system and bank fraud have further reduced the economic development potential of the Republic of Moldova.

However, in a socio-economic context characterized by the lack of certainty in the security of private investments and in the equality of the competitive environment, it has complexly influenced the economic growth, respectively, in the field of non-bank lending. Therefore, there was a slower growth of the loan portfolio as well as a decrease in portfolio revenues, while the quality of the portfolio worsened.

Starting with April 2020, a series of fiscal and customs policy measures have been adopted and aimed at supporting the business environment, in the context of the existing epidemiological situation at national level. By the Provisions of the Commission of Exceptional Situations (CSE) and Law no. 60/2020 regarding the establishment of measures to support the entrepreneurial activity and the modification of some normative acts, the following support measures were established:

- Interest subsidy program;
- Technical and stationary unemployment payment subsidy program;
- VAT refunding program;
- Postponement of payments concerning taxes and fees.

2. New and revised standards, in force for annual periods that start on or after 1 January 2020

a) New Standards as at 1 January 2020

None of the new accounting pronouncements which have become effective this year were adopted by the Company, considering that are not applicable or are not expected to have material impact on the Company.

- IFRS 17 Insurance Contracts
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Conceptual Framework for Financial Reporting

2. New and revised standards, in force for annual periods that start on or after 1 January 2020 (continued)

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these individual financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, please see it presented below:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation;
- IFRS 9 "Financial instruments" - Fees in the '10 per cent' test for derecognition of financial liabilities;
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement;
- Amendments to IAS 28: Long-term interests in associates and joint ventures;
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current;
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16;
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37;
- IAS 41 Agriculture – Taxation in fair value measurements;

Management anticipates that all relevant pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement, but in this moment the new standards and interpretations issued are not expected to be relevant or to have a significant impact on the Company's financial statements.

c) Other reclassification of PY financial statements

1. Reclassification of Right of use asset from intangible assets to property, plant and equipment

During the year, the Company reassessed the presentation of the right-of-use assets in relation to IFRS 16 provisions, and reclassified the right-of-use of buildings from intangible assets to property, plant and equipment in the statement of financial position as at 31 December 2020 and 1 January 2020. No modification in the statement of comprehensive income, statement of cash flows and statement of changes in equity were necessary.

Statement of financial position	2,019	Remeasurement	2019 restated
Property and equipment	1,555,624	2,538,824	4,094,448
Intangible assets	3,297,654	(2,538,824)	758,830

3. Accounting policies

a. Basis of preparation

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board which were adopted by the Company starting with January 1st, 2017.

3. Accounting policies (continued)

b) Basis of measurement

The financial statements are prepared under the historical cost convention, with exception as relevant of using fair value.

c) Functional and presentational currency

The financial statements are presented in Moldovan lei ("MDL"), which is the company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of profit or loss.

Non-monetary assets and liabilities recorded at historical cost denominated in foreign currency are translated using the exchange rate at the date of the initial transaction.

Revenues and losses in foreign currency arising from the revaluation of monetary assets and liabilities in foreign currency are reflected in the statement of profit and loss.

Modifications in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in equity.

The non-monetary elements denominated in another currency that are accounted for at cost are translated using the exchange rates as of the date of the initial transaction. The non-monetary elements denominated in a foreign currency, measured at fair value are translated using the exchange rates as of the date of determining the fair value.

The year end and average exchange rates for the main currencies were the following:

	2020		2019	
	USD	**EUR**	**USD**	**EUR**
Average for the period	17.3201	19.7436	17.5751	19.6741
Year end	17.2146	21.1266	17.2093	19.2605

d) Presentation of financial statements

The Company presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 25.

3. Accounting policies (continued)

Financial assets and financial liabilities are offset, 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 are not offset in the profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Company.

a. Significant accounting judgments, estimates and assumptions

In the process of applying the Company's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the financial statements. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances the most significant uses of judgment and estimates are as follows:

a) Going concern

The Company reported a net profit of MDL 8,204,950 for the year ended 31 December 2020 (31 December 2019, MDL 5,038,399) and at that date the retained earnings were positive of MDL 9,135,181 (31 December 2019: MDL 930,231). There is significant part of the Company's borrowings which were granted by its shareholder, 43% at 31 December 2020 (31 December 2019: 53%). Based on these, the Company's management has assessed the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue its activity for the near future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

b) Impairment losses on loans granted to customers and lease receivables

The Company reviews its individually significant lease receivables, loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the profit or loss. Management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about several factors and actual results may differ, resulting in future changes to the allowance.

Loan receivables, lease and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the lease and loan portfolio (such as levels of overdue, credit utilization, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on lease receivables, loans and advances is disclosed in more detail in Note 12.

3. Accounting policies (continued)

b. Summary of significant accounting policies

a) Financial assets and financial liabilities

Recognition and initial evaluation

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables available-for-sale financial assets or held-to-maturity investment. All financial assets are recognized initially at fair value plus, in the case of financial assets are not recorded at fair value, transaction cost that is attributable to the acquisition of the financial assets. Mikro Kapital has only such financial assets that are recognized as loans and receivables.

Classification

Loans to customers are accounted for as loans and receivables from clients and are carried at nominal value. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans and receivables are recognized in the statement of financial position when cash is advanced to borrowers.

Impairment of financial assets

The company recognizes loss allowances for ECL (Expected Credit Loss) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments
- Financial guaranties contracts
- Loan commitments

Impairment according to IFRS 9 is based on expected losses and requires a timely recognition of the future expected losses.

The determination of expected losses at the reporting date relies on the effective interest rate established upon the initial recognition or an estimated rate. As concerns financial assets with variable interest rate, the expected credit losses must be determined based on the current effective interest rate. As concerns the purchased or originated financial assets that are credit-impaired, the expected credit losses must be determined based on the credit-adjusted effective interest rate established upon the initial recognition.

In some circumstances, renegotiation or modification of contractual cash flows of financial assets result in recognition of available financial assets. In certain circumstances, the renegotiation of or change in the contractual cash flows related to financial assets results in the de-recognition of the existing financial assets. If the contractual terms are significantly altered due to commercial renegotiations, both at the client's request and at the company's initiative, the existing financial asset is derecognized and the altered financial asset is subsequently recognized, such altered financial asset being considered as a "new" asset.

3. Accounting policies (continued)

Under IFRS 9, a financial asset is credit-impaired when one or more events have occurred and have a significant impact on the expected future cash flows of the respective financial asset.
Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or past-due event;
- the lender, for economic or contractual reasons relating to the borrower's financial difficulty, grants the borrower a concession that would not otherwise be considered;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for the financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

A financial asset classified as impaired upon initial recognition will be maintained as such until its de-recognition.

The company assesses on forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortized cost and fair value through other items of the comprehensive income and the exposure from loan commitments and financial guarantee contracts. The company recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.
- IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:
- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company;
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired;
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- purchased or originated credit-impaired financial assets ("POCI") are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Impairment losses calculation

Mikro Kapital reviews the lease portfolio and loans to estimate its depreciation on monthly basis. In determining whether a loss on impairment of lease and loans should be reflected in the income statement, Mikro Kapital estimates that there is measurable data to lower expected future cash flows in the portfolio of lease and loan before this decrease is identified

3. Accounting policies (continued)

with a leasing and individual loan from the portfolio. These issues may indicate observable data of worsening service of a debtor in a group, national or economic conditions and correlates with asset losses in a group.

Management uses estimates based on the historical impairment of assets related to credit risk characteristics and objective impairment records similar to those in the portfolio in the forecast of future cash flows. The methodology and assumptions used to estimate both the magnitude and the maturity of future cash flows are reviewed to reduce the differences between estimates and current losses on leases and loans.

When the result of these factors is different from the initially reflected values, they may materially affect the provision for losses for the period in which that determination occurred. Depreciation of leases and loans is calculated for individual leases and loans and for other leases and loans on a portfolio basis. For individually assessed leases and loans, the depreciation factors are determined first. Depreciation factors are financial difficulties of the client, disputes with the respective client, extension or modification of the repayment schedule due to the impossibility of payment.

For overdue payments exceeding 90 days, it will be automatically considered that the lease and the loan are impaired.

For assessing the depreciation amount, the table of monthly cash flows expected from the credit performance, including the flows from the collateral, is made and the flows are updated using the effective interest rate.

Distribution by collateral

At Mikro Kapital the following categories of collateral are defined:

- Hard collateral – a security consisting of non-consumable assets used in the Client's activities (including for personal use) for more than 12 months and having a depreciation characteristic during the whole period of their operation, but not completely disappearing or changing their original purpose. This type of collateral includes, for example, real estate (including buildings, facilities, premises, land), vehicles (including cars, trucks, buses), special technical equipment (including agricultural equipment), equipment (including production power machines), the
- right to long-term lease of real estate;
- Soft collateral – a security consisting of property or property rights (claims) that can be expended, consumed in the course of the financial and economic activities of the Client for 12 months. This type of collateral includes, for example, goods in circulation (including raw materials, fabric, goods for resale, harvested crop and future harvest), inventory, livestock, the right to short-term lease of real estate, the assignment of a monetary claim and other types of security not specified in hard collateral category and not classified as a guarantee;
- Guarantee – the obligation of the guarantor (surety) to return the debt of the borrower, if by the time of return he/she is insolvent;
- Unsecured – the absence of any category of security or guarantee.

The computation of impairment losses is calculated based on the following formula:

3. **Accounting policies (continued)**

EAD x PD x LGD, where:

- EAD - leasing and loan balance less adjusted fair value of collateral
- PD – Probability of default
- LGD – Loss Default loss rate.

The rules for calculation are the following:

- Classify loan portfolio by 3 stages based on days past due:
- Stage 1 up to 29 days past dues
- Stage 2: 30 to 89 days past due
- Stage 3 more than 90 days past due
- Future loan cash-flows are estimated using contractual terms for each loan and used to estimated 12 months expected credit losses and life-time expected credit losses.
- For loans classified as Stage 1 the Company considers 12 months expected losses while for Stage 2 and Stage 3 the Company considers Life-time expected credit losses.
- Estimation of PD and LGD is based on historical Company information and well as expected future trends and macroeconomic factors.

Presentation of impairment losses in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the company cannot identify the ECL on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Assets measured at amortized cost

The company assesses at each reporting date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss generating event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3. Accounting policies (continued)

The criteria that the company uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest
- Cash flow difficulties experienced by the borrower (for example, sales to current liabilities ratio)
- Breach of loan covenants or conditions
- Initiation of bankruptcy proceedings, etc.

The estimated period between losses occurring and its identification is determined by management for each identified portfolio. In general, the period considered is 90 days depending on type of loan portfolio.

The company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced using an adjustment for impairment account, and the amount of the loss is recognized in the income statement. The calculation of the present value of the estimated future cash flows of a financial asset pledged as collateral, reflects the cash flows that may result from its sale, less repossession and related disposal costs, whether the foreclosure is probable or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped based on similar credit risk characteristics (e.g. legal entities - large Corporate Loans, SME < 1% of total regulatory capital, (the limit of the branch) + Individual Enterprises/Farmers and individuals – mortgage, repair, ordinary loans with collateral and consumer loans without collateral) considering asset type and past-due status. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively assessed for impairment are estimated based on the contractual cash flows of the assets in the company and historical losses experience for assets with credit risk characteristics similar to those in the company. Historical loss experience is adjusted based on current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the company to reduce any differences between loss estimates and actual loss experience.

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, the previously recognized impairment loss is reversed by adjusting the impairment allowance account. The amount of the reversal is recognized in the profit or loss account in impairment change for credit losses.

3. Accounting policies (continued)

Assets measured at fair value

The company assess at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit or loss. Impairment losses recognized in the profit or loss on equity instruments are not reversed through the profit or loss. If, in a subsequent period, the fair value of instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the income statement.

b) Renegotiated loans

Where possible, the company restructures loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated the loan is considered overdue and held during a certain "quarantine" period. Should the period expire, the loan is no longer considered overdue and is attributed a current status. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

c) Write-off of financial assets and finance lease receivables

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset, considering that during the year they could not honor their obligations according the schedule. This assessment is made after considering information such as the occurrence of significant changes in financial position of the borrower so that the borrower can no longer satisfy its obligations; or arrears have registered a longer period than the period of collection established; or proceeds from collateral will not be sufficient to repay the entire exposure.
Recoveries of amounts previously written off are included in "impairment losses on financial instruments" in the statement of profit or loss and OCI. Financial assets that are written off could still be subject to enforcement activities in order to comply with the company's procedures for recovery of amounts due.

d) Repossessed assets

In certain circumstances, objects under finance lease are repossessed following the foreclosure of lease contracts where the recoverability is in doubt. Foreclosed collateral are carried at the lower of its cost (being its fair value at the time of repossession) and net realisable value.

3. Accounting policies (continued)

e) Customer advances

Customer advances represent prepayments made by the customers for the payment of contractual obligations to which the due date has not yet arrived. The amounts are settled automatically at the next due date of the contract.

f) Borrowings

Borrowings are initially recognized at cost, being the fair value of their issue proceeds received net of transaction costs incurred. Subsequently borrowings are stated at amortized cost and any difference between net proceeds and the redemption value is recognized in the profit or loss over the period to maturity using the effective interest rate method.

g) Income and expense recognition

Interest income is recognized to the extent that it is probable that the economic benefits will flow to Mikro Kapital and the interest income can be reliably measured.

Interest income and expense is recognized in income statement for all bearing financial instruments carried at gross amount using the effective interest rate method.

The interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the interest rate is applied to the gross carrying amount of the asset or to the amortized cost of the liability.

The 'amortized cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.
The 'gross carrying amount of a financial asset' is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Interest income calculated and presented in the statement of profit or loss includes:

- Interest on financial assets and financial liabilities measured at the accounting value;
- Fee for administration.
- Interest expenses are recognized in profit or loss at the carrying amount.

h) Commission fee income

Fee, granting and administration commissions income and expense are included in the effective interest.

3. Accounting policies (continued)

Other fee and commission income are recognized in accordance with IFRS 15 at a point in time when the related services are performed. Other fee and commission income relate mainly to transaction and service fees, which are incurred as the services are received. These refer mostly to early disbursement fees for loans.

Commission fee income is recognized at the carrying amount of the consideration received or receivable for the services provided in the ordinary course of Mikro Kapital's activities, the granting of loans. Fee and commissions are recognized on an accrual basis when the service has been provided.

i) Property, plant and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Land is not depreciated.

The estimated useful lives of significant items of property and equipment are as follows:

- Buildings .... 40 years;
- IT equipment ....3–5 years;
- Other equipment ....5–10 years.

The right of use related to the rent contracts concluded with partners for the offices rented over the country are also presented as property plan of equipment, considering that it would be their nature if the underlying asset were owned by the Company. As per IFRS 16 – Leases, the asset is calculated as the initial amount of the lease liability, plus any other payments made to the lessor before the lease/contract commencement date, plus any initial direct costs incurred, minus any lease incentives received. The depreciation period for the right-of-use asset is from the lease commencement date to the end of the lease term. At the termination of a contract, the right-of-use asset and associated lease liability are removed from the books of the Company and the difference between the two amounts is accounted for as a profit or loss at that time.

3. Accounting policies (continued)

j) Intangible assets

Acquired computer software licenses are recognized as intangible assets based on the costs incurred to acquire and bring to use the software. Amortization of software is calculated based on straight-line method, considering their useful life according to their description/benefits. Amortization is calculated on a straight-line basis over 3-10 years.

k) Cash and cash equivalents

Cash comprises both cash on hand and in bank. Cash equivalents are short-term, highly liquid investments with a maturity of less than 90 days from the date of purchase, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

l) Contingencies

Contingent liabilities are not recognized in the financial statement but they are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

m) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of economic resources will be required from the Company and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain. The Company recognizes provisions in relation to untaken holidays of employees calculated at the end of the reporting period based on the actual number of untaken days and the daily salary of the employees.

n) Dividend income

Dividend income is recognized when the right to receive income is established or income is determined. Dividends are presented in net financial gain/(loss) line (Note 9)

o) Related parties

A party is related to an entity if:

a) directly, or indirectly through one or more intermediaries, the party:
   - i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries)
   - ii) has an interest in the entity that gives it significant influence over the entity; or
   - iii) has joint control over the entity

b) the party is an associate (as defined in IAS 28, Investments in Associates) of the entity

3. Accounting policies (continued)

c) the party is a joint venture in which the entity is a venture (see IAS 31, Interests in Joint Ventures)

d) the party is a member of the key management personnel of the entity or its parent

e) the party is a close member of the family of any individual referred to in (a) or (d)

f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Related party transaction represents a transfer of resources or obligations between related parties, regardless of whether a price is charged.

p) Taxation

Income tax expense comprises current and deferred tax. It is recognized in profit or loss. Penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognized the related expenses in 'other expenses'.
Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received.

That reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized, reductions are reversed when the probability of future taxable profits improves. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of the deferred tax reflects the tax consequences that would follow the manner in which Mikro Kapital expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.
The nominal tax rate was set at 12% for 2020 and 12% for 2019.

q) Share capital and reserves

The net assets of Mikro Kapital are those assets, which are exempt from the obligations (debts) of Mikro Kapital. The source of the net assets is the equity of Mikro Kapital composed of the authorized capital, additional capital, the reserve fund, undistributed profit as well as out of other resources and means provided for by the legislation in force.

3. Accounting policies (continued)

The net assets shall be calculated according to the inventory (initial) value and, in the cases provided by law, according to the market value. At this moment Mikro Kapital has not formed reserves.

r) Events subsequent to the balance sheet date

Post-year-end events that provide additional information about the Company's position at the balance sheet data (adjusting events) or those that indicate that the going concern assumption is not appropriate are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

s) Comparatives

Except when a standard or an interpretation permits or require otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. NET INTEREST INCOME

	2020	2019
Statement of profit and loss		
Business loans	27,471,882	23,746,444
Agro loans	31,093,144	20,373,019
Home loans	9,540,548	9,705,974
Rapid loans	5,785,259	4,399,280
Consumer loans	3,429,251	977,357
Leasing	156,238	219,564
Total interest income	**77,476,322**	**59,421,638**
Total Interest expense	**(26,367,600)**	**(25,922,875)**
Net interest income	**51,108,722**	**33,498,763**

Net interest income measures the return of borrowed funds calculated on effective interest rate method. The interest rate included nominal rate and all fees and commissions related to a loan (granting commissions, administration fees) for both granted and contracted loans.

Compared with the previous period, an increase of 30% in net interest income was realized, because of the increase of Agro Loans and Business loans.

5. FEE AND COMMISSION INCOME

	2020	2019
Statement of profit and loss		
Fee and commission income	630,945	605,979
Fee and commission expense	(19,640)	-
Net Fee and commission income	**611,305**	**605,979**

5. FEE AND COMMISSION INCOME (continued)

The table above shows the fee and commissions which are not included in the computation of interest income with effective interest rate method, and for both period, 2020 and 2019, it was represented by early payment commissions of loans granted to clients.

6. NET GAIN/(LOSS) FROM OTHER OPERATING ACTIVITIES

	2020	2019
Statement of profit and loss		
Net gain / loss from loans recovered / written off	(2,986,319)	(788,829)
Other income from other operating activities	358,830	722,551
Net gain / loss from other operating activities	**(2,627,489)**	**(66,278)**

During 2020 the Company decided to write off some old loan contracts for clients without payments during the year. However, the Company`s policy assumes that for those contracts are still monitored and each legal procedure is undertaken in order to recover the amounts. All the collections realized on these contracts will be recognized as an income from loans recovered.

At the beginning of the year, the Management has decided to sale the Company`s shares (30%) owned in the entity "OK Credit SRL" with the same acquisition price paid in 2017, MDL 623,700, so the net result did not have any impact in the financial statements.

7. OTHER EXPENSES

	2020	2019
Statement of profit and loss		
Taxes Other Than Income Tax	3,138,049	2,218,360
Marketing/Advertising	1,669,681	1,581,618
Professional Services	1,541,189	2,634,506
Bank Charges	569,536	356,814
Miscellaneous	461,072	353,263
Office & Equipment Maintenance	395,271	299,301
Vehicle Operating Cost	203,321	145,370
Office supplies	191,459	125,006
Utilities	177,790	233,710
Communications	167,490	151,713
Agent's commission on clients attraction	86,702	28,618
License/Memberships	35,073	27,796
Travel Expenses	23,889	97,651
Training Expenses	11,536	173,843
Protocol expenses	10,764	21,284
Total other expenses	**8,682,822**	**8,448,853**

7. OTHER EXPENSES (continued)

Other expenses have recorded a slight increase during 2020 compared with 2019, the most important type of services acquired being related to:

- **Taxes other than income tax** include local taxes, taxes related to interest expense paid, value added tax for imported services, and regulatory payment to the National Commission of Financial Market (NCFM). The amount has increased compared to 2019, as a result of increase in interests and commissions paid to lenders, respectively increases in withholding taxes calculated for these. Because of the increasing portfolio by 30% the tax to NCFM increased as well.

- **Marketing / Advertising** are related to contracts concluded starting with 2019 period, when the rebranding process was started by the Company. The level of expense has recorded a slight increase during the year in order to sustain the marketing strategy adopted.

- **Professional Services** represents consulting, audit and other services provided by the different providers mostly from the country. There was recorded a decrease mostly due to the cancellation of contract concluded with the related party from Russia (Mikro Kapital Corporative LLC), which has provided consulting services in the prior period.

8. STAFF AND MANAGEMENT EXPENSES

	2020	2019
Statement of profit and loss		
Salaries and bonuses	12,118,410	10,252,758
Social and medical security expenses	2,702,783	2,210,412
Untaken holidays provision expense	274,901	175,088
Provision expense for staff's bonus	712,153	-
Total	**15,808,247**	**12,638,258**

	2020	2019
Statement of profit and loss		
Loans officers	8,264,940	7,223,988
Administrative personnel	3,283,445	2,060,691
Management	3,226,553	3,178,491
Other staff costs	46,255	-
Total	**14,821,193**	**12,463,170**
Untaken holidays provision expense	274,901	175,088
Provision expense for staff's bonus	712,153	-
Total personnel expenses	**15,808,247**	**12,638,258**

8. STAFF AND MANAGEMENT EXPENSES (continued)

Staff and management expenses include salaries, bonuses, social security and medical insurance expenses, and during 2020 have recorded an increase as a result of the increase of average number of employees from 46 at the end of 2019 to 61 at 31 December 2020. New employees were hired in the administrative department during the year, in order to ensure the development of the Company.

The Company`s management was represented at 31 December 2020 by the chief executive officer, the chief financial officer, 2 regional managers and one marketing manager (as for 31 December 2019).

	2020	2019
Statement of profit and loss		
# Loans officers	41	33
# Administrative personnel	15	8
# Management	5	5
Total number of personnel	**61**	**46**

9. NET FINANCIAL PROFIT/(LOSS)

	2020	2019
Statement of profit and loss		
Dividends received	108,407	235,716
Other revenue related Covid situation	107,658	-
FX gain / loss	(2,056,310)	(2,156,192)
Net financial profit/(loss)	**(1,840,245)**	**(1,920,476)**

As a result of foreign currencies exchange rates evolution during 2020, the Company net financial result was a loss in amount of MDL 2,056,310. For more information exchange rate risk, please see Note 25.1.a

Dividend income was the result of profit obtained by OK Credit SRL. However, at the beginning of the year, the 30% of shares owned by the Company have been sold to initial owners.
Other revenue related to Covid situation represent revenue from discount of rent paid for the office locations.

10. INCOME TAX

	2020	2019
Statement of profit and loss		
Loss/(profit) before tax	**9,259,582**	**7,529,164**
Rate of income tax	12%	12%
Income tax theoretically	**1,111,150**	**903,500**
Non-taxable income	(108,408)	-
Non-deductible expenses	624,251	14,974,659
Tax losses carried forward from previous tax periods	-	-
Temporary differences effect	(986,822)	(1,747,450)
Effect of differences	**(56,518)**	**1,587,265**
Income tax expense	**1,054,632**	**2,490,765**

Income tax expense is computed based on the nominal tax rate of 12% (2019: 12%).
Due to the changes in local legislation regarding the elimination of the deductibility threshold for the interest expense paid, the Company has booked a significant increase in deductible expense, which generated a lower income tax to be paid. Effective tax rate was 11% (2019: 33%).

11. CASH AND CASH EQUIVALENTS

	31 Dec. 2020	31 Dec. 2019
Assets		
Cash in current accounts CCY	1,632,301	182,679
Cash in current accounts FCY	18,410,638	106,283
Other cash items	230,310	5,993,449
Cash and cash equivalents	**20,273,249**	**6,282,411**

The company's cash is solely in bank accounts at different banks from Republic of Moldova and the amounts in foreign currency are recorded in financial statements in MDL at the NBM exchange rate at the reporting date.

The increase recorded in 2020 compared to 2019 was the result of higher level of borrowings received compared with the loans granted to customers in the period, as presented on the Company's cash-flow.

Other cash items are represented by amounts of cash in transit transferred from financing partners through banks but yet not received at the end of reporting period.

12. LOANS GRANTED TO CUSTOMERS

	31 Dec. 2020	31 Dec. 2019
Assets		
Gross loans to customer <1 year	172,695,578	126,061,697
Gross loans to customer > 1year	192,025,099	151,297,718
Total Gross book of active loans (principal)	**364,720,677**	**277,359,415**
Accrued interest from loans	7,052,990	3,189,580
Gross Loan Portfolio	**371,773,667**	**280,548,995**
Impairment losses of loans	(19,889,825)	(9,376,234)
Loans granted to customers	**351,883,841**	**271,172,761**

The impairment losses regarding loans receivables at the end of both period (2020 and 2019) were calculated based on IFRS 9 methodology. It was recorded an increase at December 2020 compared with prior year mostly as a result of the increase of Company`s portfolio but also due to the uncertain situation with the new restrictions with the pandemic situation and a prudential approach. The coverage of impairment was around 5.3% out of gross amount of receivable, with an increase by 2% compared with December 2019.

In order to ensure the financing sources, the Company had made pledges on the loan portfolio, as it is presented in ***Note 19 - Borrowings from banks and creditors.***

The tables below are represented at the carrying principal outstanding amount:

a) Distribution by Product

	31-Dec-2020		31-Dec-2019	
Assets	**Active loans**	**%**	**Active loans**	**%**
Business	130,445,903	35.8%	107,389,624	38.7%
Agro	153,133,384	42.0%	96,525,126	34.8%
Home	53,206,502	14.6%	51,733,862	18.7%
Rapid loans (for business)	14,750,363	4.0%	14,227,089	5.1%
Consumers	13,184,525	3.6%	7,483,714	2.7%
Total	**364,720,677**	**100.0%**	**277,359,415**	**100.0%**

b) Distribution by collateral

	31-Dec-2020		31-Dec-2019	
Assets	**Active loans**	**%**	**Active loans**	**%**
Hard collateral	221,388,684	66.84%	158,173,188	57.03%
Soft collateral	24,542,012	0.50%	7,358,078	2.65%
Guarantor	118,759,893	32.65%	111,726,980	40.28%
Unsecured	30,088	0.01%	101,169	0.04%
Total	**364,720,677**	**100.00%**	**277,359,415**	**100.00%**

12. LOANS GRANTED TO CUSTOMERS (continued)

c) Distribution by branch

	31-Dec-2020				31-Dec-2019			
Assets	**Granted Loans***	**%**	**Active loans**	**%**	**Granted loans***	**%**	**Active loans**	**%**
Chisinau	79,452,172	27.0%	115,829,915	31.8%	89,576,857	37.1%	106,974,027	38.6%
Balti	51,291,095	17.4%	62,658,357	17.2%	49,654,406	20.6%	57,514,268	20.7%
Soroca	46,341,636	15.7%	51,421,051	14.1%	36,384,076	15.1%	37,670,092	13.6%
Drochia	22,126,818	7.5%	28,665,746	7.9%	19,713,189	8.2%	26,595,994	9.6%
Comrat	33,684,692	11.4%	44,224,003	12.1%	30,452,332	12.6%	32,914,205	11.9%
Edinet	26,976,245	9.2%	30,405,245	8.3%	15,459,291	6.4%	15,488,225	5.6%
Cahul	14,906,294	5.1%	12,845,960	3.5%	201,504	0.1%	202,604	0.1%
Chisinau 2	19,579,872	6.7%	18,670,400	5.1%	-	-	-	-
Total	**294,358,824**	100%	**364,720,677**	100%	**241,441,655**	100%	**277,359,415**	100%

*Granted loans represent the gross amount disbursed by each location during the year.

13. OTHER ASSETS AND RECEIVABLES

	31 Dec. 2020	31 Dec. 2019
Assets		
Tax prepayment	2,379,620	131,064
Inventories	519,688	170,221
Trade receivables	160,214	442,573
Guarantees granted	103,185	58,869
Promotional materials and office maintenance	101,855	97,284
Other assets	38,503	-
Other assets and receivables	**3,303,065**	**900,011**

The tax prepayment included in table above is related to the income tax paid in advance during the year.

14. FINANCIAL INVESTMENT

	31 Dec. 2020	31 Dec. 2019
Assets		
Financial investment	-	623,700
Restricted Cash (deposits with local banks, money reserves on deposits)	11,431,138	-
Financial investment	**11,431,138**	**623,700**

Restricted cash is a deposit made based on a contract concluded with BC "Moldindcombank" S.A. in August 2020, with annual interest rate of 0.01%, with the right to deposit and withdraw the amounts till the maturity date, 13 August 2024. Actually, it represents a guarantee for a credit line contracted from the bank.

14. FINANCIAL INVESTMENT (continued)

Financial investment decreased by 100% due too the sales of shares owned in OCN OK Credit SRL at the selling price equal to the initial book value of the investment, MDL 623,700.

15. PROPERTY AND EQUIPMENT

Assets	Property and equipment	Vehicles	Right of use	Total
As of 31.12.2019 – Gross book value	**989,878**	**1,204,568**	**5,396,156**	**7,590,602**
Depreciation as of 31.12.2019	503,101	135,721	2,857,332	**3,496,154**
Net book value as of 31.12.2019	**486,777**	**1,068,847**	**2,538,824**	**4,094,448**
Additions	1,511,776	175,392	5,472,823	**7,159,991**
Depreciation charge for the year	348,791	179,885	2,225,023	**2,753,699**
As of 31.12.2020 – Gross book value	**2,501,654**	**1,379,960**	**10,868,979**	**14,750,593**
Depreciation charge as of 31.12.2020	851,892	315,606	5,082,355	**6,249,853**
Net book value as of 31.12.2020	**1,649,762**	**1,064,354**	**5,786,624**	**8,500,740**

The Company`s most important fixed assets at the end of 2019 and 2020 were represented by vehicles used by own employees in active sales. Significant additions booked during the year were related to the modernisation performed at the head office during the year.

Following the IFRS 16 implementation a right of use and related depreciation was recognized in connection to operating lease contracts for offices of the Company in the entire country. At 31 December 2020 the Company has in force 8 rent contracts concluded with suppliers for a period greater than 12 months (usually 36 months), from which two were signed during 2020.

During the year, the Company reassessed the presentation of the right-of-use assets in relation to IFRS 16 provisions, and reclassified the right-of-use of buildings from intangible assets to property, plant and equipment in the statement of financial position as at 31 December 2020 and 1 January 2020. No modification in the statement of comprehensive income, statement of cash flows and statement of changes in equity were necessary.

16. INTANGIBLE ASSETS

Assets	Brands	Computer software	Total
As of 31.12.2019	**21,385**	**1,089,752**	**1,111,137**
Amortization as of 31.12.2019	6,128	346,179	**352,307**
Net book value as of 31.12.2019	**15,257**	**743,573**	**758,830**
Additions	-	260,898	**260,898**
Amortization charge for the year	2,333	232,020	**234,353**
As of 31.12.2020	**21,385**	**1,350,650**	**1,372,035**
Amortization as of 31.12.2020	8,461	578,199	**586,660**
Net book value as of 31.12.2020	**12,924**	**772,451**	**785,376**

Intangible assets owned by the Company are mostly related to computer, software and licenses used in operating activity.

During the year, the Company reassessed the presentation of the right-of-use assets in relation to IFRS 16 provisions, and reclassified the right-of-use of buildings from intangible assets to property, plant and equipment in the statement of financial position as at 31 December 2020 and 1 January 2020. No modification in the statement of comprehensive income, statement of cash flows and statement of changes in equity were necessary.

17. TRADE AND OTHER LIABILITIES

	31 Dec. 2020	31 Dec. 2019
Liabilities		
Employee liabilities	1,699,911	1,337,116
Other current liabilities	1,455,160	296,524
Income tax payable	-	629,991
Trade payables	161,800	197,704
Other Tax liabilities	93,835	72,951
Other liabilities	51,527	42,348
Foreign trade payables	52,817	796
Trading liabilities	**3,515,050**	**2,577,430**

At the end of December 2020, the most important liabilities were related to employees (salaries and taxes related to December salaries), also other current liabilities representing withholding tax payable related to interest paid for borrowings received from abroad.

18. LEASE LIABILITY

	31 Dec. 2020	31 Dec. 2019
Liabilities		
Lease liability	6,230,366	2,538,824
Lease liability	**6,230,366**	**2,538,824**

Lease liability presented by the Company is related to the operating lease contracts in force for the offices from the entire country after the adoption of IFRS 16 – Leases.

During 2020 two new lease contracts were signed for Drochia (additional agreement of prolongation) and Chisinau, str. Calea Iesilor – headquarter and new branch. (During 2019, 3 new contracts were signed).

19. BORROWINGS FROM BANKS AND CREDITORS

	31 Dec. 2020	31 Dec. 2019
Liabilities		
Borrowings in CCY	82,384,516	72,875,993
Borrowings in FCY	160,299,178	104,368,294
Total	**242,683,694**	**177,244,287**
Borrowings in country	18,110,011	3,941,873
Borrowings abroad	224,573,683	173,302,414
Total	**242,683,694**	**177,244,287**
Short term borrowed funds	71,783,060	49,711,990
Long term borrowed funds	170,900,634	127,532,297
Total	**242,683,694**	**177,244,287**
Short term interest	2,835,130	1,873,870
Long term interest	48,811,748	37,592,164
Total	**51,646,878**	**39,466,034**
Borrowings from banks and creditors	**294,330,572**	**216,710,321**

The Company`s needs of financing to maintain the development of activity and capacity of granting loans, have determined a significant increase of borrowings contracted from other financing sources. However, the shareholder`s weight in total borrowings received has remained significant.

Most of the borrowed funds at 31 December 2020 were on long term position (42% out of total) (31 December 2019: 76%), the average period of maturity for a contract concluded being 42 months. In order to obtain the contracts, the Company`s pledge in favour of partner was at 31 December 2020 by MDL 113,740,681 (31 December 2019: MDL 71,190,768).

19. BORROWINGS FROM BANKS AND CREDITORS (continued)

Please see below the split and evolution of Company`s borrowings by source of financing:

	31 Dec. 2020		31 Dec. 2019	
	Principal	**Interest**	**Principal**	**Interest**
Other financing	149,434,358	1,614,625	98,021,680	1,336,519
Shareholder loans	75,396,394	49,985,182	76,722,607	38,129,515
Bank	17,852,942	47,071	2,500,000	-
Total	**242,683,694**	**51,646,878**	**177,244,287**	**39,466,034**

The interest balance booked by the Company at the end of 2020 (MDL 51,646,878) was significantly higher than in December 2019 (MDL 39,466,034), mostly as a result of the higher amounts received during the year, but also due to the decrease in the interest rate of new loans contracted.

20. ADVANCES FROM CUSTOMERS

	31 Dec. 2020	31 Dec. 2019
Liabilities		
Advances from customers	4,025,837	3,459,399
Advances from customers	**4,025,837**	**3,459,399**

These are advances received from customers for the payment of contractual obligations to which the due date has not yet arrived.

21. PROVISIONS

	31 Dec. 2020	31 Dec. 2019
Liabilities		
Provisions	1,764,905	777,851
Provisions	**1,764,905**	**777,851**

The provisions booked are only related to the Company`s employees, the most important part being for untaken holidays, MDL 1,052,755 (2019: MDL 777,851) and the remaining for the bonuses related to 2020 period, MDL 712,153 (2019 – nil).

22. DEFERRED TAX

Liabilities	31 Dec. 2020	31 Dec. 2019
Deferred tax liabilities	1,019,972	118,779
Deferred tax	**1,019,972**	**118,779**

22. DEFERRED TAX (continued)

Deferred tax liabilities reported by the Company are related to the temporary differences recorded between the statutory books and the IFRS financial statements approach regarding loans receivables revaluation and provisions for untaken holidays and provisions for staff's bonus (the most important part of the amount at December 2020).

23. EQUITY

	31 Dec. 2020	31 Dec. 2019
Equity		
Share capital	73,454,605	54,018,406
Reserves	2,700,920	2,700,920
Retained earnings	9,135,181	930,231
Total Equity	**85,290,706**	**57,649,557**

The sole shareholder is Alternative Fund managed by Mikro Kapital Management S.A., holding 100% of Mikro Kapital. The whole share capital is issued and fully paid, the last increase of it being during 2020 for MDL 19,436,200.

24. RELATED PARTY TRANSACTIONS

The 100% shareholder of Mikro Kapital is a fund of securitization, Alternative Fund managed by Mikro Kapital Management, registered in Luxembourg and the ultimate controlling party is Vincenzo Trani. The Alternative Fund is an important lender of the company. Please see below the list of related parties, balance at December 2020 and transactions recorded during the year.

a) List of related parties

No	List of Related Party	Type of relation	Country of origin
1	Alternative Securitisation Fund RCS managed by Mikro Kapital Management	Parent of Mikro Kapital Company LLC	Luxembourg
2	Turcanu Sergiu	Administrator	Republic of Moldova
3	Vincenzo Trani	Final beneficiary	Italia
4	Eryomin Aleksandr	Member of board	Russia
5	Choroyan Grigory	Head of board	Russia
6	Marney Richard	Member of board	Great Britain
7	Chitoroaga Natalia	CFO	Republic of Moldova
8	Galbura Eugeniu	Risk manager	Republic of Moldova
9	Girleanu Constantin	Regional manager South	Republic of Moldova
10	Edu Inna	Regional manager North	Republic of Moldova

24. RELATED PARTY TRANSACTIONS (continued)

24. RELATED PARTY TRANSACTIONS (continued)

b) Balances in relation with related parties (all amounts in MDL)

No	Name of the Company/Person	Type of transaction	Balance as of 31.12.2020 (MDL)	Balance as of 31.12.2019 (MDL)
1	Alternative Securitisation Fund RCS managed by Mikro Kapital Management	Shares owned in Company	73,454,605	54,018,405
		Borrowings received by Company	75,396,394	76,461,828
		Interest accrued for borrowings	45,985,181	38,129,515
2	Turcanu Sergiu	Loans Granted	-	16,009
		Accrued interest for loans granted	-	116
3	Vincenzo Trani	-	-	-
4	Eryomin Aleksandr	-	-	-
5	Choroyan Grigory	-	-	-
6	Marney Richard	-	-	-
7	Chitoroaga Natalia	-	-	-
8	Galbura Eugeniu	-	-	-
9	Girleanu Constantin	-	-	-
10	Edu Ina	-	-	-

24. RELATED PARTY TRANSACTIONS (continued)

c) Transactions in relation with related parties during 2020 and 2019 (all amounts in MDL)

1. ***Sales / Loans granted:***

No	Name of the Company/Person	Type of transaction	Amount 2020	Amount 2019
1	Alternative Securitisation Fund RCS managed by Mikro Kapital Management	-	-	-
2	Turcanu Sergiu	Loans Granted		

24. RELATED PARTY TRANSACTIONS (continued)

		Accrued interest for loans granted	94	6,035
		Borrowings received	16,009	90,621
		Interest received	210	6,689
3	Vincenzo Trani	-	-	-
4	Eryomin Aleksandr	-	-	-
5	Choroyan Grigory	-	-	-
6	Marney Richard	-	-	-
7	Chitoroaga Natalia	-	-	-
8	Galbura Eugeniu	-	-	-
9	Girleanu Constantin	Loans Granted	150,000	-
		Accrued interest for loans granted	2,458	-
		Borrowings received	150,000	-
		Interest received	2,458	-
10	Edu Ina	-	-	-

24. RELATED PARTY TRANSACTIONS (continued)

2. **Acquisition / Borrowings:**

No	Name of the Company/Person	Type of transaction	Amount 2020	Amount 2019
1	Alternative Securitisation Fund RCS managed by Mikro Kapital Management	Borrowings received	31,172,839	29,933,455
		Interest accrued	15,230,832	18,215,518
		Borrowings paid	32,238,273	81,381,840
		Interest paid	3,375,166	14,440,240
		Equity increase	19,436,200	6,779,080
		Acquisition according to forward agreement	1,877,937	
		Payments according to forward agreement	1,877,937	
2	Turcanu Sergiu	-	-	-
3	Vincenzo Trani	-	-	-
4	Eryomin Aleksandr	-	-	-
5	Choroyan Grigory	-	-	-
6	Marney Richard	-	-	-
7	Chitoroaga Natalia	-	-	-
8	Galbura Eugeniu	-	-	-
9	Girleanu Constantin	-	-	-
10	Edu Ina	-	-	-

25. RISK MANAGEMENT

Introduction and overview

Mikro Kapital's Board of Directors has the overall responsibility for the establishment and oversight of Mikro Kapital's risk management framework. The Board of Directors has established Mikro Kapital Management Committee, which is responsible for approving and monitoring Mikro Kapital risk management policies.

Mikro Kapital's risk management policies are established to identify and analyse the risks faced by Mikro Kapital, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and Mikro Kapital's activities. Mikro Kapital, through its training and management standards and procedures, aims to develop a discipline and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with Mikro Kapital's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by Mikro Kapital. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

Mikro Kapital is exposed to market price risk, interest rate risk, credit risk, liquidity risk, operational risk, compliance risk, litigation risk, reputation risk and capital management arising from the financial instrument it holds. The risk management policies employed by Mikro Kapital to manage these risks are discussed below:

a. Market price risk

'Market risk' is the risk that changes in market prices – e.g. interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) – will affect Mikro Kapital's income or the value of its holdings of financial instruments.

The objective of Mikro Kapital's market risk management is to manage and control market risk exposures within acceptable parameters to ensure Mikro Kapital's solvency while optimizing the return on risk.

Overall authority for market risk is vested in Management. Management sets up limits for each type of risk in aggregate and for portfolios, with market liquidity being a primary factor in determining the level of limits set for portfolio.

a) Foreign exchange risk

The Company takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates (i.e. the USD / MDL and EUR / MDL exchange rates) on its financial position and cash flows. The Board sets limits on the level of exposure by currency positions, which are monitored daily. The table below summarizes the Company's exposure

25. RISK MANAGEMENT (continued)

to foreign currency exchange rate risk at 31 December. Included in the table are the Company's financial instruments denominated in foreign currencies at carrying amounts, categorized by currency.

31 Dec. 20	USD	EUR	MDL	Total
Assets				
Cash and cash equivalents	8,655	18,401,983	1,862,611	**20,273,249**
Financial investment (net)	-	11,431,138	-	**11,431,138**
Loans granted to customers	-	135,054,686	216,829,155	**351,883,841**
Other assets	2,177	38,726	3,262,163	**3,303,066**
Total financial assets	**10,832**	**164,926,533**	**221,953,929**	**386,891,294**
Liabilities				
Borrowings from banks and other parties	-	174,676,400	119,654,172	**294,330,572**
Advances for customer	-	2,414,557	1,611,280	**4,025,837**
Lease Liabilities	-	6,047,721	182,645	**6,230,366**
Total liabilities	-	**183,138,678**	**121,448,097**	**304,586,775**
Net on balance sheet	**10,832**	**(18,212,145)**	**100,505,832**	**82,304,519**

31 Dec. 19	USD	EUR	MDL	Total
Assets				
Cash and cash equivalents	9,271	5,198,637	1,074,502	**6,282,411**
Loans granted to customers	-	126,998,394	144,174,367	**271,172,761**
Other assets	-	-	900,011	**900,011**
Total financial assets	**9,271**	**132,197,031**	**146,148,880**	**278,355,183**
Liabilities				
Borrowings from banks and other parties	-	114,762,511	101,947,810	**216,710,321**
Lease Liabilities	-	2,040,493	498,330	**2,538,824**
Total liabilities	-	**116,803,004**	**102,446,140**	**219,249,145**
Net on balance sheet	**9,271**	**15,394,027**	**43,702,740**	**59,106,038**

At 31 December 2020, if the MDL had strengthened/(weakened) 10 per cent against the EUR with all other variables held constant, the post-tax profit for the twelve-month period ended 31 December 2020 would have been approximately MDL 1,821,215/ MDL (1,821,215), (2019: MDL 1,539,403/ MDL (1,539,403) higher / lower.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Borrowings issued at variable rates expose Mikro Kapital to cash flow interest rate risk. Borrowings issued at fixed rates

25. RISK MANAGEMENT (continued)

expose Mikro Kapital to fair value interest rate risk. Mikro Kapital's management monitors the interest rate fluctuations on a continuous basis and acts accordingly. At the reporting date the interest rate profile of interest-bearing financial instruments was:

Type	Fixed rate MDL	Floating rate MDL	Total
Loans granted to customers	371,773,666	-	**371,773,666**
Bank deposits	11,431,138	-	**11,431,138**
Borrowings from banks and other parties	214,775,645	79,554,927	**294,330,572**
Net impact	**597,980,449**	**79,554,927**	**677,535,376**

Changes in base interest rate, in bps	Loans granted to customers	Bank Deposits	Borrowings from creditors	Net impact of change in interest rate
+/-100	-	-	+/- 795,549	+/- 795,549
+/-200	-	-	+/-1,591,098	+/-1,591,098
+/-300	-	-	+/-2,386,647	+/-2,386,647

As significant part of financial assets and liabilities is based on fixed rate interest, the repricing is mostly according to maturity for fixed interest and is similar to the disclosure in the liquidity note.

b. Credit risk

'Credit risk' is the risk of financial loss to Mikro Kapital if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from Mikro Kapital's loans and advances to customers. For risk management reporting purposes, Mikro Kapital considers and consolidate all elements of credit risk exposure – e.g. individual obligor default risk, sector risk.

Mikro Kapital's activities may give rise to risk at the time of settlement of transactions and trades.

'Settlement risk' is the risk of loss due to the failure of an entity to honours its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transaction, Mikro Kapital mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free-settlement trades requires transaction-specific or counterparty-specific approvals from Mikro Kapital Risk.

The Board of Directors created the Group Credit Committee for the oversight of credit risk.

Separately Mikro Kapital Credit Committee, reporting to the Group Credit Committee, is responsible for managing Mikro Kapital's credit risk, including the following.

— *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

— *Establishing the authorization structure* for the approval and renewal of credit facilities.

Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by the Head of Group Credit, the Group Credit Committee or the Board of Directors, as appropriate.

25. RISK MANAGEMENT (continued)

— *Reviewing and assessing credit risk*: Group Credit Committee assesses all credit exposures in excess of designated limits, before facilities are committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
— *Limiting concentrations of exposure* to region parties, geographies and industries (for loans and advances, financial guarantees and similar exposures), and by issuer, credit rating band, market liquidity.
— *Developing and maintaining Mikro Kapital's risk grades* to categorize exposures according to the degree of risk of default. The current risk grading framework consists of few grades reflecting varying degrees of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by Mikro Kapital Risk.
— *Developing and maintaining Mikro Kapital's processes for measuring expected credit losses* (ECL). This includes processes for:

- initial approval, regular validation and back-testing of the models used;
- determining and monitoring significant increase in credit risk; and
- incorporation of forward-looking information.

— *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to Group Credit, which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.
— *Providing advice, guidance and specialist skills* to business units to promote best practice throughout Mikro Kapital is in charge with the management of credit risk. Each business unit is required to respect Mikro Kapital credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. Mikro Kapital has a Chief Credit Risk Officer who reports on all credit-related matters to local management and the Group Credit Committee. Also, each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subjects to central approval.

Regular audits of business units and Mikro Kapital Credit processes are undertaken by Internal Audit.

25. RISK MANAGEMENT (continued)

Indicator name	2020	2019
Portfolio at Risk (PAR) > 30 Ratio	**2.8%**	**2.3%**
PAR > 30 Days	10,387,629	6,507,129
Gross Loan Portfolio	371,773,666	280,548,995
Portfolio at Risk (PAR) > 30 and Renegotiated Loans	**8.3%**	**4.7%**
PAR > 30 Days + Value of Renegotiated Loans	30,932,146	13,133,245
Gross Loan Portfolio	371,773,666	280,548,995
Write off Ratio	**1.0%**	**0.3%**
Value of Loans Written Off	3,235,135	788,829
Average gross portfolio	326,161,331	249,335,226
Risk Coverage Ratio	**191.5%**	**144.1%**
Impairment Loss Allowance	19,889,825	9,376,234
PAR > 30 Days	10,387,629	6,507,129
Risk Coverage Ratio (includes renegotiated loans)	**64.3%**	**70.3%**
Impairment Loss Allowance	19,889,825	9,376,234
PAR > 30 Days + Value of Renegotiated Loans	30,932,146	13,342,156
Open Credit Exposure Ratio	**-11.1%**	**-5.0%**
Portfolio at risk >30 days - Impairment Loss Allowance	(9,502,196)	(2,869,105)
Total Equity	85,290,706	57,649,557
Open Credit Exposure Ratio incl. Renegotiated Loans	**12.9%**	**6.9%**
Portfolio at risk >30 days + Renegotiated loans - Impairment Loss Allowance	11,042,321	3,965,922
Total Equity	85,290,706	57,649,557
Provisioning Expense Ratio	**3.2%**	**0.6%**
Impairment Losses on Loans	10,513,591	1,545,612
Average gross loan portfolio	326,161,331	249,335,226
Portfolio to Assets	**93.8%**	**98.8%**
Gross loan portfolio	371,773,666	280,548,995
Assets	396,117,407	283,832,161

Credit risk measurement

In measuring credit risk of loan and advances to customers and to Company at a counterparty level, the Company reflects three components:

(i) the 'probability of default' by the client or counterparty on its contractual obligations;
(ii) current exposures to the counterparty and its likely future development, from which the Company derive the 'exposure at default'; and
(iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

25. RISK MANAGEMENT (continued)

The table below shows the percentage of the Company's on-balance sheet items relating to loans contracts and the associated impairment provision for each stage of contract from loan portfolio:

31 Dec. 20

Data on PAR	Stage 1	Stage 2	Stage 3
Current Portfolio	277,156,982	60,047,143	-
Portfolio at Risk 1 to 30 days	10,700,011	13,481,901	-
Portfolio at Risk 31 to 90 days	-	2,679,199	736,144
Portfolio at Risk more than 90 days	-	63,933	6,908,353
Total Gross book value	**287,856,993**	**76,272,176**	**7,644,497**
Impairment	**11,200,360**	**4,453,983**	**4,235,482**

31 Dec. 19

Data on PAR	Stage 1	Stage 2	Stage 3
Current Portfolio	265,402,357	-	-
Portfolio at Risk 1 to 30 days	8,201,129	-	-

25. RISK MANAGEMENT (continued)

Portfolio at Risk 31 to 90 days	-	3,200,599	-
Portfolio at Risk more than 90 days	-	-	3,744,910
Total Gross book value	**273,603,486**	**3,200,599**	**3,744,910**
Impairment	**7,476,402**	**680,829**	**1,219,003**

25. RISK MANAGEMENT (continued)

Also, the tables below present the reconciliation of gross and allowance balances during the period:

	Total	Stage 1	Stage 2	Stage 3
Gross carrying amount as at 1 January 2020	**280,548,995**	**273,603,487**	**3,200,598**	**3,744,910**
New assets originated or purchased	294,358,824	294,358,824	-	-
Assets derecognized or repaid (excluding write-offs)	(134,621,991)	(132,681,608)	(1,034,072)	(906,311)
Variation in stages:				
Increase (decrease) in stage 1	(64,038,680)	(64,038,680)	-	-
Increase (decrease) in stage 2	(332,880)	-	(332,880)	-
Increase (decrease) in stage 3	(905,466)	-	-	(905,466)
Transfers to stages:				
Transfers from stage 1 to stage 2	-	(76,194,337)	76,194,337	-
Transfers from stage 1 to stage 3	-	(7,251,298)	-	7,251,298
Transfers from stage 2 to stage 1	-	60,614	(60,614)	-
Transfers from stage 2 to stage 3	-	-	(1,695,201)	1,695,201
Transfers from stage 3 to stage 2	-	-	-	-
Write off loans	(3,235,136)	-	-	(3,235,136)
Gross carrying amount as at 31 December 2020	**371,773,666**	**287,857,002**	**76,272,168**	**7,644,496**

	Total	Stage 1	Stage 2	Stage 3
Impairment allowance as at 1 January 2020	(9,376,235)	(7,476,402)	(680,830)	(1,219,003)
New assets originated or purchased	(10,390,349)	(10,390,349)	-	-
Assets derecognized or repaid (excluding write-offs)	3,119,987	2,603,136	219,048	297,803
Variation in stages:				
Increase (decrease) in stage 1	(428,363)	(428,363)	-	-
Increase (decrease) in stage 2	19,588	-	19,588	-
Increase (decrease) in stage 3	(209,720)	-	-	(209,720)
Transfers to stages:	(5,859,869)	(4,037,060)	(1,187,895)	(634,914)
25. RISK MANAGEMENT (continued)				
Transfers from stage 1 to stage 2				
Transfers from stage 1 to stage 3	-	4,440,134	(4,440,134)	-
Transfers from stage 2 to stage 1	-	4,094,161	-	(4,094,161)
Transfers from stage 2 to stage 3	-	(5,617)	5,617	-
Transfers from stage 3 to stage 2	-	-	1,610,622	(1,610,622)
Write off loans	(3,235,136)	-	-	(3,235,136)
Impairment allowance as at 31 December 2020	**(19,889,825)**	**(11,200,360)**	**(4,453,984)**	**(4,235,481)**

25. RISK MANAGEMENT (continued)

The maximum credit risk exposure

The below table represents a maximum credit risk exposure to the Company as at 31 December 2020 and 31 December 2019, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet. As shown below, the most important part of the total maximum exposure is derived from loans granted to customers, 92% (2019: 98%).

	Maximum exposure	
	2020	2019
Maximum credit risk exposures are as follows:		
Financial assets at cost	11,431,138	623,700
Cash and cash equivalents	20,273,249	6,282,411
Loans granted to customers:		
– Individuals	**637,644**	**338,395**
Loans to corporate entities:	**364,083,033**	**277,021,020**
– Micro & Small business	208,339,115	181,026,839
– Medium business	89,134,251	63,919,828
– Large business	66,609,667	32,074,353
Credit risk exposures relating to off-balance sheet		
Loan commitments and other credit related liabilities	-	-
As at 31 December	**396,425,064**	**284,265,526**

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Company resulting from both its loan and advances portfolio based on the following:

- 77% of the loans and advances portfolio is categorised in the first stage of the impairment (2019: 98%);
- Loans to individuals represent 0.2% from the loan portfolio (2019: 0.1%);

25. RISK MANAGEMENT (continued)

Loans granted to customers are summarized as follows by type of client:

Type	Stage 1	Stage 2	Stage 3	31-Dec-20	31-Dec-19
– Individuals	641,941	-	-	641,941	338,395
– Micro & Small business	168,951,074	38,927,632	4,582,173	212,460,879	181,026,839
– Medium business	74,768,175	14,136,158	1,969,495	90,873,828	63,919,828
–Large business	43,495,811	23,208,378	1,092,829	67,797,018	32,074,352
Total Gross	**287,857,001**	**76,272,168**	**7,644,497**	**371,773,666**	**277,359,415**
Impairment	*(11,200,360)*	*(4,453,983)*	*(4,235,482)*	*(19,889,825)*	*(9,376,234)*
Net amount	**276,656,641**	**71,818,185**	**3,409,015**	**351,883,841**	**267,983,181**

The financial effect of collateral is presented by disclosing collateral values separately for (i) those assets where collateral and other credit enhancements are equal to or exceed carrying value of the asset ("over-collateralized assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-collateralized assets").

The effect of collateral at 31 December 2020 and 31 December 2019:

a) Split by type of collateral

	31 Dec. 2020		**31 Dec. 2019**	
Distribution by collateral	**Gross book value**	**Collateral amount**	**Gross book value**	**Collateral amount**
Hard collateral	225,127,727	453,825,616	158,173,188	253,192,580
Guarantor	121,457,449	121,457,449	111,726,980	111,726,980
Soft collateral	25,157,964	54,378,630	7,358,078	8,851,504
Unsecured	30,526	-	101,169	-
Total	**371,773,666**	**629,661,695**	**277,359,415**	**373,771,064**

b) Split of collateral by stage

	31 Dec. 2020		**31 Dec. 2019**	
Distribution by stage	**Gross book value**	**Collateral fair value**	**Gross book value**	**Collateral fair value**
Stage 1	287,856,993	387,556,508	270,852,286	367,262,552
Stage 2	76,272,176	113,763,374	3,069,542	4,653,563
Stage 3	7,644,497	6,884,364	3,437,587	1,956,118
Total	**371,773,666**	**508,204,246**	**277,359,415**	**373,872,233**

25. RISK MANAGEMENT (continued)

c) Over / under collateralised assets

31 Dec. 2020

Distribution by stage	Over Gross book value	Over Collateral fair value	Under Gross book value	Under Collateral fair value
Stage 1	168,925,648	372,857,615	118,931,345	14,698,893
Stage 2	50,418,791	111,020,468	25,853,385	2,742,906
Stage 3	4,466,564	6,759,364	3,177,933	125,000
Total	**223,811,000**	**490,637,447**	**147,962,666**	**17,566,799**

31 Dec. 2019

Distribution by stage	Over Gross book value	Over Collateral fair value	Under Gross book value	Under Collateral fair value
Stage 1	160,823,671	361,361,467	110,028,615	5,901,086
Stage 2	1,824,972	4,397,741	1,244,570	255,822
Stage 3	1,113,394	1,956,118	2,324,193	-
Total	**163,762,037**	**367,715,326**	**113,597,378**	**6,156,908**

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

Outstanding balances of renegotiated loans as at 31 December 2020 amounted MDL 29,742,876 (2019: MDL 6,626,116), please see the table below:

	31-Dec-20	31-Dec-19
Loans to corporate entities	28,543,125	6,633,413
including in arrears	8,825,590	153,142
Other loans to individuals	1,199,751	201,614
including in arrears	372,769	55,769
Total restructured	**29,742,876**	**6,835,027**
From which restructured current portfolio	20,544,517	6,626,116
From which restructured in arrears	9,198,359	208,911

25. RISK MANAGEMENT (continued)

During 2020, due to the Covid pandemic, the Government of Republic of Moldova has undertaken some measures to mitigate the effects of the epidemiological crisis, so the beneficiaries of loan contracts had the possibility to extend / renegotiate the conditions with the lender. Thus, Mikro Kapital has offered to a part of his clients a grace period during the lockdown period, in accordance with adopted legislation, but considering no other changes appeared, this kind of contracts were not considered restructured at all, so not included in the table above.

c. Liquidity risk

'Liquidity risk' is the risk that Mikro Kapital will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to Mikro Kapital's operations and investments.

The Group's Board of Directors sets Mikro Kapital's strategy for managing liquidity risk and oversight of the implementation is administered by Mikro Kapital Management Committee. Mikro Kapital Management Committee approves Mikro Kapital's liquidity policies and procedures created by the Financial Risk team. Mikro Kapital manages Mikro Kapital's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of Mikro Kapital. A summary report, including any exceptions and remedial action taken, is submitted regularly to Group Management Risk.

Mikro Kapital's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to Mikro Kapital's reputation. The key elements of Mikro Kapital's liquidity strategy are as follows.

– *Maintaining a diversified funding* base consisting of foreign funds and local company, also Groups funds and maintaining contingency facilities.

– *Carrying a portfolio* of highly liquid assets, diversified by currency and maturity.

– *Monitoring maturity mismatches*, behavioural characteristics of Mikro Kapital's financial assets and financial liabilities, and the extent to which Mikro Kapital's assets are encumbered and so not available as potential collateral for obtaining funding.

– *Stress testing* of Mikro Kapital's liquidity position against various exposures and global, country-specific and Group-specific events.

Back office receives information from other business units regarding the liquidity profile of their financial assets and financial liabilities and details of other projected cash flows arising from projected future business. Back office sends the requirement to Group funds to ensure that sufficient liquidity is maintained within Mikro Kapital as a whole. The liquidity requirements of business units are met through loans from Group funds to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. The scenarios are developed taking into account both Group-specific events (e.g. a rating downgrade) and

25. RISK MANAGEMENT (continued)

market-related events (e.g. prolonged market illiquidity, reduced convertibility of currencies, natural disasters or other catastrophes).

The data in below table measures the maturities of assets and liabilities on balance sheet. This table help us to determine where funding gaps exist, allowing it to adjust maturities as possible and plan for liquidity needs. In line with the IFRS' conservative and prudent approach, this table is based on asset and liability contractual maturity dates, but it does not include the amounts related to future interest to be received / paid.

25. RISK MANAGEMENT (continued)

As at 31 Dec. 2020

Assets	**<1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 years**	**No maturity**	**Total**
Cash and cash equivalents	20,273,249	-	-	-		-	**20,273,249**
Loans granted to customers	22,823,540	19,326,332	137,598,695	186,273,474	5,751,625	-	**371,773,666**
Financial Investments	-	-	-	11,431,138	-	-	**11,431,138**
Other assets	-	3,199,880	-	103,185	-	-	**3,303,065**
Total assets	43,096,789	22,526,212	137,598,695	197,807,797	5,751,625	-	**406,781,118**

Liabilities	**<1 month**	**1-3 Months**	**3-12 months**	**1-5 years**	**>5 Years**	**No maturity**	**Total**
Borrowings from banks and other	213,547	12,733,418	61,671,225	219,712,383	-	-	**294,330,573**
Lease liabilities	212,751	428,322	1,390,439	4,198,854	-	-	**6,230,366**
Advances from customers	1,967,166	1,255,589	803,083	-	-	-	**4,025,838**
Other liabilities	1,699,911	1,815,138	-	1,019,972	-	-	**4,535,021**
Total liabilities	**4,093,375**	**16,232,467**	**63,864,747**	**224,931,209**	-	-	**309,121,798**
Net liquidity gap	**39,003,414**	**6,293,745**	**73,733,948**	**(27,123,412)**	**5,751,625**	-	**97,659,320**
Cumulative liquidity gap	**39,003,414**	**45,297,159**	**119,031,108**	**91,907,696**	**97,659,321**	-	

25. RISK MANAGEMENT (continued)

As at 31 Dec. 2019

Assets	<1 month	1-3 months	3-12 months	1-5 years	>5 years	No maturity	Total
Cash and cash equivalents	6,282,411	-	-	-	-	-	**6,282,411**
Loans granted to customers	8,694,673	28,336,327	117,456,298	121,995,946	4,065,751		**280,548,995**
Other assets	-	847,741	-	52,270	-	-	**900,011**
Total assets	**14,977,084**	**29,184,068**	**117,456,298**	**122,048,216**	**4,065,751**	**-**	**287,731,417**

Liabilities	<1 month	1-3 months	3-12 months	1-5 years	>5 years	No maturity	Total
Borrowings from banks and other	2,527,838	2,915,272	46,142,750	165,124,461	-	-	**216,710,321**
Lease liabilities	191,898	383,796	1,727,083	236,047	-	-	**2,538,824**
Other liabilities	1,337,117	296,524	943,789	118,779	-	-	**2,696,209**
Total liabilities	**4,056,853**	**3,595,592**	**48,813,622**	**165,479,287**	**-**	**-**	**221,945,354**
Net liquidity gap	**10,920,231**	**25,588,476**	**68,642,676**	**(43,431,071)**	**4,065,751**	**-**	**65,786,063**
Cumulative liquidity gap	**10,920,231**	**36,508,707**	**105,151,383**	**61,720,312**	**65,786,063**	**-**	

25. RISK MANAGEMENT (continued)

d. Operational risk

'Operational risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with Mikro Kapital's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks – e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of Mikro Kapital's operations.

Mikro Kapital's objective is to manage operational risk to balance the avoidance of financial losses and damage to Mikro Kapital's reputation with overall cost effectiveness and innovation. In all cases, Mikro Kapital policy requires compliance with all applicable legal and regulatory requirements.
The Board of Directors has created a Group's Operational Risk Policies, and Management is responsible for the implementation of controls to address operational risk. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- information technology and cyber risks; and
- risk mitigation, including insurance where this is cost-effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the Group Audit, with summaries submitted to the Audit Committee and senior management of Mikro Kapital. Below is displayed the efficiency by branch.

	2020		2019	
Indicators	**Number of Loan Officers**	**Active portfolio per Loan Officer**	**Number of Loan Officers**	**Active portfolio per Loan Officer**
Chisinau	7	16,547,130	7	17,829,004
Balti	8	7,832,293	6	11,502,854
Soroca	6	8,570,176	5	7,534,018
Drochia	4	7,166,437	4	6,648,998
Comrat	6	7,370,666	5	6,582,841
Edinet	4	7,601,310	3	5,162,742
Chisinau 2	5	3,734,078	-	-
Cahul	4	3,211,490	3	67,535

25. RISK MANAGEMENT (continued)

Indicator name	2020	2019
Operating Expense Ratio	**8.3%**	**8.5%**
Operating Expense	27,118,558	21,087,111
Average gross loan portfolio	326,161,331	249,335,226
Cost to Income Ratio	**34.7%**	**35.1%**
Operating Expense	27,118,558	21,087,111
Financial revenue	78,107,267	60,027,617
Cost per active client	**17,688**	**15,325**
Operating Expense	27,118,558	21,087,111
Average number of active clients	1,533	1,376
Average loan portfolio per Loan Officer	**7,412,758**	**7,316,414**
Average gross loan portfolio	326,161,331	249,335,226
Number of Loan Officers	44	33
Average disbursements per Loan Officer	**6,689,973**	**5,228,618**
Disbursements	294,358,824	241,441,656
Number of Loan Officers	44	33
Clients per Loan Officer	**36**	**42**
Number of active clients	1,589	1,383
Number of Loan Officers	44	33
Active clients per staff member	**26**	**30**
Number of active clients	**1,589**	1,383
Total number of personnel	61	46

25. RISK MANAGEMENT (continued)

e. Fair value of financial assets and liabilities

Fair value measurements are analyzed by level in the fair value hierarchy as described below. Management applies judgement in categorizing financial instruments using the fair value hierarchy. If a fair value measurement uses non-observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

(i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and

(iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Financial instruments not measured at fair value

a) Cash and cash equivalents

The fair value of cash and cash equivalents approximate their carrying amount.

b) b)Loans and advances to customers, net

Loans are reduced by impairment amount for loan losses. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

c) Interest-bearing borrowings

The table below summarize the carrying amount and fair values of those financial assets and liabilities not presented on the Company's statement of financial position at their fair value as at 31 December 2020 and 31 December 2019.

25. RISK MANAGEMENT (continued)

	31 Dec. 2020					31 Dec. 2019				
	Carrying value	Level 1	Level 2	Level 3	Fair value Total	Carrying value	Level 1	Level 2	Level 3	Fair value Total
Financial assets										
Cash and cash equivalents	20,273,249	20,273,249	-	-	20,273,249	6,282,411	6,282,411	-	-	**6,282,411**
Financial assets at cost	11,431,138	-	-	11,431,138	11,431,138	623,700	-	-	623,700	**623,700**
Loans granted to customers										
- Micro &Small	212,460,879	-	-	212,460,879	212,460,879	338,395	-	-	338,395	**338,395**
–Medium business	90,873,828	-	-	90,873,828	90,873,828	181,026,839	-	-	181,026,839	**181,026,839**
– Corporate	67,797,018	-	-	67,797,018	67,797,018	63,919,828	-	-	63,919,828	**63,919,828**
–Individual	641,941	-	-	641,941	641,941	32,074,352	-	-	32,074,352	**32,074,352**
Total loans	**371,773,666**	-	-	**371,773,666**	**371,773,666**	**277,359,414**	-	-	**277,359,415**	**277,359,415**
Total assets	**403,478,053**	**20,273,249**	-	**383,204,804**	**403,478,053**	**284,265,525**	**6,282,411**	-	**277,983,115**	**284,265,526**
Financial liabilities										
Borrowings	294,330,572	-	-	294,330,572	294,330,572	216,710,321	-	-	216,710,321	**216,710,321**
Lease liabilities	6,230,366	-	-	6,230,366	6,230,366	2,538,824	-	-	2,538,824	**2,538,824**
Total Liabilities	**300,560,938**	-	-	**300,560,938**	**300,560,938**	**219,249,145**	-	-	**219,249,145**	**219,249,145**

25. RISK MANAGEMENT (continued)

a. Risk of compliance

Compliance risk is the risk of financial loss, including fines and other sanctions, arising from non-compliance with state laws and regulations. The risk is limited to a significant extent, due to the supervision applied by the compliance system, as well as the monitoring of Mikro Kapital's controls.

b. Litigation risk

The risk of litigation is the risk of financial loss, disruption of Mikro Kapital's activity, or any other situation arising out of the possibility of non-execution or breach of legal contracts and consequently of legal proceedings. The risk is minimized through the contracts used by Mikro Kapital.

c. Reputational risk

The risk of loss of reputation that may result from negative advertising related to Mikro Kapital's operations (whether true or false) may result in a reduction in customer, revenue, and lawsuits against Mikro Kapital. Mikro Kapital applies procedures to minimize this risk.

d. Risk of capital management

Mikro Kapital's objectives in managing capital are to protect Mikro Kapital's ability to continue, based on the business continuity principle, in order to provide quality services for public profitability and to ensure that it is up to the founders and to maintain an optimal structure of capital to reduce the cost of capital. Mikro Kapital monitors the capital on the basis of the leverage ratio. This ratio is calculated as a net debt divided by total capital. Net debt is calculated as the total of loans. Total capital is calculated as "capital " as shown in the statement of financial position plus net debt.

25. RISK MANAGEMENT (continued)

Bellow table provides Profitability Ratio, ability to manage capital.

Indicator name	31 Dec. 2020	31 Dec. 2019
Cost of Funds Ratio	**12.6%**	**16.3%**
Financial expenses on Funding Liabilities + hedging exp.	26,387,240	25,922,875
(Avg. deposits + avg. borrowings + Avg. Payable Notes)	209,963,990	159,405,923
Debt to Equity	**146.6%**	**111.2%**
Liabilities - Sub debt	235,490,308	149,459,997
Equity + Sub debt	160,687,100	134,372,164
Adjusted Debt to Equity	**144.4%**	**109.3%**
Liabilities - Sub debt - Accounts Payable	231,975,258	146,882,567
Equity + Sub debt	160,687,100	134,372,164
Operational Self Sufficiency	**122.0%**	**123.6%**
Financial revenue	78,107,267	60,027,617
Financial expense + Impairment Losses on Loans + operating expense	64,019,389	48,555,598
Return on Assets	**2%**	**2%**
Net income after taxes	8,204,950	5,038,399
Average assets	340,004,784	256,208,777
Return on Equity	**11.5%**	**9.7%**
Net income after taxes	8,204,950	5,038,399
Average equity	71,470,132	51,740,817
Solvency	**21.5%**	**20.3%**
Total Equity	85,290,706	57,649,557
Total Assets	396,117,408	283,832,161
Un-Hedged Open Currency Position	**-21.3%**	**27.2%**
Assets Denominated or foreign currency - Liabilities Denominated or foreign currency (Unhedged)	(18,202,344)	15,655,021
Total Equity	85,290,706	57,649,557
Yield on Gross Loan Portfolio	**24.3%**	**24.1%**
Cash received from interest, fees, and commissions on loan portfolio	78,107,267	60,027,617
Average gross loan portfolio	321,040,046	249,335,226
Portfolio to Assets	**93.8%**	**98.8%**
Gross loan portfolio	371,773,666	280,548,995
Assets	396,177,408	283,832,161
Liquidity Ratio	**23.3%**	**12.0%**
Cash + Short Term Investments	20,273,249	6,282,411
(Total Short Term borrowings + Interest Payable on Funding Liabilities + Accounts Payable and Other Short-term Liabilities)	87,025,720	52,289,420

26. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

As of March, 11th, 2021, Mikro Kapital Company SRL has a new composition of the Board. Mr Grigory Chorayan, as President of the Board, was replaced by Eremin Aleksandr and Mr Poleshchuk Iaroslav came as a Board member. Mr Poleshchuk is currently the Chief Risk officer of Mikro Kapital Group.

Mikro Kapital Company SRL launched a partnership with the Dutch crowdfunding platform "Lendahand" (Hands-on B.V., a private company with limited liability, incorporated under the laws of the Netherlands). Initially, the total amount funds raised shall not exceed EUR 1,000,000 (one million euros). However, according to the agreement, Crowdfunder may in its sole discretion elect to increase the total amount funds to an amount not exceeding EUR 2,500,000 (two million five hundred thousand euros) subject to Crowdfunder conducting a satisfactory local due diligence visit or, if prohibited from conducting a local due diligence visit due to COVID-19 restrictions. In the first quarter Company has attracted EUR 600,000 from EUR 1 million.

On March, 15th, 2021 in accordance with article 31 of the Law of the Republic of Moldova no. 135 of 14.06.2007 on the limited liability companies and based on the shareholder's decision, statutory reserves in the amount of MDL 2,000,888 have been establish from its acquired and non-distributed profit.

Mikro Kapital Company SRL is in a continuous process to develop the activity as much as possible in order to face the COVID 19 pandemic situation. The year is expected to be with political turmoil, budget expenses for investments in infrastructure seriously cut and economy in stagnation. On the other side, a better year for the agricultural sector is foreseen. Mikro Kapital Company SRL will continue to support its clients and contribute to its customers' business sustainability by offering a grace period or restructuring if necessary.