Mikro • Kapital

EVERYTHING STARTS FROM MIKRO

Dear shareholders, partners and other stakeholders,

I am glad to present the 2019 Annual External Audit Report of the non-bank credit organisation "Mikro Kapital Company" LLC. During 2019 year we aimed strengthening our position as non-bank credit organization and further supporting micro and small entrepreneurs from all over the country.

Strategic Highlights

As of end of 2019 year, Mikro Kapital Company has been supporting 1,383 clients, more by 24% than a year before. It was not a year with a very high growth, however the total disbursement reached about 240 min MDL, more by 16% than during the 2018 year. At the end of 2019 year, about 35% of our clients were from agricultural sector.

By end of 2019 year, we reached about 283.8 min MDL in Total Assets (an increase by 23% in comparison with previous year) and a Loan Portfolio of 277 min MDL (more by 28% than in 2018). At the same time, we managed to keep a very good portfolio quality-the PAR >30 days reached only 2.3%. _

We are proud to inform, that during 2019, we added three new international creditors as our partners: Mintos marketplace, since July 2019, with maximum exposure of 2.5 min EUR; Bank im Bistum (Germany) with 1 min EUR, disbursed in September 2019; and Fasanara Capital (UK) with 1.5 min EUR, loan disbursed in November 2019.

Financial Highlights

In comparison with 2018 year, the total interest income in 2019 increased of 42% (from 41.86 to 59.4 min MDL), mainly due to the increase of Agro and Business loans as well as loans for home acquisitions.

We aim becoming more efficient. Although the number of personnel increased, our operating expense ratio, cost to income ratio and costs per active clients have been almost the same as a year before, with some tendencies of improvement.

Mikro Kapital Company has maintained a good operational self-sufficiency of 123.5 %, although it is a decrease from 132% in 2018 year. For already a fourth consecutive year, our company registered a net profit, which was about 5 min MDL in 2019 year (a decrease from about 8 min MDL in 2018 year). One of the main causes of the decrease in net profitability was the loss in amount of 2.15 min MDL because of foreign currencies exchange rates evolution during 2019.

With growth in portfolio/assets we maintained a good Capital Adequacy Ratio (CAR) - 20.3% at end of 2019. Our shareholder continued to support our development by investing additionally 350 k EUR in share capital in October 2019.

Operating Highlights

In March 2019, the organization's name "Credit CMB" changed to "Mikro Kapital Company". In the fourth quarter 2019, we opened a new branch in Cahul town. Our company has increased in staff too: we added 10 loan officers to our team. At end of 2019 year, Mikro Kapital Company had 7 branches and was employing 46 staff, including 33 loan officers.

Looking Ahead

The 2020 year will be a year with big challenges because of Covid 19 virus outbreak. We will further support our clients in this difficult time and develop alternative sales channels or new products. Most probably our Business Plan for 2020 will change too. We foresee a decrease in company's activity in April-June 2020, but aim catching up the disbursements in the second half of year. Hopefully, our existin reditors and new ones will support our company too. We, at institution level, will take all the possible measures to minimiz he risks and ensure business continuity during and after the crisis.

By submitting the Annual Report, I woul l ke to express my gratitude to the shareholders, the Board of Directors and the entire Company staff for the effort made u ing 2019.

Sergiu Turcanu
CEO of "Mikro Kapital Company" Ltd
April 2020

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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 2019, 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 2019, 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 23 of the financial statements, a significant part of the borrowings, interest expenses and other expenses are in relation to affiliates. The development and growth of the Company is dependent on the future continuation of these relations. In addition, IAS 24 “Related Parties” refers to arm’s length principle, according to which transactions between related parties must be carried out at market values. The Company does not have sufficient documentation in place to support transactions are made at market prices. Our report is not qualified in respect of these matters

As described in Note 25.2 of the financial statements and following the Coronavirus outbreak in 2020 the Company has subsequently 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. 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.

The financial statements of the Company for the year ended 31 December 2018 were audited by another auditor who issued a clean audit report on 10 April 2019.

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

Grant Thornton Audit S.R.L.
Chisinau, Republic of Moldova
01 April 2020

The current independent audit opinion replaces and repeals any previous versions that were circulated previously.

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

Financial Statements
For the Year Ended 31 December 2019
Prepared in Accordance with
International Financial Reporting Standards

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O.C.N. "Mikro Kapital Company" SRL
FINANCIAL STATEMENTS
For the year ended 31 December 2019
(All amounts in Moldovan Lei (MDL) unless otherwise stated)

Statement of profit and loss and other comprehensive income

	Note	2019	2018*
Interest income		59,421,638	41,859,319
Interest expense		(25,922,875)	(15,336,381)
Net interest income	4	**33,498,763**	**26,522,938**
Fee and commission income		605,979	372,122
Fee and commission expense			
Net fee and commission income	5	**605,979**	**372,122**
Net financial income		**34,104,742**	**26,895,061**
Allowance for loan impairment	12	(1,545,612)	(2,417,174)
Total net income		**32,559,130**	**24,477,887**
Net gain/(loss) from loans written-off	6	**(66,278)**	**618,232**
Other expenses	7	(8,448,853)	(4,592,222)
Staff and management expenses	8	(12,638,258)	(10,091,287)
Depreciation and amortization		(1,956,101)	(1,585,264)
Total operating expenses		**(23,043,212)**	**(16,268,773)**
Net financial profit/(loss)	9	(1,920,476)	1,026,099
Profit before tax		**7,529,164**	**9,853,444**
Income tax expense	10	(2,490,765)	(1,823,075)
Profit for the year		**5,038,399**	**8,030,369**
Other comprehensive income			
Total comprehensive Income		**5,038,399**	**8,030,369**

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

The accompa 0 g notes are an integral part of these financial statements.

The financi ... for issue on 01 of April 2020 by:

Mr. Ţurcanu Sergiu
Administrator

Statement of financial position

Assets	**Note**	**31 Dec. 2019**	**31 Dec. 2018 ***
Cash and cash equivalents	11	6,282,411	11,922,045
Loans granted to customers	12	271,172,761	210,290,836
Other assets and receivables	13	900,011	1,402,532
Financial investment	14	623,700	610,020
Property and equipment	15	1,555,624	553,024
Intangible assets	16	3,297,654	3,806,935
Total assets		**283,832,161**	**228,585,392**
Liabilities			
Trade and other liabilities	17	2,577,430	2,446,938
Lease liability	18	2,538,824	3,016,805
Borrowings from banks and other parties	19	216,710,321	174,525,846
Advances from customers	20	3,459,399	2,150,714
Provisions for untaken holidays		777,851	602,763
Deferred tax liabilities	21	118,779	10,249
Total liabilities		**226,182,604**	**182,753,315**
Equity			
Share capital		54,018,406	47,239,325
Legal reserve		2,700,920	
Retained earnings		930,231	(1,407,248)
Total equity	**22**	**57,649,557**	**45,832,077**
Total liabilities and equity		**283,832,161**	**228,585,392**

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

The accompa notes are an integral part of these financial statements.

The financia statements were authorized for issue on 01 of April 2020 by:

Mr. Turcanu Sergiu
Administrator

O.C.N.
MIKRO KAPITAL COMPANY
S.R.L.

Statement of changes in equity

	Share capital	Reserves	Retained earnings	Total equity
Balance at 1 January 2018	**47,239,325**		**(9,437,617)**	**37,801,708**
Transactions with owners				
Result of the year			8,030,369	8,030,369
Transfers to reserves				
Balance as at 31 December 2018	**47,239,325**		**(1,407,248)**	**45,832,077**
Balance at 1 January 2019	**47,239,325**		**(1,407,248)**	**45,832,078**
Share capital increase	6,779,081			6,779,081
Transactions with owners	**6,779,081**			**6,779,080**
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**

In accordance with local legislation, a minimum of 5% out of the Comp any'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 shareh olders.

At the end of 2019 the Company has decided to create a legal reservein amount of MDL 2,700,920 which represents 5% out of total share capital.

Statement of cash flows

	2019	2018
Operating activities		
Net profit	**5,038,399**	**8,030,369**
Income from dividends	(235,716)	(164,062)
Income tax expenses	2,490,765	1,823,075
Allowances for loans	1,545,612	2,417,174
Untaken holiday provision	175,088	304,109
Depreciation and amortization	1,956,101	1,585,264
Interest expense	25,922,875	15,336,381
Net cash flows from operating activities before changes in operating assets and liabilities	**36,893,124**	**29,332,310**
(lncrease)/ decrease in operating assets		
Lease and loans receivables	(62,427,537)	(87,711,102)
Trade and other receivables	502,520	(1,007,385)
lncrease/(decrease) in operating liabilities		
Trade and other payables	632,169	622,090
Customer advances	1,417,215	300,629
Net cash flows from operating activities before income tax	**(22,982,509)**	**(58,463,458)**
Income tax paid	(2,992,442)	(1,405,278)
Net cash from operating activities	**(25,974,951)**	**(59,868,736)**
Investing activities		
Purchase of property, plant and equipment	(1,276,546)	(387,868)
Purchase of other intangible assets (including right of use)	(1,172,874)	(2,049,885)
Out of which Right of use according to IFRS 16	*(989,523)*	*(1,389,776)*
Financial investments	(13,680)	
Dividends received	235,716	164,062
Net cash used in investing activities	**(2,22,7 384)**	**(2,273,691)**
Financing activities		
Proceeds from borrowings	127,839,013	83,481,035
Repayment of borrowings	(100,377,42)	(7,056,304)
Payment of interest	(11,677,974)	(5,081,668)
Proceeds from issue of share capital	6,779,081	
Net cash from (used in) financing activities	**22,562,700**	**71,343,063**
Net change in cash and cash equivalents	**(5,639,634)**	**9,200,636**
Cash and cash equivalents, beginning of year	11,922,045	2,721,409
Cash and cash equivalents, end of year	**6,282,411**	**11,922,045**
Net increase/ (decrease) in cash and cash equivalents	**,(5639,634)**	**9,200,636**

NOTES TO FINANCIAL STATEMENTS

1. Nature of operations & general information

O.C.N. "Mikro Kapital Company" SRL ("the Company") was initially established in the year 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, comp lex or small equipment.

The company operates through its headquarters, located in Chisinau, and through 6 other agencies throughout the Republic of Moldova: 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 ult imate beneficiary and during 2019 the share capital of the Company was increased by EUR 350,000 (MDL 6,779,080) representing an increase of 14%.

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 2019 the Company employed 46 employees (as at 31 December 2018: 35 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 marke t, including relatively high inflation growth. The banking sector in Moldova is sensitive to adverse fluctuations in confidence and economic condit ions 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 Mo ldova 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, regulator y, and political developments.

2. New and revised standards, in force for annual periods that start on or after 1 January 2019

a) New Standards adopted as at 1 January 2019

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 16 'Leases'

IFRS 1 6 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Dete rmining whether an Arrangeme nt contains a Lease', SIC 15 'Op erating Leases-Incentives' and SIC 27 'Evaluating the Substance of Tr ansactions Involving the Legal Form of a Lease').

It completes the long-term IASB project for leasing accounting. IFRS 16 sets out the prin ciples for recognizing, evaluating, presenting and describing/ providing information about t he leases of the two parties to a contract, namely the client ("le ssee") and the provider ("lessor"). The new standa rd requi res lessees to recogn ize the majority of leases in the financial statements. Lessees will have a single accounting model for all contracts, wit h some exceptions. Lessor's accounting remains significantly unchanged. Leases will be recorded in the stat ement of financial position as an asset with the right of use and a lease obligation.

The ad option of th is new Standard has resulted in the Company recognizinga right -of-use asset and related lease liability in connection with all former operating leases except for those identified as low- value or having a remaining lease term of less than 12 months from the date of initial application (not the case).

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopt ing IFRS 16 being recognized in equity as an adjustment to the opening balance of retained earn ing s for the current period. Prior periods have not been restated.

At the date of initial application of IFRS 16, 1 January 2019, the Company measures the right-of-use asset at present value of the minimum lease payments. Taking into consideration that the only active lease contracts are related to rent of offices for an average period of 36 months, the impact of discounting was not considered significant to the Company present value was equal to cost.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

Statement of fina ncia l po it ion

Caption	Carrying amount at 31 Dec. 2018	Remeasurement	IFRS 16 carrying amount at 1 January 2019
Intangible assets	790,128	3,016,805	3,806,935
Lease liabilitv		(3,016,805)	(3,016,805)

Statement of rofit and loss

Operating leaseexpenses	1,389,827	(1,389,827)	
De reciation and amortization	195,437	1,389,827	1,585,264

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:

IFRS 17 Insurance Contracts
Definition of a Business (Amendments to IFRS 3)
Definit ion of Material (Amendments to IAS 1 and IAS 8)
Conceptual Fr amework for Financial Report ing

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 reclassifications of PY financial statements

1. Granting commissions, penalties and other fees were recognized as fees and commission expense in 2018 even though they shou ld be assimilated as interest income:

Statement of profit and loss	2018	Remeasurement	2018 Reclassified
Interest income	34,207,377	7,651,943	41,859,320
Fee and commission income	8,024,065	(7,651,943)	372,122

2. Gain/ (loss) from loans written -off. Write-off expenses was recognized in 2018 in the allowance for loans line of the financial statements, whereas amounts received from loans writt en-off were recognized as othe r revenues.

Statement of profit and loss	2018	Remeasurement	2018 Reclassified
Allowance for loan impairm ent	(2,910,814)	493,640	(2,417,174)
Net gain/ (loss) from other operating activities		618,232	618,232
Other revenue	1,111,872	(1,111,872)	

3. Payments with individual brokers or bonuses paid to own employees were recognized as fee and commission expense in 2018

Statement of profit and loss	2018	Remeasurement	2018 Reclassified
Fee and commission expense	(552,293)	552,293	
Other expenses	(3,945,181)	(647,041)	(4,592,222)
Staff and manaqement expenses	(10,185,405)	94,118	(10,091,287)

3. Accounting policies

3.1 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.

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 resul ting 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 trans lated 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-mone tary elements denominated in a foreign currency, measured at fair value are translated using the exchang e rates as of the date of determining the fair value.

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

	2019		2018	
	USO	EUR	USO	EUR
Averaqe for the period	17.5751	19.6741	16.8031	19.8442
Year end	17.2093	19.2650	17.1427	19.5212

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 24.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense 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.

3.2 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 5,038,399 for the year ended 31 December 2019 (31 December 2018, MDL 8,030,369) and at that date the retained earnings were positive of MDL 930,231 (31 December 2018: the retained earnings were negative of MDL 1,407,248). There is significant part of the Company's borrowings which were granted by its shareholder, 43% at 31 December 2019 (31 December 2018: 62%). 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 individual ly 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.

Loans 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.

3.3 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 receivablesare non -derivative financial assets with fixed or determinable payments that are not quoted in active markets. All loans and receivables are recognized in the st atement 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 FVT PL:

- Financial assets that are debt instruments
- Financial guaranties contracts
- Loans 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.

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 wit h its debt instrument assets carried at amortized cost and fair value through other it ems 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-stag e' 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 recognit ion 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 instru men ts in Stage 1 have thei r ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible with in 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 th at it should consi der forward-looking information.

purchased or originated credit-impaired financial assets ("POCI") are those financial assets that are credit - impaired on initial recognit ion. Their ECL is always measured on a lifetime basis (Stage 3).

Impairment losses calculation

Mikro Kapital reviews the lease portfolio and monthly loans to estimate its depreciation. 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 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:

EAD *PD* 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 calcu latio n 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 - ti me 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 inst rument 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 fin ancial asset is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, th ere 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.

The criteria that the company uses to determine that there is objective evide nce of an impa i rment 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 in dividuall y for fin ancial assets that are individua lly significant, and individually or collectively for financial assets that are not in dividually significant. If the company determines that no objective evidence of impairment exists for an individually assessed finan cial 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 impa irment. Assets that are individually assessed for imp ai rment 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) disco unte d at the financial asset's original effective interest rate. The carryi ng amount of t he asset is reduced using an adjustment for impairment account, and the amount of the loss is recognized in the income statemen t. The calculatio n 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, whethe r the foreclosure is probable or not.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit ris k characteristics (e.g. legal entities - large Corporate Loans, SME < 1% of total regulatory cap it al, (the limit of the branch) + Individual Enterprises/Farmers and individuals - mortgage, repair, ordinary lo ans with collateral and consumer loans wit hout co llateral) considering asset type and past-due stat us. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indic ative 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 collect ively assessed for impairment are estimated based on the contractual cash flows of the assets in the company and historical losses experience for assets wit h credit risk characteristics similar to those in the company. Historical loss experience is adjusted on the basis of 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 remo ve the effects of conditio ns in the histo ric al period that do not exis t currently. The methodology and assumptions used for estimating future cash flows are reviewed regu larly by the company to reduce any differences between lo ss estimates and actua l 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.

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-salefinancial 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. 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 recoverabilit y 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.

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 min us 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 statem ent of profit or loss in cludes:

- Interest on financial assets and financial liabilities measu r ed at the accounting value;

- Fee for administration .
- Interest expenses are recognized in profit or loss at the carrying amo unt.

h) Commission fee income

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

Other fee and commission income are recognized in accordance with IFRS15 at a point in time when the related services are performed. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed 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 maintena nce 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 it emsof property and equipment are as follows:

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

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 straig ht- line basis over 3-10 years.

As intangible assets are also recognized the right of use related to the rent contracts concluded wit h partners for the offices rented over the country. As per I FRS 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 amortization perio d for the right- of-use asset is from the lease commencement date to the end of the lease term. At the termination of a cont ract, 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.

k) Cash and cash equivalents

Cash comprises both cash on hand and in bank. Cash equivalents are short-term, hig hly 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 liabilit ie s are not recognized in the financial statements but they are disclosed, unless the possibility of an outflo w 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 for untaken holidays are recogn ized 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 relatio n to untaken holidays of employees calculated at the end of 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) li ne (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 ent it y;

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 emp lo yees 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, regard les s of whether a price is charged .

p) Taxation

Income tax expense comprises current and deferred tax. It is recognized in profit or lo ss. Pena lt ies 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 'othe r 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 inclu des any tax arising from dividends .

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial re porting 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, reductio ns 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 report i ng date. The measurement of the deferred tax reflects the tax consequences that would follow the manner in which Mikro Kapit al 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.

Effective tax rate was set at 12% for 2019 and 12% for 2018.

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 cap it al, the reserve fund, undistributed profit as well as out of ot he r resources and means provided for by the le gis latio n in force. The net assets shall be calculated according to the inventory (initial) value and, i n 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 perm its or require otherwise, all amounts are reported or disclosed with comparative informatio n. Where IAS 8 applies, comparative figures have been adjusted to conform to changes in presentation in the current year.

4. NET INTEREST INCOME

	2019	2018 *
Statement of erofit and loss		
Busin essloans	23,746,444	20,576,302
Agro loans	20,373,019	11,274,689
Home loans	9,705,974	6,715,482
Rapid loans	4,399,280	2,281,365
Consumer loans	977,357	558,108
Leasing	219,56 4	453,373
Total interest income	**59,421,638**	**41,859,319**
Total Interest exeense	**(25,922,875)**	**(15, 336,381)**
Net interest income	**33,498,763**	**26,522,938**

Net interest income measures the return of borrowed funds calculat ed on effective interest rate method. The int erest rate included nominal rate and all fees and commissions related to a loan (granting commissio1s, administratio n fees) for both granted and contracted loans.

Compare d with previous years, an increaseof 26% in net interest income was realized, as a result of the inc rease of Agro Loans and Home Loans.

5. FEE AND COMM ISSION INCOME

	2019	2018 *
Statement of profit and loss		
Fee and commission income	605,979	372,122
Fee and commissio n expense		
Net Fee and commission income	**605,979**	**372,122**

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, 2019 and 2018, it was represented by early payment commissions o f loans granted to clients.

6. Net gain/(loss) from loans written -off

	2019	2018 *
Statement of erofit and loss		
Income from loans recovered	722,551	1,111,872
Loans writte n off expense	(788,829)	(493,6 40)
Gain / (loss) from loans writt en off	**(66,278)**	**618,232**

7. OTHER EXPENSES

	2019	2018 *
Statement of erofit and loss		
Professional Services	2,634,506	1,945,352
Tax other than income tax	2,218,360	551,610
Marketing/Advertising	1,581,618	776,646
Other	424,441	56,320
Bank Charges	356,814	242,776
Miscellaneous	353,263	207,999
Office Equipment Maintenance	299,301	278,785
Utilities and office maintenance	233,710	177,109
Training expenses	173,843	118,185
Communications	151,713	142,864
Protocol exeenses	21,284	94,576
Tota l other expenses	**8,448 ,853**	**4,592,222**

Other expenses have recorded an increase during 2019 as a result of overall development of Company's activity. The most important type of services acquired were related to:

- **Professional services:** consulting, audit and other services. The main supp lier for both 2019 and 2018 was Mikro Kapital Corporative Service LLC (Russia) - related party - with an expense in amount of MDL 1,978,670 during 2019. (2018: MDL 1,371,497) for different type of services: analysis of financial indicato rs to be reported to the Board of Directors, control (review) of qua lity of loan portfolio of beneficiary and deliver recommendations for bad debts, analysis of risks of Beneficiary's agreements, etc.;

- **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. The amount has increased considerably compared to 2018 because starting with 2019 the Company has contracted services from abroad which generated higher taxes and due to the increase of borrowings received and interest paid compared with 2018.

- **M arketi ng / Advertising** has recorded a significant increase in 2019 due to the Management decision to develop the brand of the Company based on new strategy. During the year were concluded contracts with experienced companies, the most important one being My Media Mot ion Group with an expense of MDL 984,691 (2018: MDL 5,027).

8. STAFF AND MANAGEMENT EXPENSES

Statement of profit and loss	2019	2018*
Salaries and bonuses	10,252,758	7,756,135
Social and medical security expenses	2,210,412	2,031,043
Untaken holidays provision expense	175,088	304,109
Total	**1,2 638,258**	**10,091,287**

Statement of profit and loss	2019	2018*
Loans officers	7,223,988	6,310,720
Administrative personnel	2,060,691	2,029,323
Management	3,178,491	1,447,135
Total	**12,463,170**	**9,787,178**
Untaken holidays provision expense	175,088	304,109
Total personnel expenses	**12,638,258**	**10,091,287**

Staff and management expenses include salaries, bonuses, social security and medical insurance expenses, and during 2019 have recorded an increase as result of increase of average number of employees from 35 at the end of 2018 to 46 at 31 December 2019. New loan officers were hired during the year in order to ensure the development of the operational department.

The Company's management was represented at 31 December 2019 by the chief executive officer, chief financial officer, 2 regional managers and one marketing manager (31 December 2018: chief executive officer, chief financial officer).

9. NET FINANCIAL PROFIT/(LOSS)

Statement of profit and loss	2019	2018
FX gain/ loss	(2,156,192)	862,037
Dividend income	235,716	164,062
Net financial profit/(loss)	**(1,920.476)**	**1,026,099**

As a result of foreign currencies exchange rates evolution during 2019, the Company net financial result was a loss in amount of MDL 2,156,192. For more information exchange rate risk, please see Note 24.1.a.

Dividend income was the result of profit obtained by OK Credit SRL, where the Company owns 30% of shares presented in statement of financial position as financial investment.

10. INCOME TAX.

	2019	2018
Statement of profit and loss		
Loss/(profit) before tax	**7,529,164**	**9,853,444**
Rate of income tax	12%	12%
Inco me tax theoretically	**903,500**	**1,182,413**
Non-deductible expenses	14,974,659	6,684,470
Tax losses carried forward from previous tax periods		1,523,780
Temporary differences effect	**(1,747,450)**	**(2,869,405)**
Effect of differences	**1,587,265**	**640,661**
Income tax expense	**2,490,765**	**1,823,075**

Income tax expense is computed on the basis of the effective tax rate of 12%.
The most important part of non-deductible expenses is represented by interest expenses incurred for loans obtained at a rate over the maximum rate allowed for deduction in the Re p ub lic of Moldova (4.6%).

11. CASH AND CASH EQUIVALENTS

	31 Dec. 2019	31 Dec. 2018
Assets		
Cash in current accounts CCY	182,679	2,637,791
Cash in current accounts FCY	106,283	9,180,004
Other cash items	5,993,449	104,250
Cash and cash equivalents	**6,282,411**	**11,922,045**

The company's cash is solely in bank accounts at different banks from Re pub lic 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 decrease recorded in 2019 compared to 2018 was the result of high level of loan granted to customers in the period as presented on the Company's cash-flo w.

Other cash ite ms are represented by amounts of cash in transit transferred from financing partners thro ugh banks but yet not received at the end of re po rting period.

12. LOANS GRANTED TO CUSTOMERS

	31 Dec. 2019	31 Dec. 2018
Assets		
Gross loans to customer >1 year	126,061,697	92,518,469
Gross loans to customer< 1year	151,297,718	123,166,228

Accrued interest from loans	3,189,580	2,436,761
Gross Loan Portfolio*	**280,548,995**	**218,121,458**
Impairment losses of loans	(9,376,234)	(7,830,622)
Loans granted to customers	**271,172,761**	**210,290,836**

The impairment losses regarding loans receivables at the end of both period (2019 and 2018) were calculated based on IFRS 9 methodology. It was recorded an increase at December 2019 compared with prior year mostly as a result of the increase of Company's portfolio, the coverage of impairment being around 3.5% out of gross amount of receivable for both periods.

In order to develop the financing sources, the Company had made pledges on the loan port folio, as it is presented in ***Note 19 - Borrowings from banks and other parties.***

a) Distribution by PAR (Port folio at risk)

	31 Dec. 2019		31 Dec. 2018	
Data on PAR	**Gross book value**	**Impairment**	**Gross book value**	**Impairment**
Current Port fo lio	262 ,770,212	6,834,339	208,128,002	6,518,471
PAR Stage 1	8,082,074	642,063	4,601,254	492,739
PAR Stage 2	3,069,542	680,829	2,069,452	460,866
PAR Stage 3	3,437,587	1,219,003	885,989	358,546
Total	**277,359,415**	**9,376,234**	**215,684,697**	**7,830,622**

b) Distribution by product:

	31 Dec. 2019		31 Dec. 2018	
Type of product	**Gross book Value**	**Impairment**	**Gross book value**	**Impairment**
Business	10 7,389,624	3,988,256	96,916,786	3,690,087
Agro	96,525,126	4,000,852	59,951,533	1,885,678
Home	51,733,862	175,488	47,618,325	1,754,204
Rapid	14,227,089	842,781		
Consum	7,483,714	368,858	11,198,054	500,652
Total	**277,359,415**	**9,376,234**	**215,684,697**	**7,830,622**

13. OTHER ASSETS AND RECEIVABLES

	31 Dec. 2019	31 Dec. 2018
Assets		
Trade receivables	442,573	1,236,317
Tax prepayment	131,064	40,737
Guarantees granted	58,869	52,269
Promotional materials and office maintenance	97,284	29,638
Inventories	170,221	43,571
Other assets and receivables	**900,011**	**1,402,532**

14. FINANCIAL INVESTMENT

	31 Dec. 2019	31 Dec. 2018
Assets		
Fin ancial investment	623,700	610,020
Financial investment	**623,700**	**610,020**

The above investment represents 30% of the share capital of OCN OK Credit SRL and the small increase recorded during the year was due to the increase of share capital performed as a legal requirement of Ok Credi t SRL.

15. PROPERTY AND EQUIPMENT

Assets	Property and equipment	Vehicles	Total
As of 31.12.2018 - Gross book value	**808,206**	**109,694**	**917,900**
Deereciation as of31.12.2018	339,738	25,138	**364,876**
Net book value as of 31.12.2018	**468,468**	**84,556**	**553,024**
Additions	181,672	1,094,874	**1,276,546**
Depreciation charge for the :tear	163,363	110,583	**273,946**
As of 31.12.2019 - Gross book value	**989,878**	**1,204,568**	**2,194,446**
Depreciation as of 31.12.2019	503,101	135,721	**638,822**
Net book value as of 31.12.2019	**486,777**	**1,068,847**	**1,555,624**

The Company's most important fixed assets at the end of 2019 are represented by vehicles used by own employees. Addit io ns made in 2019 represent vehicles acquired for development of the Company's activity.

16. INTANGIBLE ASSETS

Assets	Brands	Computer software	Right of use	Total
As of 31.12.2018 (restated)	**21,385**	**906,401**	**4,406,633**	**5,334,419**
Amortization as of 31.12 .2018 (restated)	3,795	133,862	1,389,827	**1,527,484**
Net book value as of 31.12.2018 (restated)	**17,590**	**772,539**	**3,016,805**	**3,806,934**
Additions		183,351	989,523	**1,172,874**
Amortization charge for the :tear	2,333	212,317	1,467,505	**1,682,155**
As of 31.12.2019	**21,385**	**1,089,752**	**5,396,156**	**6,507,293**
Amortizat ion as of 31.12.2019	6,128	346,179	2,857,332	**3,209,639**
Net book value as of 31 .12.2019	**15,257**	**743,573**	**2,538,824**	**3,297,654**

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

Following the IFRS 16 implementation a right of use and related amortization was recognized in connection to operating lease contracts for offices of the Company in the entire country. At 31 December 2019 the Company has in force 8 rent contracts concluded with supplie rs for a period greater than 12 months (usually 36 month s), from which two were signed during 2019.

17. TRADE AND OTHER LIABILITIES

	31 Dec. 2019	31 Dec. 2018
Liabilities		
Emp l o yees liabilities	1,337,117	884,113
Income tax payable	629,991	1,181,054
Other current liabil ities	610,322	381,771
Trading and other liabilities	**2,577,430**	**2,446,938**

At the end of December 2019, the most important liabilities were related to employees (salaries and taxes related to December salaries) and also income tax payable related to 2019 period. The income tax rate was stable over the periods at 12%.

18. LEASE LIABILITY

	31 Dec. 2019	31 Dec. 2018*
Liabilities		
Lease liability	2,538,824	3,016,805
Lease li ability	**2,538,824**	**3,016,805**

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 new standard, IFRS 16 - Leases.

During 2019 two lease contracts were signed for Comrat and Soroca new branches.

19. BORROW INGS FROM BANKS AND CREDITORS

	31 Dec.20 19	31 Dec. 2018
Liabilities		
Borrowings in CCY	72,875,993	14,348,060
Borrowings in FCY	104,3 68,294	127,219,499
Total	**177,244,287**	**141,567,559**
Borrowings in country	3,941,873	
Borrowings abroad	173,302,414	141,567,559
Total	**177,244,287**	**141,567,559**
Short term borrowed funds	49,972,769	8,003,686
Long term borrowed funds	127,532,297	133,563,873
Total	**177,244,287**	**141,567,559**
Short term interest	1,873,870	587,995
Long term interest	37,592,164	32,370,292
Total	**39,466,034**	**32,958,287**
Borrow ings from banks and credito rs	**216,7 10, 321**	**174,525,846**

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 t ot al bor ro wingsreceived has remained significant due to a new contract concluded in order to cease a loan receivedfrom General Factoring LLC, in a tota l amount of MDL 65,187,761 (principal MDL 48,130,683, interest MDL 17,057,078).

Most of the borrowed funds at 31 December 2019 were on long term position (76% out of total) (31 December 2018: 95%), the average period of maturity for a contract concluded being 43 months. In order to obtain the contracts, the Company's pledge in favour of partner was at 31 December 2019 by MDL 71,190,768 (31 December 2018: MDL 17,935,075).

Please see below the split and evolution of Company's borrow ings by source of financing:

	31 Dec. 2019		31 Dec. 2018	
	Principal	**Interest**	**Principal**	**Interest**
Other financing	98,021,680	1,336,519	54,157,911	23,291,252
Shareholder loans	76,722,607	38,129,515	87,409,648	9,667,035
Bank	2,500,000			
Total	**177,244,287**	**39,466,034**	**141,567,559**	**32,958,287**

The interest expense booked by the Company in 2019 (MDL 25,922,875) was significantly high er than in 2018 (MDL 15,336,381), mostly as a result of higher amounts received during the year but also due to the increase of the average interest rate, from 11.69% in 2018 to 13.25% in 2019. as a result of more local currency loans and subs equently higher interest rate.

20. ADVANCES FROM CUSTOMERS

	31 Dec. 2019	31 Dec.2018
Liabilities		
Advances from customers	3,459,399	2,150,714
Advances from customers	**3,459,399**	**2,150,714**

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

21. DEFERRED TAX LIABILITIES

	31 Dec. 2019	31 Dec. 2018
Liabilities		
Deferred tax liabiliti es	118,779	10,249
Deferred tax liabilities	**118,779**	**10,249**

Deferred tax liabiliti es reported by the Company are related to the temporary differences recorded between the statutory books and the IFRS financial statements approach regarding allowances for loans receivables and provisions for untaken holidays (the most important part of the amount at December 2019).

22. EQUITY

	31 Dec. 2019	31 Dec. 2018
E uit		
Share capital	54,018,406	47,239,325
Reserves	2,700,920	
Retained earnings	930,231	(1,407,248)
Total E9uity	**57,649,557**	**45,832,077**

The sole shareholder is Alternative Fund managed by Mikro Kapital Management S.A., hold ing 100% of Mikro Kapital. All the share capital is issued and fully paid, the last increase of it being during 2019 by MDL 6,779,080.

In accordance with local legislation, at least 5% out of the Company's net statutory profit must be allocated to the reserve capital until this reserve represents 10% out of the Company's share capital, so at the end of 2019 was created the legal reserve in amount of MDL 2,700,920, which represents almost 5% out of the Company's share capital.

23. RELATED PARTY TRAN SACTIONS

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. Please see below the list of related parties, balance at December 2019 and transaction recorded during the year.

a) List of related parties

No	List of Related Party	Type of relation	Country of origin
	Alternative Securitisation Fund RCS managed by Mikro Kapital Management SA	Parent of Mikro Kapita l Company LLC	Luxembourg
2	Turcanu Sergiu	Administrator	Republic of Moldova
3	Vincenzo Trani	Final beneficiary	Italia
4	Giorgio Parola	Member of board	Italia
5	Grigory Chorovan	Head of board	Russia
6	Ablaeva Elvina	Member of board	Russia
7	Mikro Kapital Corporat ive Service LLC (Russia)	Subsidiaries of Mikro Kapital Group	Russia
8	OK Credit SRL	Shareholder with 30%	Republic of Moldova

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

No.	Name of the Company/Person	Type of transaction	Balance as at 31.12.2019	Balance as at 31.12 .2018
	Alternative Securitisation Fund RCS managed by Mikro Kapital Management SA	Shares owned in Company	54,018,405	47,239,325
		Borrowings received by Company	76,461,828	87,409,648
		Interest accrued for borrowings	38,129,515	9,667,035
2	Turcanu Sergiu	Loans Granted	16,009	106,630
		Accrued interest for loans granted	116	770
3	Mikro Kapital Corporative Service LLC	Financial services according to agreement		195,212
4	NBO OK Credit LLC	Shares owned by Company	623,700	610,020
		Loans granted	1,348,235	2,049,726
		Interest for loans granted	20,224	30,744

c) Transactions in relation with related parties during 2019 and 2018 (all amounts in MDL)

7. ***Sales/ Loans granted:***

Name of the Company/Person	Type of transaction	Amount 2019	Amount 2018
Turcanu Sergiu	Loans Granted		135,000
	Reimbursements of principal	90,621	45,870
	Reimbursements of interest	6,689	4,592
NBO OK Credit LLC	Loans Granted		212,835
	Principal received	701,491	
	Interest received	407,680	408,829
	Dividend income	222,857	164,062

2. ***Acquisition I Borrowings:***

Name of the Company/Person	Type of transaction	Amount 2019	Amount 2018
Alternative Securitisation Fund RCS	Borrowings received	29,933,455	67,215,274
	Interest accrued	18,215,518	7,741,325
	Assignment of principal from General Factor ing LLC	40, 500,567	
	Assignment of interest from General Factoring LLC	24,687,194	
	Borrowings paid	81,381,840	4,297,506
	Interest paid	14,440,240	1,891,220
	Share capital increase	6,779,080	
Mikro Kapital Corporative Service LLC (Russia)	Purchase of Financial Services	1,978,670	1,176,285

24. RISK MANAGEMENT

Introduction and overview

Mikro Kapital's Board of Directors has 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:

24.1 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 man age 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 det ermining 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 posit ions , which are monitored daily. The table below sum marizes the Company's exposure to foreign currency exchange rate risk at 31 Decembe.r Included in the table are the Company's financial instruments denominated in foreign currencies at carrying amounts, categorized by currency.

31 Dec. 19	**USD**	**EUR**	**MDL**	**Total**
Assets				
Cash and cash equivalents	9,271	5,198,637	1,074,503	**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**	**146,148,881**	**278,355,183**
Liabilities				
Borrowings from banks and other parties		114,762,511	101,947,810	**216,710,321**
Lease Liabi lit ies		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**	**59,106,037**

31 Dec.18	USD	EUR	MDL	Total
Assets				
Cash and cash equivalents	8,582	9,171,422	2,742,041	**11,922,045**
Loans granted to customers		105,021,167	105,269,669	**210,290,836**
Other assets		37,184	1,365,349	**1,402,532**
Total financial assets	**8,582**	**114,229,773**	**109,377,059**	**223,615.413**
Liabilities				
Borrowings from banks and other parties		159,595,215	14,930,631	**174,525,846**
Lease Liabilities		2,424,654	592,151	**3,016,805**
Total liabilities		**162,019,869**	**15,522,782**	**177,542,651**
Net on balance sheet	**8,582**	**(47,790,097)**	**93,854,277**	**46,072,762**

At 31 December 2019, 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 2019 would have been approximately MDL 1,539,403/ MDL (1,539,403) (2018: MDL (4,779,097)/ MDL 4,779,097 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 expose Mikro Kapital to fair value interest rate risk. Mikro Kapital's management monitor s 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:

IYM	Fixed rate MDL	Floating rate MDL	Total
Loans granted to customers	280,548,995		280,548,995
Borrowings from banks and other earties	164,053,800	13,190,486	177,244,286
Net impact	**444,602,795**	**13,190,486**	**457,793,281**

Changes in base interest rate, in bps	Loans granted to customers	Borrow ings from banks and other parties	Net impact of change in interest rate
+/ -100		+/131,904	+/131,904
+/ -200		+/263,809	+/263,809
+/ -300		+/395,714	+/395,714

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.

24.2 Credit risk

'Credit risk' is the risk of financial loss to Mikro Kapital if a customer or counterparty to a financial inst rument fails to meet its contractual obligations, and arises prin cipally 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. individua l obliger 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 settlemen ts 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 Committ ee, 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 compl iance 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.

- *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 liquid ity.
- *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 wit h 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, regu lar validation and back-testing of the models used;
  - determining and monitoring significant increase in credit risk; and
  - incorporat ion 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 t aken. Th ese in clude reports cont aining 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 Kapita credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee.

Mikro Kapit al has a Chief Cred it Risk Officer who report s on all credit-related matt ers 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 busin ess units and Mikro Kapital Credit processes are undertaken by Internal Audit.

Indicator name	2019	2018
Portfolio at Risk (PAR) > 30 Ratio	**2.3%**	**1.4%**
PAR> 30 Days	6,507,129	2,955,441
Gross Loan Port fo li o*	280,548,995	218,121,458
Portfolio at Risk (PAR) > 30 and Renegotiated Loans	**4.8%**	**3.2%**
PAR> 30 Days + Value of Renegotiated Loans	13,342,156	7,038,762
Gross Loan Portfolio*	280,548,995	218,121,458
Write off Ratio	**0.3%**	**0.3%**
Value of Loans Written Off	788,829	493,640
Average gross portfolio	249,335,226	171,559,183
Risk Coverage Ratio	**144.1%**	**265.0%**
Impa irment Loss Allowance	9,376,234	7,830,622
PAR> 30 Days	6,507,129	2,955,441
Risk Coverage Ratio (includes renegotiated loans)	**70.3%**	**111.2%**
Impairment Loss Allowa nce	9,376,234	7,830,622
PAR> 30 Days + Value of Renegotiated Loans	13,342,156	7,038,762
Open Credit Exposure Ratio	**-5.0%**	**-10.6%**
Port fo lio at risk > 30 days - Impairment Loss Allowance	(2,869,105)	(4,875,181)
Total Equity	57,649,557	45,832,077
Open Credit Exposure Ratio incl. Renegotiated Loans	**6.9%**	**-1.7%**
Port fo lio at risk >30 days + Renego tiat ed loans Impair ment Loss Allowance	3,965,922	(791,860)
Total Equit y	57,649,557	45,832,077
Provisioning Expense Ratio	**0.6%**	**1.4%**
Impairment Losses on Loans	1,545,612	2,417,174
Average gross loan port folio*	249,335,226	171,559,183
Portfolio to Assets	**98 .8%**	**95.4%**
Gross loan portfolio*	280,548,995	218,121,458
Assets	283,832,161	228,585,392

Credit risk measurement

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

(i) the 'probability of de fa ult ' by the client or counterparty on its cont ract ual 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 defau lt').

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. 2019		31 Dec. 2018	
Data on PAR	**Gross book value**	**Impairment**	**Grossbook value**	**Impairment**
Cur re nt Portfolio	262,770,212	6,834,339	208,128,002	6,518,471
PAR Stage 1	8,082,074	642,063	4,601,254	492,739
PAR Stage 2	3,069,542	680,829	2,069,452	460,866
PAR Stage 3	3,437,587	1,219,003	885,989	358,546
Total	**277,359,415**	**9,376,234**	**215,684,697**	**7,830,622**

The maximum credit risk exposure

The below table represents a maximum credit risk exposure to the Company as at 31 December 2019 and 31 December 2018, 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 belo w, the most important part of the to ta l maximum exposure is derived from loans granted to customers, 98% (2018: 95%).

	Maximum exposure	
	2019	2018
Maximum credit risk exposures are as follows:		
Financial assets at cost	623,700	610,020
Cash and cash equivalents	6,282,411	11,922,045
Loans granted to customers:		
- Individua ls	**338 395**	**799,125**
Loans to corporate entit ies:	**277,021,020**	**214,885,573**
- Micro & Small business	181,026,839	144,212,742
- Medium business	63,919,828	46,070,496
- Large business	32,074,353	24,602,335
Credit risk exposures relating to off-balance sheet assets are as follows:		
Loan commitments and other credit related liabilities		
As at 31 December	**287,455,106**	**230,653 ,522**

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 fol lowing:

- 98% of the loans and advances port fo lio is categorised in the first stage of the impairment;
- Loans to individua ls represent 0.1% from the loan port folio (2018: 0.4%);

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

Tlee	Stage 1	Stage 2	Stage 3	31-Dec-19	31-Dec-18
- Individuals	338,395			338,395	799,124
- Micro & Small business	175,859,521	2,094,090	3,073,227	181,026,839	144,212,742
- Medium business	62,580,017	975,452	364,359	63,919,828	46,070,496
-Large business	32,074,353			32,074,352	24,602,335
Total Gross	**270,852,286**	**3,069,542**	**3,437,586**	**277,359,414**	**215,684,697**
Impairment	**(7,476,402)**	**(680,829)**	**(1,219,003)**	**(9,376,234)**	**(7,830,622)**
Net amount	**263,375,884**	**2,388,713**	**2,218,583**	**267,983, 180**	**207,854,075**

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 -collateralised assets") and (ii) those assets where collateral and other credit enhancements are less than the carrying value of the asset ("under-co llateralised assets").

The effect of collateral at 31 December 2019 and 31 December 2018:

a) Split by type of collateral

Distribution by collateral	31 Dec. 2019 Gross book value	31 Dec. 2019 Collateral amount	31 Dec. 2018 Gross book value	31 Dec. 2018 Collateral amount
Hard collateral	158,173,188	253,192,580	133,292,660	171,024,189
Guarantor	111,726,980	111,726,980	81,603,654	81,603,654
Soft collateral	7,358,078	8,851,504	647,054	778,383
Unsecured	101,169		141,328	
Total	**277,359,415**	**373,771,064**	**215,684,696**	**253,406,226**

b) Split of collateral by stage

Data on PAR	31 Dec. 2019 Gross book value	31 Dec. 2019 Collateral amount	31 Dec. 2018 Gross book value	31 Dec. 2018 Collateral amount
Current Portfolio	262,770,212	353,595,390	208,128,003	244,936,112
Portfolio at Risk 1 to 30 days -Stage 1	8,082,074	13,667,162	4,601,254	3,320,832
Portfolio at Risk 31 to 90 days -Stage 2	3,069,542	4,653,563	2,069,452	4,938,636
Portfolio at Risk more than 90 days -Stage 3	3,437,587	1,956,118	885,989	351,974
Total	**277,359,415**	**373,872,233**	**215,684,696**	**253,547,554**

c) Over / under collateralised assets:

31 Dec. 2019

Data on PAR	Over Gross book value	Over Collateral amount	Under Gross book value	Under Collateral amount
Current Portfolio	154,990,010	347,844,305	107,780,201	5,751,086
Portfolio at Risk 1 to 30 days -Stage 1	5,833,661	13,517,162	2,248,414	150,000
Portfolio at Risk 31 to 90 days -Stage 2	1,824,972	4,397,741	1,244,570	255,822
Portfolio at Risk more than 90 days -Stage 3	1,113,394	1,956,118	2,324,193	
Total	**163,762,037**	**367,715,326**	**113,597,378**	**6,156,908**

31 Dec. 2018

Data on PAR	Over		Under	
	Gross book value	Collateral amount	Gross book value	Collateral amount
Current Portfolio	105,282,561	228,240,319	102,845,442	16,695,792
Portfolio at Risk 1 to 30 days -Stage 1	1,930,840	3,320,832	2,670,413	
Portfolio at Risk 31 to 90 days -Stage 2	1,038,183	4,938,636	1,031,269	
Portfolio at Risk more than 90 days -Stage 3	180,557	351,975	705,432	
Total	**108,432,141**	**236,851,762**	**107,252,556**	**16,695,792**

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 2019 amounted MDL 6,675,701 (2018: MDL 3,985,771), please see the table below:

	31-Dec-19	31-Dec-18
Loans to corporate entities	6,633,413	3,907,685
including in arrears	153,142	154,885
Other loans to individuals	201,614	20,751
including in arrears	55,769	
Total current restructured	**6,626,116**	**3,773,551**
From which restructured in arrears	**208,911**	**154,885**

24.3 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 Kapit al's strategy for managing liquid ity risk and oversight of the implementation is administered by Mikro Kapital Management Commi tt ee. Mikro Kapital Management Committee approves Mikro Kapit al' s liquidit y policies and procedures created by the Financ ial Risk team. Mikro Kapital manages Mikro Kapital's liquidity position on a day-to -day basis and reviews daily reports covering the liquidity positi on of Mikro Kapital. A summary report, including any exceptions and remedial action taken, is submitted regularly to Group Management Risk.

Mikro Kapita l'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 cond itions, 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 maint aining contingency facilities.
- *Carrying a portfolio* of highly liquid assets, diversified by currency and maturity.
- *Monitoring maturity mismatches,* behavioura l 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 obt aining 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 un its r egarding the liquidity profile of their financial assets and financial liabilities and details of oth er 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 liqu idity requirements of business units are met through loans from Group funds to cover any short-term fluctuations and longer-term funding to addr ess any structural liquid it y requirements.

Regular liquidity stresst esti ng is conducted under a variety of scenar ios covering both normal and more severe market conditions. The scenarios are developed taking into account both Group-sp ecifi c events (e.g. a rating downgrade) and market-related events (e.g. prolonged market illiquid ity, 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 maturit ies as possib le and plan for liquidity needs. In line with the IFRS' conservative and prudent approach, this table is based on asset and liability contractua l maturity dates, but it does not include the amounts relatedto future interest to be received/ paid.

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**	**(43,431,072)**	**4,065,751**		**65,786,063**

As at 31 Dec. 2018

Assets	<1 month	1-3 months	3-12 months	1-5 rears	>5 rears	No maturitr	Total
Cash and cash equivalents	5,000,000	6,922,045					**11,922,045**
Loans and advances to customers	1,300,451	3,167,571	121,134,967	62,510,927	30,007,542		**218,121,458**
Other assets	684,270	665,993		52,269			**1,402,532**
Total assets	**6,984,721**	**10,755,609**	**121,134,967**	**62,563,196**	**30,007,542**		**231,446,035**
Liabilities	**<1 month**	**1-3 months**	**3-12 months**	**1-5 rears**	**>5 rears**	**No maturitr**	**Total**
Borrowings from banks and other		3,759,348	4,841,604	140,215,551	25,709,343		**174,525,846**
Other liabilities	884,113	77,736	1,485,089	10,249			**2,457,187**
Lease liabilities	112,522	225,043	1,052,261	1,626,979			**3,016,805**
Total liabilities	**996,635**	**4,062,127**	**7,378,954**	**141,852,779**	**25,709,343**		**179,999,838**
Net liquidity gap	**5,988,086**	**6,693,482**	**83,108,254**	**(48,641,824)**	**4,298,199**		**51,446,197**

24.4 Operational risk

'Opera tional risk' is the risk of direct or indirect loss arising from a wide variety of causes associated with Mikro Kapi tal'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 Kapit al's objective is to manage operational risk so as 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 appro priate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requi rements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy ofcontrols and procedures to address the risks identi fied;
- requirements for the reporting of operational lossesand 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.

	2019		2018	
Indicators	Number of Loan Officers	Active portfolio per Loan Officer	Number of Loan Officers	Active portfolio per Loan Officer
Chisinau	6	17,829,004	6	15,506,507
Balti	5	11,502,854	5	10,767,354
Soroca	5	7,534,018	3	7,548,123
Drochia	4	6,648,998	3	7,218,563
Comrat	5	6,582,841	3	6,872,098
Edinet	3	5,162,742	3	1,297,511
Cahul	3	67,535		

Indicator name	2019	2018
Operating Expense Ratio	**8.5%**	**8.6%**
Operating Expense	21,087 ,111	14,683,509
Average gross loan portfolio*	249,335,226	171,559,183
Cost to Income Ratio	**35.2%**	**34.3%**
Operating Expense	21,087 ,111	14 ,683,509
Financial revenue	59,961,339	42,849,673
Cost per active client	**15,325**	**15,588**
Operating Expense	21,08 7,111	14,683 ,509
Average number of act ive clients	1,376	942
Average loan portfolio per Loan Officer	**5,420,331**	**4,901,691**
Average gross loan portfolio*	249,335,226	171,559,183
Number of Loan Officers	46	35
Average disbursements per Loan Officer	**5,228,618**	**5,925,425**
Disbursement s	240,516,444	207,389,864
Number of Loan Officers	46	35
Clients per Loan Officer	**30**	**32**
Number of active clients	1,383	1,115
Number of Loan Officers	46	35
Active clients per staff member	**42**	**48**
Number of active clients	1,383	1,115
Total number of personnel	33	23

24.5 Fair value of financial assets and liabilities

Fair value measurements are analysed by level in the fair value hierarchy as described below. Management applies judgement in categorising 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 indire ctly (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

Due to the fact that the main part of the borrowings has floating rates their fair value approxima tes their carrying value.

The table below summarise 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 2019 and 31 December 2018.

	31 Dec. 2019					31 Dec. 2018				
	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	6,282,411	6,282,411	-		**6,282,411**	11,922,045	11,922,045			**11,922,045**
Financial assets at cost	623,700	-	-	623,700	**623,700**	610,020			610,020	**610,020**
Loans granted to customers:										
- Micro &Small	338,395			338,395	**338,395**	804,961			804,961	804,961
- Medium business	181,026,8 39			181,026,839	**181,026,839**	44,212,742			44,212,742	144,212,742
- Corporate	63,919,828			63,919,828	**63,919,828**	46,070,496	-		46,070,496	46,070,496
-Individual	32,074,352			32,074,352	**32,074,352**	24,602,335			24,602,335	24,602,335
Total loans	**277,359,414**			**277,359,415**	**277,359,415**	**215,690,533**	**11,922,045**		**215,690,533**	**215,690,533**
Total assets	**284,265,525**	**6,282,411**	**-**	**277,983,115**	**284,265,526**	**228,222,598**	**11,922,045**		**216,300,553**	**228,222,598**
Financial liabilities										
Borrowings	216,710,321			216,710,321	**216,710,321**	174,525,846			174,525,846	**174,525,846**
Lease liabilities	2,538,824			2,538,824	**2,538,824**	3,016,805			3,016,805	**3,016,805**
Total Liabilities	**219,249,145**			**219,249,145**	**219,249,145**	**177,542,651**	**-**		**177,542,651**	**177,542,651**

24.6 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.

24.7 Litigation risk

The risk of litigat ion is the risk of financial loss, disruption of Mikro Kapital's activity, or any other situat ion 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.

24.8 Reputational risk

The risk of loss of reput ation 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 Mi kro Kapita l. Mikro Kapital applies procedures to minimize this risk.

24.9 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 Kapit al 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.

Bellow table provides Profitability Ratio, ability to manage capital.

Indicator name	31 Dec. 2019	31 Dec. 2018
Cost of Funds Ratio	**16.3%**	**14.8%**
Financial expenses on Funding Liabilities + hedging exp.	25,922,875	15,336,381
(Avg. deposits + avg. borrowings +Avg.Payable Notes)	159,405,923	103,840,815
Debt to Equity	**111.2%**	**71.6%**
Liabilities - Sub debt	149,459,997	95,343,667
Equity + Sub debt	134,372,164	133,241,725
Adjusted Debt to Equity	**109.3%**	**69.7%**
Liabilities - Sub debt - Accounts Payable	146,882,567	92,896,729
Equity + Sub debt	134,372,164	133,241,725
Operational Self Sufficiency	**123.5%**	**132.1%**
Financial revenue	59,961,339	42,849,673
Financial expense + Impairment Losses on Loans + operating expense	48,555,598	32,437,064
Return on Assets	**2%**	**3.5%**
Net income after taxes	5,038,399	8,030,369
Average assets	256,208,777	227,076,990
Return on Equity	**9.7%**	**19.2%**
Net income after taxes	5,038,399	8,030,369
Average equity	51,740,817	41,816,893
Solvency	**20.3%**	**20.1%**
Total Equity	57,649,557	45,832,077
Total Assets	283,832,161	228,585,392
Un-Hedged Open Currency Position	**27.2%**	**-108.6%**
Assets Denominated or foreign currency - Liabilities Denominated or foreign currency (Unhedged)	15,655,021	(49,782,996)
Total Equity	57,649,557	45,832,077
Yield on Gross Loan Portfolio	**24.1%**	**24.6%**
Cash received from interest, fees, and commissions on loan portfolio	60,027,617	42,231,441
Average gross loan portfolio	249,335,226	171,559,183
Portfolio to Assets	**98.8%**	**95.4%**
Gross loan portfolio	280,548,995	218,121,458
Assets	283,832,161	228,585,392
Liquidity Ratio	**12.0%**	**114.1%**
Cash + Short Term Investments	6,282,411	11,922,045
(Total Short Term borrowings + Interest Payable on Funding Liabilities + Accounts Payable and Other Short-term Liabilities)	52,289,420	10,450,624

25. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

25.1 Sale of financial investment

In 2020 the Company has sold the shares owned in OCN OK Credit SRL at the selling price equal to the book value of investment, MDL 623,700

25.2 COVID 19 - impact

Considering the current situation regarding the pandemic caused by COVID 19 affecting the entire world, the management has already implemented an emergency working plan in order to minimize the impact.
As per Order of the General Director, it was decided to offer certain grace periods for certain clients. Moreover, during this period, the Company's sta ff have discussed with each client separately requesting estimation of payments and ultimately collections. It is estimated a deferral/postponement of collections for the period of April-June of about MDL 10 million. The Company plans to partially recover the deferred receipts by the end of 2020. At the same time, for some customers the company will proceed with the rescheduling of the payments for April -June proportiona lly to the contract period.
During the quarantine period, the personnel of the company was asked to work 4 hours a day, there were requested payment deferrals concerning operational expenses, thus balancing the liquidity concerning cash-in and out.
Currentl y, we do not estimate an essential loss for the company in this peri od, which would affect the principle of continuity of the bu sin ess activity.