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
Fax: 030555212
E-mail: dtc.audit@gmail.com
Licenţa 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 2020
of the Non-Banking Credit Organization SMART CREDIT LLC

Chişinău, 2021

CONTENT **PAGE**

GENERAL INFORMATION

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;
- 20/11, Prospectul Republicii street, Cahul city, Rep.of Moldova.

The Company's number of employees as at 31 December 2020 was 43 persons.

For the revised year (2020), 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, Cahul 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">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="2">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 180 months; the loan amounts of not less than approximately 100 EUR and not more than approximately 25000 EUR equivalent in MDL, and the financial ratios ROE *(Return on Equity*) and ROA *(Return on Assets)* registered in 2020 year the values of 15,48 % and 3,60 %.

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 30.12.2020.

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, 2020, 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, 2020, 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.

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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
February 22, 2021

ASSETS	Notes*	2020 MDL	2019 MDL
Cash in hand	2	2 205 137	1 027 476
Current bank accounts	2	5 788 300	9 767 295
Other cash equivalents	2	108 391	41 528
Investments in securities and shares	2.1	200 000	200 000
Changing the value of investments in securities and shares		-	-
Deposits with banks		9 639 996	6 212 381
Loans and borrowings to customers	3	87 593 975	72 173 578
Provisions for loans and borrowings impairment	4	-4 657 808	-1 783 913
Receivables on income accrued (interests on loans, penalties, etc.)	4	755 048	505 771
Provisions for interests on loans and borrowings	4	-77 322	-27 582
Property and equipment, intangible assets – net	5	2 301 263	2 322 570
Other assets	6	1 778 539	811 872
Total Assets		**105 635 519**	**91 250 976**
LIABILITIES			
Deposits for providing loans		-	-
Bank credits, loans and borrowings received	7	75 628 487	65 482 513
Due to interests on bank credits, loans and borrowings received	7	1 425 189	928 235
Other liabilities	8	58 950	141 242
Total Liabilities		**77 112 626**	**66 551 990**
SHAREHOLDERS' EQUITY			
Share capital		2 075 194	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		22 174 731	16 152 233
Net profit (loss) for the year		3 823 707	6 022 498
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		**28 522 893**	**24 698 986**
Total Liabilities and Equity		**105 635 519**	**91 250 976**

These financial statements were authorized to be issued on 17 February 2021 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*	2020 MDL	2019 MDL
Interest income on granted loans and borrowings	9	21 678 630	16 985 909
Other interest income		3 132	9 935
Interest expenses on deposits		-	-
Interest expenses and similar charges related to bank credits, loans and borrowings received	10	7 060 463	4 774 251
Net result from the calculation and reverse of provisions for impairment of granted loans and borrowings	11	-3 698 495	-1 893 266
Gross profit/ (loss)		**10 922 623**	**10 328 327**
Other operating income (commissions, penalties, other rendered services)	12	6 584 629	6 284 595
General and administrative expenses	13	12 325 485	9 541 544
Other operating expenses	14	29 748	197 699
Operating profit/ (loss)		**5 152 019**	**6 873 679**
Investment gain/ (loss) – net		-	-
Financial gain/ (loss) – net	15	-689 518	116 493
Profit/ (loss) of the period before tax		**4 462 501**	**6 990 172**
Income tax expenses	16	-638 794	-967 674
Net profit (loss)		**3 823 707**	**6 022 498**

These financial statements were authorized to be issued on 17 February 2021 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.*

	Value at the end of 2019 year	Increases	Decreases	Value at the end of 2020 year
Share and additional capital	**MDL**	**MDL**	**MDL**	**MDL**
Share capital	2 074 994	200	-	2 075 194
Withdrawn capital	-			-
Total Share and additional capital	**2 074 994**	**200**	**-**	**2 075 194**
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	22 174 731	-	-	22 174 731
Net profit (loss) of current year	-	3 823 707	-	3 823 707
Total Retained earnings	**22 174 731**	**3 823 707**	**-**	**25 998 438**
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	**24 698 986**	**3 823 907**	**-**	**28 522 893**

These financial statements were authorized to be issued on 17 February 2021 by Organization's directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

«SMART CREDIT» S.R.L.

O.C.N. SMART CREDIT S.R.L.
CASH FLOW STATEMENT (Direct Method)
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 MDL
OPERATING ACTIVITIES	
1.1 Cash Flow	
Interest receipts	21 375 487
Interest payments	4 823 646
Other cash receipts related to operational activity	1 059 778
Payments to employees and social contributions	6 225 457
Other payments related to operational activity	2 269 594
Total 1.1	**9 116 568**
1.2 Increase (decrease) in assets	
Receipts from bank deposits	3 959 578
Receipts from the repayment of loans and borrowings	69 481 061
Payments of granted loans and borrowings	85 652 163
Payments of bank deposits	6 569 864
Receipts (payments) related to other current assets	-243 773
Total 1.2	**- 19 025 161**
1.3 Increase (decrease) in liabilities	
Receipts form of banks credit, loans and borrowings received	31 333 874
Repayment of banks credit, loans and borrowings received	23 889 952
Total 1.3	**7 443 922**
NET CASH FLOW FROM OPERATING ACTIVITIES	**-2 464 671**
INVESTING ACTIVITIES	-
Receipts (payments) related to capital shares	200
Other cash receipts or payments	-
NET CASH FLOW FROM INVESTING ACTIVITIES	**200**
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	-270 000
NET CASH FLOW FROM FINANCING ACTIVITIES	**-270 000**
TOTAL NET CASH FLOW	**-2 734 471**
Effects of exchange rate changes	**-**
Cash and cash equivalents at the beginning of year	**10 836 299**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**8 101 828**

These financial statements were authorized to be issued on 17 February 2021 by Organization's directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

SOCIETATEA CU RĂSPUNDERE LIMITATĂ ORGANIZAȚIA DE CREDITARE NEBANCARĂ REPUBLICA MOLDOVA 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 The 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 The 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:

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

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 organization, 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 non-banking credit organization and software's license. 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), 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.03 from 18.01.2020, and which are in correlation to recommendations of The National Commission for Financial Markets, "Regulation of classification of issued loan and related interests calculated by microfinance companies", established by decision no.60/4/2019 from 16.12.2019. During 2020 year, the organization 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. For 2020 year no dividends were approved.

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 2020 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 2020, according to the Tax Code, SMART CREDIT LLC paid income tax, the amount was calculated based on taxable income of 2020 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 Organization 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 180 months; the loan amounts of not less than approximately 100 EUR and not more than approximately 25000 EUR equivalent in MDL, 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 uses 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 180 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 98 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 25 % equity in assets.

Thus, at present the organization'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 organization'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.

	2020 MDL	**2019 MDL**
Cash in hand	2 205 137	1 027 476
Current at bank	2 794 836	25 682
Cash at bank - foreign currency	2 993 464	9 741 613
Other cash	108 391	41 528
TOTAL	**8 101 828**	**10 836 299**

2.1 Investments in securities and shares

	2020 MDL	**2019 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	-	1 456 140	-	13 508 314	-	14 964 454
Real estate/ Development	-	2 071 467	-	39 418 368	-	41 489 835
Consumer loans	-	1 985 767	-	11 821 784	-	13 807 551
Industry / Trade	-	505 617	-	15 615 278	-	16 120 895
Other purposes	-	105 681	-	1 105 559	-	1 211 240
Total loans and borrowings		**6 124 672**		**81 469 303**	**-**	**87 593 975**
Receivables on income accrued (interests on loans, penalties, etc.)						**755 048**

Loans are granted by persons under the loan agreements. The number of loan beneficiaries at 31.12.2020 was 3 116 persons.

The maximum amount of the loan to a beneficiary at 31.12.2020 was:

a) 500 000 MDL – unsecured loans for business destination;

Under the terms of maturity, loans and interest at 31.12.2020 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	-	4 212 148	4 212 148	653 971
From 1 to 3 months	-	7 606 378	7 606 378	-2 450
From 3 months to 1 year	-	30 234 955	30 234 955	7 533
From 1 to 3 years	-	37 021 422	37 021 422	-
From 3 to 5 years	-	7 984 467	7 984 467	-
More than 5 years	-	534 605	534 605	-
Total	**-**	**87 593 975**	**87 593 975**	**659 054**

* - including interests paid in advance

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	34 082 461	321 662	2	2	681 649	6 433
Watch	51 093 647	454 872	5	5	2 554 682	22 744
Sub-standard	97 478	6 792	30	30	29 243	2 038
Doubtful	2 320 389	76 844	60	60	1 392 234	46 107
Loss	-	-	100	100	-	-
Total	**87 593 975**	**860 170**	x	x	**4 657 808**	**77 322**

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.03 from 18.01.2020, and which are in correlation recommendation of The National Commission for Financial Markets, "Regulation of classification of issued loan and related interests calculated by microfinance companies", established by decision no.60/4/2019 from 16.12.2019. During 2020 year, the organization's 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 2019	Additions	Disposals	Assets at the end of 2020	Accum. depreciation 2020	Net book value, at the end of 2020
	MDL	MDL	MDL	MDL	MDL	MDL
Property, plant, equipment:						
Office building	1 650 229	-	99 748	1 550 480	305 048	1 245 432
Car and vehicles	761 672	-	212 000	549 672	320 643	229 029
Equipment and other fixed assets	1 224 996	670 163	423 070	1 472 089	686 575	785 515
Intangible assets:						
Computer software	15 764	-	15 764	-	-	-
Software’s license	44 900	19 374	-	64 274	22 987	41 287
Total Assets	**3 697 561**	**689 537**	**750 583**	**3 636 515**	**1 335 253**	**2 301 263**
Less accumulated depreciation	**1 374 991**	**549 809**	**589 547**	**1 335 253**	**x**	**x**
Net book value	**2 322 570**	**x**	**x**	**2 301 263**	**x**	**x**

6 Other assets

	At the end of year 2020	At the end of year 2019
Small value items, net value	284 624	247 326
Payments in advances	10 918	7 634
Settlements with state budget	518 320	-
Other current receivables	48 309	55 327
Prepaid expenses	247 394	112 759
Other current assets	668 974	388 826
Total Other assets	**1 778 539**	**811 872**

7 Bank credits, loans and borrowings received / Accrued Interest

	Ending balance, year 2020	In foreign currency	Ending balance, year 2019	In foreign currency
	MDL	EUR / USD	MDL	EUR / USD
Long-term bank credits, loans and borrowings, including:	**36 390 602**	N/A	**26 699 204**	N/A
Credit contracts dated 10.07.2017 and 23.11.2017 BC Moldova Agroindbank SA	22 341 381	N/A	21 335 287	N/A
Loans and borrowings contracts, persons	14 049 221	N/A	5 363 917	N/A
Long-term loans from unrelated parties, including:	**39 237 885**	**-**	**30 041 694**	**-**
OikoCredit Loan Agreement No.PT 2390a dated 13.12.2017	1 450 954	N/A	4 352 862	N/A
Envest Microfinance Fund LLC Credit contract dated 14.11.2017 and 07.11.2018	860 730	50 000 USD	1 720 930	100 000 USD
Amended and Restated KIVA Contract dated 15-15.10.2015, KIVA Microfond, California Non-Profit Public Benefits Corp.	6 903 399	401 020 USD	4 037 232	234 595,94 USD
COOPEST Netherlandes BV Senior Loan Agreement dated 13.12.2016 and 28.12.2017	9 506 970	450 000 EUR	5 778 150	300 000 EUR
GLS Alternative Investments-Mocrfinanzfonds Contract 201903-0120 dated 07.03.2019	10 985 832	520 000 EUR	4 622 520	240 000 EUR
Fondation Grameen Credit Agricole Contract dated 06.12.2019	9 530 000	N/A	9 530 000	N/A
Total Long-term financial liabilities	**75 628 487**	x	**56 740 898**	x
Short-term bank credits, loans and borrowings, including:	**-**		**8 741 615**	
Loans and borrowings contracts, persons	-	N/A	8 741 615	N/A
Total Short-term financial liabilities	**-**		**8 741 615**	
Total Financial liabilities	**75 628 487**	**x**	**65 482 513**	**x**
Accrued Interest on:				
Credit contracts dated 10.07.2017 and 23.11.2017 BC Moldova Agroindbank SA	53 525	-	54 506	-
Loans and borrowings contracts, persons	236 422	-	471 909	-
OikoCredit Loan Agreement No.PT 2390a dated 13.12.2017	83 747	N/A	251 929	N/A
Envest Microfinance Fund LLC Credit contract dated 14.11.2017 and 07.11.2018	11 413	663,01 USD	8 542	496,36 USD
Amended and Restated KIVA Contract dated 15-15.10.2015, KIVA Microfond, California Non-Profit Public Benefits Corp.	679 911	39 496,16 USD	0	0 USD
COOPEST Netherlandes BV Senior Loan Agreement dated 13.12.2016 and 28.12.2017	0	0 EUR	0	0 EUR
GLS Alternative Investments-Mocrfinanzfonds Contract 201903-0120 dated 07.03.2019	288 167	13 640 EUR	86 287	4 480 EUR
Fondation Grameen Credit Agricole Contract dated 06.12.2019	72 004	N/A	55 062	N/A
Total Interests on bank credits, loans an borrowings received	**1 425 189**	**x**	**928 235**	**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 2020 MDL	Ending balance, year 2019 MDL
Payables to employees	2 722	12 381
Debt Insurance	4 416	-
Other payables	31 747	51 783
Payables to state budget	20 065	77 078
Total Other liabilities	**58 950**	**141 242**

9 Interest income on granted loans and borrowings

	2020 MDL	2019 MDL
Interest income on:		
Granted loans and borrowings	21 678 630	16 985 909
Total Interest income on granted loans and borrowings	**21 678 630**	**16 985 909**

10 Other interest expenses

	2020 MDL	2019 MDL
Interest expenses on granted credits, loans and borrowings	7 060 463	4 774 251
Total Other interest expenses	**7 060 463**	**4 774 251**

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

	2020 MDL	2019 MDL
Provisions derecognizing income	3 839 182	2 480 373
Provisions recognition expenses	7 537 677	4 373 639
Total Net profit/ (loss)	**- 3 698 495**	**- 1 893 266**

12 Other operating income

	2020 MDL	2019 MDL
Commissions	4 396 365	4 281 793
Penalties, fines	1 042 064	788 992
Other income	1 146 200	1 213 810
Total Other operating income	**6 584 629**	**6 284 595**

13 General and administrative expenses

	2020	2019
	MDL	MDL
Administrative staff and management costs	7 023 052	4 898 679
Depreciation of fixed assets	648 794	547 932
Taxes, duties and fees, other than income tax	-	54 088
Travel	312 614	161 427
Other general and administrative expenses	4 341 025	3 879 418
Total General and administrative expenses	**12 325 485**	**9 541 544**

14 Other operating expenses

	2020	2019
	MDL	MDL
Fines and penalties	-	-
Other expenses	29 748	197 699
Total Other operating expenses	**29 748**	**197 699**

15 Financial profit/ (loss) - Net

	2020	2019
	MDL	MDL
INCOME		
Foreign exchange gain	2 573 277	2 016 543
Other		
LOSS		
Foreign exchange loss	3 262 795	1 900 050
NET FINANCIAL PROFIT / (LOSS)	**-689 518**	**116 493**

16 Income tax expenses

	2020	2019
	MDL	MDL
Current income tax expenses	638 794	967 674
INCOME TAX EXPENSES	**638 794**	**967 674**