DTC
AUDIT

■ "DTC Audit" SRL
R.Moldova, or.Chişinău
str. A.Russo 59/4 of.164
Certificat de înregistrare MD0086627 din 22.01.2009

■ Tel/fax: (0 22) 22 01 06
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E-mail: dtc.audit@gmail.com
Licența ser.AMMII nr.050978 din 26.02.2014

AUDITORS' REPORT

on the Financial Statements
prepared in accordance with National Accounting Standards
for the year ended December 31ST, year 2019
of the Non-Banking Credit Organization „SMART CREDIT" LLC

Chişinău, 2020

CONTENT **PAGE**

GENERAL INFORMATION

Non-Banking Credit Organization (Non-Banking Credit Organization) “SMART CREDIT“ LLC ("the Company") was incorporated in May 05th 2010 year, according to the Certificate of Registration nr.MD 0095695, issued by the Ministry of Information Development from Republic of Moldova, with the purpose of granting and managing loans, providing guarantees on loans and bank loans, make investments according to *the Law on non-banking credit organizations no.01 dated 16.03.2018*, approved by the Parliament of Rep.of Moldova.

Its registered address is: 10 Nationala str., Ungheni city, Republic of Moldova.

The Company's offices are located on:

- 10, Nationala street, Ungheni city, Rep.of Moldova;
- 10, Crestiuc street, Ungheni city, Rep.of Moldova;
- 73, Mihai Eminescu street, II floor, Calarasi city, Rep.of Moldova;
- 1, Iu.Gagarin Avenue, Chisinau city, Rep.of Moldova;
- 1, Barbu Lautaru street, Cimislia city, Rep.of Moldova;
- 1/C, Stefan cel Mare street, Causeni city, Rep.of Moldova;
- 13, Independentei street, Riscani city, Rep.of Moldova.

The Company's number of employees as at 31 December 2019 was 38 persons.

For the revised year (2019), the top management team was comprised of:

- Cozmolici Sergiu - Chairman of the Board;
- Angheluta Ecaterina – Executive Director;
- Barbaneagra Larisa – Chief Accountant.

Description of Business and Consumer loan products

Currently, the company operates in Ungheni, Calarasi, Cimislia, Causeni, Riscani and the Chisinau regions of the Rep. of Moldova, offering loans to privates enabling them to repair their houses, for sanitation, for education of members of their families, loans to businesses in order to foster trade and commerce. The main activity of this region is agriculture and commerce.

Business Model

<table>
<tr><td rowspan="2">Key
Partners
Local banks,
Kiva,
Coopest,
Envest,
Oikocredit,
Fondation Grameen,
GLS Alternative,
Persons, SMEs</td><td>Key
Activities
Loans
Insurances</td><td rowspan="2" colspan="2">Value
Proposition
Fast, simple loans and insurances for disadvantaged people. We help people to fulfill their dreams.</td><td>Customer
Relationships
Long term
partnership</td><td rowspan="2">Customer Segments
Rural people from Moldova</td></tr>
<tr><td>Key
Resources
Team
Software
Money</td><td>Channels
Branches,
Referents,
Billboards,
Newspapers,
Flyers</td></tr>
<tr><td colspan="3">Cost
Structure
Money,
HR</td><td colspan="3">Revenue
Streams
Interest, commissions loans,
Commissions on insurances</td></tr>
</table>

Company's loan products are unsecured business and consumer loans with maturity of not less than 1 month and not longer than 84 months; the loan amounts of not less than approximately 100 EUR and not more than approximately 15000 EUR equivalent in MDL, and the financial ratios ROE *(Return on Equity*) and ROA *(Return on Assets)* registered in 2019 year the values of 32,25% and 6,39%.

All procedures of the company's activity are established and described in the Internal Operational Handbook, approved by the board of the company according to the minute's from 26.12.2019.

Description of revenue base

The Company's revenue consists of (i) loan agreement commission fees, which are charged for receiving, processing the loan application and issuing the loan, or modifying the valid loan conditions; (ii) interest, which is charged on the outstanding principal amount; and (iii) various fees applied in case of different breaches of loan agreement. Company business is built on the concept that we need only performing customers and we want to avoid situations with poorly performing or defaulting loans. Therefore, the majority of Company's interest and fees income is coming from the normally performing customers. Fees applied in cases of different breaches are targeted, as a whole, to compensate the lost money that we should have otherwise received duly according to the original loan agreements.

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INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of the Non-Banking Credit Organization "SMART CREDIT" LLC which comprise the statement of financial position as at December 31, 2019, income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with National Accounting Standards (NAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the organization 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 of the Non-Banking Credit Organization "SMART CREDIT" LLC, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with National Accounting Standards, and with normative acts approved by the National Commission for Financial Market.

In preparing the financial statements, management is responsible for assessing the organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the organization or to cease operations, or has no realistic alternative, but to do so.

Those charged with governance are responsible for overseeing the organization's financial reporting process.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives 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 ISA 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 ISA, we exercise professional judgment and maintain professional skepticism throughout 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 organization'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 concerns basis of accounting and, based the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue activity. 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 organization to cease to continue as a 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 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.

We also provide those charged with governance a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

This report is addressed solely to the organization's shareholders, as a body. Our audit work has been undertaken so that we might state to the organization's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the organization and the organization's shareholders as a body, for our audit work, for this report, or for the opinion we have formed.

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

Tatiana NICORA
Licensed Auditor, Director
Certificate of audit qualification nr. AG 000194 issued on 08.02.2008
Certificate of audit qualification nr. APFN 0000078 issued on 19.11.2015
„DTC Audit" SRL
License nr.AMMII 050978 issued on 26.02. 2014

Chişinău, Republic of Moldova
March 02, 2020

ASSETS	Notes*	2019 MDL	2018 MDL
Cash in hand	2	1 027 476	1 989 161
Current bank accounts	2	9 767 295	2 987 131
Other cash equivalents	2	41 528	2 573
Investments in securities and shares	2.1	200 000	200 000
Changing the value of investments in securities and shares		-	-
Deposits with banks		6 212 381	2 447 548
Loans and borrowings to customers	3	72 173 578	51 491 664
Provisions for loans and borrowings impairment	4	-1 783 913	-1 644 108
Receivables on income accrued (interests on loans, penalties, etc.)	4	505 771	482 558
Provisions for interests on loans and borrowings	4	-27 582	-41 695
Property and equipment, intangible assets – net	5	2 322 570	2 330 408
Other assets	6	811 872	827 008
Total Assets		**91 250 976**	**61 072 248**
LIABILITIES			
Deposits for providing loans		-	-
Bank credits, loans and borrowings received	7	65 482 513	41 014 453
Due to interests on bank credits, loans and borrowings received	7	928 235	1 365 371
Other liabilities	8	141 242	15 936
Total Liabilities		**66 551 990**	**42 395 760**
SHAREHOLDERS' EQUITY			
Share capital		2 074 994	2 074 994
Unpaid capital		-	-
Withdrawn capital		-	-
Legal reserves		208 727	208 727
Other reserves		-	-
Correction of results from previous years		-	-
Retained earnings (uncovered loss) of previous years		16 152 233	12 208 212
Net profit (loss) for the year		6 022 498	3 944 021
Profit use of the year (Dividends prepaid)		-	-
Additional Capital		-97 276	-97 276
Difference on revaluation of long-term assets		337 810	337 810
Subsidies		-	-
Total Equity		**24 698 986**	**18 676 488**
Total Liabilities and Equity		**91 250 976**	**61 072 248**

These financial statements were authorized to be issued on 24 February 2020 by Organization's directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

REPUBLICA MOLDOVA SOCIETATE CU RĂSPUNDERE LIMITATĂ ORGANIZAȚIA DE CREDITARE NEBANCARĂ O.C.N. «SMART CREDIT» S.R.L. IDNO 1010609001442

** The accompanying notes are an integral part of these financial statements.*

	Notes*	2019 MDL	2018 MDL
Interest income on granted loans and borrowings	9	16 985 909	14 145 783
Other interest income		9 935	12 322
Interest expenses on deposits		-	-
Interest expenses and similar charges related to bank credits, loans and borrowings received	10	4 774 251	4 144 916
Net result from the calculation and reverse of provisions for impairment of granted loans and borrowings	11	-1 893 266	-2 371 434
Gross profit/ (loss)		**10 328 327**	**7 641 755**
Other operating income (commissions, penalties, other rendered services)	12	6 284 595	5 294 896
General and administrative expenses	13	9 541 544	7 557 655
Other operating expenses	14	197 699	581 534
Operating profit/ (loss)		**6 873 679**	**4 797 462**
Investment gain/ (loss) – net		-	-
Financial gain/ (loss) – net	15	116 493	-173 957
Profit/ (loss) of the period before tax		**6 990 172**	**4 623 505**
Income tax expenses	16	-967 674	-679 484
Net profit (loss)		**6 022 498**	**3 944 021**

These financial statements were authorized to be issued on 24 February 2020 by Organization’s directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

** The accompanying notes are an integral part of these financial statements.*

Share and additional capital	Value at the end of 2018 year MDL	Increases MDL	Decreases MDL	Value at the end of 2019 year MDL
Share capital	2 074 994			2 074 994
Withdrawn capital	-			-
Total Share and additional capital	**2 074 994**	**-**	**-**	**2 074 994**
Legal reserves	208 727	-	-	208 727
Other reserves	-	-	-	-
Total Reserves	**208 727**	**-**	**-**	**208 727**
Retained earnings (loss)				
Correction of results from previous years	-	-	-	-
Retained earnings (loss) of previous years	16 152 233	-	-	16 152 233
Net profit (loss) of current year		6 022 498	-	6 022 498
Total Retained earnings	**16 152 233**	**6 022 498**	**-**	**22 174 731**
Additional Capital	-97 276	-	-	-97 276
Difference on revaluation of long-term assets	337 810	-	-	337 810
Total Non-owner's capital	**240 534**	**-**	**-**	**240 534**
TOTAL Fund Balance and Reserves	**18 676 488**	**6 022 498**	**-**	**24 698 986**

These financial statements were authorized to be issued on 24 February 2020 by Organization's directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

REPUBLICA MOLDOVA SOCIETATE CU RASPUNDERE LIMITATA
ORGANIZATIA DE CREDITARE NEBANCARA
«SMART CREDIT» S.R.L.
IDNO 1010609001442

O.C.N. „SMART CREDIT” S.R.L.
CASH FLOW STATEMENT (Direct Method)
FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 MDL
OPERATING ACTIVITIES	
1.1 Cash Flow	
Interest receipts	17 382 685
Interest payments	2 109 538
Other cash receipts related to operational activity	1 206 296
Payments to employees and social contributions	4 527 456
Other payments related to operational activity	3 624 700
Total 1.1	**8 327 287**
1.2 Increase (decrease) in assets	
Receipts from bank deposits	2 056 415
Receipts from the repayment of loans and borrowings	58 178 102
Payments of granted loans and borrowings	80 510 967
Payments of bank deposits	5 849 070
Total 1.2	**- 26 125 520**
1.3 Increase (decrease) in liabilities	
Receipts form of banks credit, loans and borrowings received	39 222 690
Repayment of banks credit, loans and borrowings received	15 316 039
Total 1.3	**23 906 651**
NET CASH FLOW FROM OPERATING ACTIVITIES	**6 108 418**
INVESTING ACTIVITIES	-
Payments to buy non-current assets	-
Other cash receipts or payments	-
NET CASH FLOW FROM INVESTING ACTIVITIES	**-**
FINANCING ACTIVITIES	
Deposit receipts of shares, issued shares	-
Other proceeds from financing activities	-
Payments for repurchase of quotas and shares	-
Dividends paid	-
Other cash payments	-250 984
NET CASH FLOW FROM FINANCING ACTIVITIES	**-250 984**
NET CASH FLOW BEFORE EXTRAORDINARY ITEMS	**5 857 434**
Extraordinary cash receipts or payments	**-**
TOTAL NET INFLOW	**5 857 434**
Effects of exchange rate changes	**-**
Cash and cash equivalents at the beginning of year	**4 978 865**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**10 836 299**

These financial statements were authorized to be issued on 24 February 2020 by Organization's directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

REPUBLICA MOLDOVA SOCIETATE CU RĂSPUNDERE LIMITATĂ ORGANIZAȚIA DE CREDITARE NEBANCARĂ O.C.N. «SMART CREDIT» S.R.L. IDNO 1010609001442

PRINCIPAL ACCOUNTING POLICIES

1 Basis of presentation

The accompanying financial statements have been prepared in accordance with National Accounting Standards and regulations set by the Ministry of Finance of the Republic of Moldova and National Commission for Financial Markets.

The accounting policy of the Organization is elaborated and approved according to the national regulations, based on the following fundamental accounting conventions:

- Going concern;
- Equality;
- Accrual basis.

The accounting policy of the Company is prepared based on the:

- Accounting and Financial Reporting Law No.287 from December 15, 2017;
- Law on non-banking credit organizations no.1 from March 16, 2018;
- Tax Code No.1163 – XIII from April 24, 1997;
- National Accounting Standards and National Chart of Accounts approved by the Ministry of Finance of the Republic of Moldova on August 06th 2013;
- Rules for the make cash transactions in the national economy of Moldova, approved by Government Decision No. 764 of 25 November 1992 and subsequent amendments;
- Legal framework issued by National Commission For Financial Markets;
- Internal regulations of the Organization.

Accounting records of the Organization are kept in official language, using the currency of the Republic of Moldova, that being the Moldovan Leu (MDL). The Organization uses the double recording accounting system, that requires to keep accounting of assets, equity, debts, costs, expenses and revenues based on accounts. Financial transactions are recorded in the Smart Credit Management software.

All economic facts are recorded based on sources and summary documents. The Organization uses standard documents forms approved by the Ministry of Finance. When no standard forms exist, the Organization uses forms of documents approved by the management. Source documents are provided on paper.

The organization performs general inventory counts of assets and liabilities elements annually, according the Regulation on inventory counts approved by the Ministry of Finance and Ministry of Justice. The inventory of cash is done during every quarter of the current year.

Going concern

The Organization’s management has made an assessment of the Organization’s ability to continue as a going concern and is satisfied that the Organization has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Organization’s ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

Foreign currency translation

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

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

Translation differences on non-monetary items, such as equity investments classified as available-for-sale financial assets, are included in the fair value reserve in equity. The year-end and average rates for the year were:

	2019		2018	
	USD	**Euro**	**USD**	**Euro**
Average for the period	17.5751	19.6741	16.8031	19.8442
Year end	17.2093	19.2605	17.1427	19.5212

Intangible assets

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

Depreciation is calculated on a straight-line basis over 3-5 years.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Property, plant and equipment

Property and equipment and other assets are recorded at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of assets. The useful life of fixed assets is determined according to Catalogue of fixed assets and intangible assets. The assets' residual value is determined for each asset particularly.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Items of tangible fixed assets that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included within the current income statement. The assets' repair is recognized either as a current expense or capitalized on the basis of the costs.

Intangible assets included the software Smart Credit Management, developed by SC Green Computers LLC (Romania) and maintained by Reality Soft (Romania) for microfinance companies. Intangible assets are stated at historical cost and are amortized using the straight-line method during their useful lives, which do not exceed five years.

Other assets

Inventories

The accounting of inventories is kept in quantity and value expression. Inventories are derecognized using the weighted average cost method. The inventory of tangible assets is done according to the Regulation of inventory, at least one time per year, for determining the real value of tangible fixed assets.

Inventory consists of fuel for own use, other materials and low value items. Inventories are stated at the purchase value. Small value items' residual value is not determined at initial recognition.

Accounts receivable

Accounts receivables include advances given, settlements with state budget/tax, receivable from employees.

Other current assets

Other current assets include other prepaid expenses (prepayment of office's insurance), maintenance fee of the software, account forms and other subscriptions.

Impairment losses on loans

Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under these circumstances. Changes in assumptions may have a significant impact on the financial statements in the period assumptions change. Management believes that the underlying assumptions are appropriate and the Organization's financial statements therefore present the financial position and results fairly. At the moment the provisions are created monthly, according to estimation of future losses from unpaid loans and receivables (related interest, commissions and penalties), which are recognized as non-performing loans (31st day overdue). Under reports the accountant calculates the amount of provision and accounts for them.

Provisions

Provisions are recognized when the Organization has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Organization expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

Provisions are recognized according to Internal regulation nr.02 from 01.04.2012, and which are in correlation to recommendations of Agency of Financial market, "Regulation of classification of issued loan and related interests calculated by microfinance companies", established by decision no.11/1 from 14.03.2012. During 2019 year, the company portfolio was tested to provision monthly, and created/posted to provision. The created provisions are included in the loss account.

Financial liabilities

All financial liabilities are initially accounted in acquisition cost, which also includes all expenses related directly with the purchase. Adjusted acquisition cost shall be used for all further reflections. The purchase price for short-term financial liabilities is generally equal to their nominal value, which is why short-term financial liabilities are reflected on the balance sheet in the sum deemed to be paid.

In order to calculate long-term financial liabilities' adjusted purchase price, they are accounted by the fair value of gained remuneration. A financial liability is categorized as being short-term, if the liability is due within twelve months from the date of the balance sheet; or if the undertaking does not have an unconditional right to postpone the fulfillment of the payment liability for longer than twelve months from the date of the balance sheet. Obligations that stem from a loan agreement with a repayment term of up to twelve months from the date of the balance sheet are reflected as short-term, on the condition that the term of the repayment lapses prior to the approval of the annual report.

Borrowings

Borrowings are recognized initially at fair value, being their issue proceeds (fair value of consideration 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 income statement over the period of the borrowings using the effective interest method.

Dividends

Dividends are not accounted for until they have been approved at the annual general meeting of the organization's shareholders.

Other liabilities

Pension costs and employee's benefits

The Organization contributes in respect of its employees to the Government social, medical and retirement contribution at the statutory rates in force during the year at 28,5% (18%, 4,5% and 6%), based on gross salary payments. The cost of these payments is charged to statement of revenue and expenses in the same period as the related salary cost.

The Company has no other obligation to provide pensions or other post retirement benefits to any of its management or staff, accordingly, no provision for future pension costs is required

Income Tax

For 2019 year, according to the Income Tax Code the annual profits earned by Moldovan companies are taxed in Moldova at the rate 12%. Also the distribution of retained earnings is subject to the taxation at the rate 6% on the amount paid out as dividends. During 2019, according to the Tax Code, "Smart Credit" LLC paid income tax, the amount was calculated based on taxable income of 2019 year.

Income tax payable on profits, based on the applicable Moldovan tax law, is recognized as an expense in the period in which profits arise.

Income Recognition

Interest income is recognized to the extent that it is probable that the economic benefits will flow to the Company and the interest income can be reliably measured. Operating revenue arising from the rendering of services comprises interest income on loans granted. Other operating income includes commission income in the form of penalties, etc.

Interest income and expense is recognized in income statement for all interest-bearing financial instruments. Fees and commissions are generally recognized on an accrual basis when the service has been provided. Other income is recognized on accrual basis at the moment of executing the respective transactions.

Liquidity risk

Liquidity risk is managed by each Organization. Organization's loan products are unsecured business and consumer loans with maturity of not less than 1 month and not longer than 84 months; the loan amounts of not less than approximately 100 EUR and not more than approximately 15000 EUR equivalent in, depending on the loan amount, maturity and type of customer.

In order to manage our liquidity, the organization can place liquidity in current accounts, term deposits and liquid financial instruments and will constitute and maintain at any date liquid assets a certain percentage of the total borrowings.

Client fraud or incapability

A client with original fraud intention or inability to repay is the second biggest possible source of financial loss. Measures to mitigate that risk belong to specific Organization's knowhow and are not disclosed in Annual Report Annex.

The Organization use personal identification, personal contact verification, employment verification, cross verification of public databases, social links and statistical analysis of performing / nonperforming clients (a scorecard) to make the credit approval / rejection decision.

Approximately 28 % of new loan applications are rejected by Organization. Client incapability or nonperformance risk is mitigated by regulating loan product parameters (maximum loan amount, maximum loan duration, maximum monthly repayment in relation to the client's salary, and commission fee) that particular client qualifies for. Majority of new clients can get loans for up to a year, with a higher APR (annualized percentage rate) to cover the increased risk of loss. Returning clients' choice or products increases, depending on their individual performance. The APR is reduced and the maturity can also be lengthened for up to 28 months.

General risk management policies

The management constantly observes the following ratios, and if necessary, makes adjustments into operations, into credit policy or in finance management according to:

• CPI - customer performance index – is the ratio of actually duly repaid loan installments against expected (contractually required) repayments within a tolerance period for repayment delays, which is normally 30 days; CPI is measured by whole portfolio, by different loan products, by customer Company's and by periods. CPI 100 means that all repayments are duly made, as expected according to the contracts. The Organization's target is CPI above 96 but it actually varies by loan product, customer Organization and even issuing offices (Moldovan regions).

• Organization's liabilities versus loan portfolio, where the target is to have loans portfolio increase faster than the Organization's liabilities;

• Debt collection rates;

• Number of operations performed by each employee, and time spent on various operations – to increase work efficiency;

• Organization's actual performance versus the budgeted performance.

Organization reviews the risk identification and management policies and procedures according to the change of Organization's activities and financial situation, several times a year. The usual review period is once a month, but extraordinary events (such as sharp exchange rate fluctuations or competition situation on the market) trigger immediate responses.

Loan Risk management

The Board and / or Credit Committee will assure a correct policy of administration of assets and liabilities. This policy defines the services of organization and market. It is part of the operational handbook. The Board will be reviewing the operational handbook at least two times a year.

Interest calculation

The Committee shall ensure that the interest rate on loans is set at a level sufficient to cover:

- Interest costs on funding
- Risk costs (1%),
- Eventual hedging costs,
- Administration expenses (6-14 %),
- and a ROE of at least 10 % to have equity in assets.

Thus, at present the company's management believes that the 18 – 28 % annual interest rates on loans fulfill this goal.

The Committee must also ensure that the interest rate is fixed at a level comparable with other financial institutions in order not to lose existing customers and unattractive new ones.

Risk management in corruption

For businesses, corruption impedes business growth, escalates costs and poses serious legal and reputational risks. It also raises transaction costs, undermines fair competition, impedes long-term foreign and domestic investment, and distorts development priorities. Investors too understand that corruption can negatively impact value and pose financial, operational and reputational risks to their investments. (Source: UN Global Compact)

The company's business is prepared to deal with corruption. So, the company annually performed an external audit of the financial statements, grant loans after decision of Credit Committee that considerably decrease some corruption problems.

2 Cash in hand, current bank accounts and other cash equivalents

Cash includes cash in hand, current accounts in banks and other cash equivalents in Moldovan Lei / MDL , EUR and USD.

	2019 MDL	2018 MDL
Cash in hand	1 027 476	1 989 161
Current at bank	25 682	228 997
Cash at bank - foreign currency	9 741 613	2 758 134
Other cash	41 528	2 573
TOTAL	**10 836 299**	**4 978 865**

2.1 Investments in securities and shares

	2019 MDL	2018 MDL
Share in the capital of "Smart-Program" Ltd	200 000	200 000
TOTAL	**200 000**	**200 000**

3 Loans and borrowings to customers, receivables on income accrued

	Short-term		**Long-term**		**Total**	
	secured	*unsecured*	*secured*	*unsecured*	*secured*	*unsecured*
Agriculture/ food industry	-	212 781	-	7 278 972	-	7 491 753
Real estate/ Development	-	2 558 788	-	35 259 896	-	37 818 684
Consumer loans	-	2 011 065	-	9 399 186	-	11 410 251
Industry / Trade	-	908 082	-	10 507 291	-	11 415 373
Other purposes	-	304 827	-	3 732 690	-	4 037 517
Total loans and borrowings		**5 995 543**		**66 178 035**	-	**72 173 578**
Receivables on income accrued (interests on loans, penalties, etc.)						**505 771**

Loans are granted by persons under the loan agreements. The number of loan beneficiaries at 31.12.2019 was 2 853 persons.

The maximum amount of the loan to a beneficiary at 31.12.2019 was:

a) 300 000 MDL – unsecured loans for business destination;

b) 80 000 MDL – unsecured loans for other destinations.

Under the terms of maturity, loans and interest at 31.12.2019 are classified as follows:

Maturity	Granted loans		Total granted loans	Interests on loans
	secured	*unsecured*		
A	**1**	**2**	**3=1+2**	**4**
Up to 1 month	-	3 213 169	3 213 169	411 987
From 1 to 3 months	-	6 982 881	6 982 881	14 424
From 3 months to 1 year	-	27 334 003	27 334 003	44 960
From 1 to 3 years	-	28 934 500	28 934 500	-
From 3 to 5 years	-	5 645 189	5 645 189	-
More than 5 years	-	63 836	63 836	-
Total	**-**	**72 173 578**	**72 173 578**	**471 371**

All loans and receivables are recognized in the balance sheet when cash is advanced to borrowers.

A credit risk allowances for loan impairment is established if there is objective evidence that the Organization will not be able to collect all amounts due. Management uses estimates based on historical loss experience for assets with similar credit risk characteristics and current economic climate in which the borrowers operate. The methodology and assumptions used are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Nevertheless, it is possible, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. When a loan is uncollectible, it is written off against the related allowances for credit losses; subsequent recoveries are credited to the income statement.

4 Provisions for loans and borrowings impairment and for interests on loans and borrowings

Loans/ interests categories	Value		Quota (%)		Provision	
	Loan	Interest	Loan	Interest	Loan	Interest
A	**1**	**4**	**5**	**6**	**7=1*5**	**8=4*6**
Standard	70 791 427	411 987	2	2	1 415 829	8 240
Watch	597 100	14 424	5	5	29 855	721
Sub-standard	442 673	27 850	30	30	132 802	8 355
Doubtful	342 378	17 110	60	60	205 427	10 266
Loss	-	-	100	100	-	-
Total	**72 173 578**	**471 371**	x	x	**1 783 913**	**27 582**

The assessment of provisions requires the application of management's judgment and estimates, as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements where appropriate, and the amounts and timings of such outflows and recoveries, if any. This judgment are included into Internal regulations of the Organization nr.02 from 01.04.2012, and which are in correlation recommendation of National Agency of Financial market, "Regulation of classification of issued loan and related interests calculated by microfinance companies", established by decision no.11/1 from 14.03.2012. During 2019 year, the company portfolio was tested to provision monthly, and created/posted to provision. The created provisions are included in the loss account.

5 Property, plant, equipment and intangible assets

	Assets at the end of 2018	Additions	Disposals	Assets at the end of 2019	Accum. depreciation 2019	Net book value, at the end of 2019
	MDL	MDL	MDL	MDL	MDL	MDL
Property, plant, equipment:						
Office building	1 550 481	99 748	-	1 650 229	324 868	1 325 361
Car and vehicles	761 672	-	-	761 672	428 076	333 596
Equipment and other fixed assets	859 043	365 953	-	1 224 996	597 201	627 795
Intangible assets:						
Computer software	15 764	-	-	15 764	14 714	1 050
Software's license	24 480	20 420	-	44 900	10 132	34 768
Total Assets	**3 211 440**	**486 121**	**-**	**3 697 561**	**1 374 991**	**2 322 570**
Less accumulated depreciation	**881 032**	**493 959**	**-**	**1 374 991**	**x**	**x**
Net book value	**2 330 408**	**x**	**x**	**2 322 570**	**x**	**x**

6 Other assets

	At the end of year 2019	At the end of year 2018
Small value items, net value	247 326	143 644
Payments in advances	7 634	13 581
Settlements with state budget	-	272 733
Other current receivables	55 327	29 480
Prepaid expenses	112 759	75 478
Other current assets	388 826	292 092
Total Other assets	**811 872**	**827 008**

7 Bank credits, loans and borrowings received / Accrued Interest

	Ending balance, year 2019	In foreign currency	Ending balance, year 2018	In foreign currency
	MDL	**EUR / USD**	**MDL**	**EUR / USD**
Long-term bank credits, loans and borrowings, including:	**26 699 204**	N/A	**7 029 258**	N/A
Credit contracts dated 10.07.2017 and 23.11.2017 BC Moldova Agroindbank SA	21 335 287	N/A	3 362 912	N/A
Loans and borrowings contracts, persons	5 363 917	N/A	3 666 346	N/A
Long-term loans from unrelated parties, including:	**30 041 694**	**-**	**20 058 568**	**-**
OikoCredit Loan Agreement No.PT 2390a dated 13.12.2017	4 352 862	N/A	7 254 770	N/A
Envest Microfinance Fund LLC Credit contract dated 14.11.2017 and 07.11.2018	1 720 930	100 000 USD	3 428 540	200 000 USD
Amended and Restated KIVA Contract dated 15-15.10.2015, KIVA Microfond, California Non-Profit Public Benefits Corp.	4 037 232	234 595,94 USD	3 518 898	205 270,91 USD
COOPEST Netherlandes BV Senior Loan Agreement dated 13.12.2016 and 28.12.2017	5 778 150	300 000 EUR	5 856 360	300 000 EUR
GLS Alternative Investments-Mocrfinanzfonds Contract 201903-0120 dated 07.03.2019	4 622 520	240 000 EUR	-	-
Fondation Grameen Credit Agricole Contract dated 06.12.2019	9 530 000	N/A	-	-
Total Long-term financial liabilities	**56 740 898**	x	**27 087 826**	x
Short-term bank credits, loans and borrowings, including:	**8 741 615**		**13 926 627**	
Loans and borrowings contracts, persons	8 741 615	N/A	13 926 627	N/A
Total Short-term financial liabilities	**8 741 615**		**13 926 627**	
Total Financial liabilities	**65 482 513**	**x**	**41 014 453**	**x**
Accrued Interest on:				
Credit contracts dated 10.07.2017 and 23.11.2017 BC Moldova Agroindbank SA	54 506	-	4 093	-
Loans and borrowings contracts, persons	471 909	-	683 365	-
OikoCredit Loan Agreement No.PT 2390a dated 13.12.2017	251 929	N/A	419 882	N/A
Envest Microfinance Fund LLC Credit contract dated 14.11.2017 and 07.11.2018	8 542	496,36 USD	33 529	1 955,87 USD
Amended and Restated KIVA Contract dated 15-15.10.2015, KIVA Microfond, California Non-Profit Public Benefits Corp.	0	0 USD	0	0 USD
COOPEST Netherlandes BV Senior Loan Agreement dated 13.12.2016 and 28.12.2017	0	0 EUR	224 502	11 500 EUR
GLS Alternative Investments-Mocrfinanzfonds Contract 201903-0120 dated 07.03.2019	86 287	4 480 EUR	-	-
Fondation Grameen Credit Agricole Contract dated 06.12.2019	55 062	N/A	-	-
Total Interests on bank credits, loans an borrowings received	**928 235**	**x**	**1 365 371**	**x**

Current and long-term liabilities are recorded at the amount of proceeds expected to be paid to satisfy these liabilities in the normal course of activities.
Long-term loans are stated at cost, interest payable on these is included in the result for the corresponding period.

8 Other liabilities

	Ending balance, year 2019 MDL	Ending balance, year 2018 MDL
Payables to employees	12 381	-
Debt Insurance	-	-
Other payables	51 783	15 936
Payables to state budget	77 078	-
Total Other liabilities	**141 242**	**15 936**

9 Interest income on granted loans and borrowings

	2019 MDL	2018 MDL
Interest income on:		
Granted loans and borrowings	16 985 909	14 145 783
Total Interest income on granted loans and borrowings	**16 985 909**	**14 145 783**

10 Other interest expenses

	2019 MDL	2018 MDL
Interest expenses on granted credits, loans and borrowings	4 774 251	4 144 916
Total Other interest expenses	**4 774 251**	**4 144 916**

11 Net profit/ (loss) on provisions recognition/derecognizing

	2019 MDL	2018 MDL
Provisions derecognizing income	2 480 373	1 894 875
Provisions recognition expenses	4 373 639	4 266 309
Total Net profit/ (loss)	**- 1 893 266**	**- 2 371 434**

12 Other operating income

	2019 MDL	2018 MDL
Commissions	4 281 793	3 178 386
Penalties, fines	788 992	1 330 385
Other income	1 213 810	786 125
Total Other operating income	**6 284 595**	**5 294 896**

13 General and administrative expenses

	2019 MDL	2018 MDL
Administrative staff and management costs	4 898 679	4 222 610
Depreciation of fixed assets	547 932	386 197
Taxes, duties and fees, other than income tax	54 088	51 554
Travel	161 427	160 185
Other general and administrative expenses	3 879 418	2 737 109
Total General and administrative expenses	**9 541 544**	**7 557 655**

14 Other operating expenses

	2019 MDL	2018 MDL
Fines and penalties	-	-
Other expenses	197 699	581 534
Total Other operating expenses	**197 699**	**581 534**

15 Financial profit/ (loss) - Net

	2019 MDL	2018 MDL
INCOME		
Foreign exchange gain	2 016 543	1 105 220
Other		
LOSS		
Foreign exchange loss	1 900 050	1 279 177
NET FINANCIAL PROFIT / (LOSS)	**116 493**	**-173 957**

16 Income tax expenses

	2019 MDL	2018 MDL
Current income tax expenses	967 674	679 484
INCOME TAX EXPENSES	**967 674**	**679 484**