DTC
AUDIT

■ "DTC Audit" SRL
R.Moldova, or.Chişinău
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Certificat de înregistrare MD0086627 din 22.01.2009

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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 2017
of the Microfinance Company „SMART CREDIT" LLC

Chişinău, 2018

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GENERAL INFORMATION

Microfinance Company “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 microfinance organization no.280 dated 22.07.2004*, 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.

The Company's number of employees as at 31 December 2017 was 26 persons.

For the revised year (2017), 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 the Ungheni, the Calarasi 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

Key Partners	**Key Activities**	**Value Proposition**	**Customer Relationships**	**Customer Segments**
Local banks, Kiva, Coopest, Persons, SMEs	Loans Insurances	Fast, simple loans and insurances for disadvantaged people. We help people to fulfill their dreams.	Long term partership	Rural people from Ungheni, Calarasi and Chisinau Regions
	Key Resources Team Software Money		**Channels** Branches, Referents, Billboards, Newspapers, Flyers	

Cost Structure	**Revenue Streams**
Money, HR	Interest, commissions loans, Commissions on insurances

Company’s loan products are unsecured business and consumer loans with maturity of not less than 1 month and not longer than 60 months; the loan amounts of not less than approximately 100 EUR and not more than approximately 6300 EUR equivalent in MDL, and the financial ratios ROE *(Return on Equity*) and ROA *(Return on Assets)* registered in 2017 year the values of 32,56% and 10,72%.

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 nr.04 from 20.01.2017.

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.

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of the Microfinance Company "SMART CREDIT" LLC which comprise the statement of financial position as at December 31, 2017, 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 Company as at December 31, 2017, 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 company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements of the Microfinance Company "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 Company'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 Company or to cease operations, or has no realistic alternative, but to do so.

Those charged with governance are responsible for overseeing the Company'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.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as whose 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 Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting
- estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going 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 Company'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 Company 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 company's shareholders, as a body. Our audit work has been undertaken so that we might state to the company'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 company and the company'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 09, 2018

ASSETS	Notes*	2017 MDL	2016 MDL
Cash in hand	2	383 369	1 169 842
Current bank accounts	2	23 684	1 004 765
Other cash equivalents	2	4 118	8 718
Investments in securities and shares		-	-
Changing the value of investments in securities and shares		-	-
Deposits with banks		2 460 222	-
Loans and borrowings to customers	3	41 887 948	29 161 680
Provisions for loans and borrowings impairment	4	-1 185 927	-813 219
Receivables on income accrued (interests on loans, penalties, etc.)	4	523 702	372 623
Provisions for interests on loans and borrowings	4	-33 939	-22 145
Property and equipment, intangible assets – net	5	2 399 662	1 993 002
Other assets	6	330 269	197 396
Total Assets		**46 793 108**	**33 072 663**
LIABILITIES			
Savings deposits received		-	-
Deposits for providing loans		-	-
Bank credits, loans and borrowings received	7	31 477 549	23 633 875
Due to interests on bank credits, loans and borrowings received	7	211 508	170 367
Other liabilities	8	371 583	152 276
Total Liabilities		**32 060 641**	**23 956 518**
SHAREHOLDERS' EQUITY			
Share capital		2 074 994	2 087 278
Unpaid capital		-	-
Withdrawn capital		-	-22 724
Legal reserves		208 727	208 727
Other reserves		-	-
Correction of results from previous years		-	-
Retained earnings (uncovered loss) of previous years		6 602 330	6 602 330
Net profit (loss) for the year		5 605 882	-
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		**14 732 467**	**9 116 145**
Total Liabilities and Equity		**46 793 108**	**33 072 663**

These financial statements were authorized to be issued on 02 March 2018 by Company’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.*

	Notes*	2017 MDL	2016 MDL
Interest income on granted loans and borrowings	9	12 050 623	8 579 201
Other interest income		12 057	-
Interest expenses on deposits		-	-
Interest expenses and similar charges related to bank credits, loans and borrowings received	10	3 698 491	3 420 843
Net result from the calculation and reverse of provisions for impairment of granted loans and borrowings	11	-1 420 284	-973 167
Gross profit/ (loss)		**6 943 905**	**4 185 192**
Other operating income (commissions, penalties, other rendered services)	12	4 940 477	3 186 172
General and administrative expenses	13	5 440 622	2 773 452
Other operating expenses	14	446 546	762 044
Operating profit/ (loss)		**5 997 213**	**3 835 868**
Investment gain/ (loss) – net		-	-
Financial gain/ (loss) – net	15	465 191	-42 637
Profit/ (loss) of the period before tax		**6 462 404**	**3 793 230**
Income tax expenses	16	-856 522	-552 376
Net profit (loss)		**5 605 882**	**3 240 854**

These financial statements were authorized to be issued on 02 March 2018 by Company’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.*

O.M.F. „SMART CREDIT" S.R.L.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Value at the end of 2016 year	Increases	Decreases	Value at the end of 2017 year
Share and additional capital	**MDL**	**MDL**	**MDL**	**MDL**
Share capital	2 087 278	10 440	22 724	2 074 994
Withdrawn capital	-22 724	22 724	-	-
Total Share and additional capital	**2 064 554**	**33 164**	**22 724**	**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	6 602 330	-	-	6 602 330
Net profit (loss) of current year	-	5 605 882	-	5 605 882
Total Retained earnings	**6 602 330**	**5 605 882**	**-**	**12 208 212**
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	**9 116 145**	**5 639 046**	**22 724**	**14 732 467**

These financial statements were authorized to be issued on 02 March 2018 by Company's directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

O.M.F. „SMART CREDIT" S.R.L.
CASH FLOW STATEMENT (Direct Method)
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 MDL
OPERATING ACTIVITIES	
1.1 Cash Flow	
Interest receipts	12 676 368
Interest payments	893 164
Other cash receipts related to operational activity	3 718 521
Payments to employees and social contributions	2 807 473
Other payments related to operational activity	3 144 330
Total 1.1	**9 549 922**
1.2 Increase (decrease) in assets	
Interest receipts from bank deposits	656 811
Receipts from the repayment of loans and borrowings	41 031 429
Payments of granted loans and borrowings	54 671 500
Payments of bank deposits	3 204 443
Total 1.2	**- 16 187 702**
1.3 Increase (decrease) in liabilities	
Receipts form of banks credit, loans and borrowings received	14 710 644
Repayment of banks credit, loans and borrowings received	8 387 471
Payments on income tax	576 170
Total 1.3	**5 747 003**
NET CASH FLOW FROM OPERATING ACTIVITIES	**- 890 778**
INVESTING ACTIVITIES	-
Payments to buy non-current assets	727 542
Other cash receipts or payments	-
NET CASH FLOW FROM INVESTING ACTIVITIES	**- 727 542**
FINANCING ACTIVITIES	
Deposit receipts of shares, issued shares	10 440
Other proceeds from financing activities	6 133
Payments for repurchase of quotas and shares	-
Dividends paid	-
Other cash payments	170 408
NET CASH FLOW FROM FINANCING ACTIVITIES	**-153 835**
NET CASH FLOW BEFORE EXTRAORDINARY ITEMS	**- 1 772 155**
Extraordinary cash receipts or payments	**-**
TOTAL NET INFLOW	**- 1 772 155**
Effects of exchange rate changes	**-**
Cash and cash equivalents at the beginning of year	**2 183 326**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**411 171**

These financial statements were authorized to be issued on 02 March 2018 by Company's directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

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.

The accounting policy of the Company 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 Law No.113-XVI from April 27, 2007;
- Law on microfinance companies no.280 from July 22, 2004;
- 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 Company.

Accounting records of the Company are kept in official language, using the currency of the Republic of Moldova, that being the Moldovan Leu (MDL). The Company 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 Company uses standard documents forms approved by the Ministry of Finance. When no standard forms exist, the Company uses forms of documents approved by the management. Source documents are provided on paper.

The company 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 Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company 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 Company'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 company'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:

	2017		**2016**	
	USD	**Euro**	**USD**	**Euro**
Average for the period	16.6983	20.7018	19.9238	22.0548
Year end	17.1002	20.4099	19.9814	20.8895

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 Company'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 Company 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 Company 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.

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 company's shareholders.

Other liabilities

Pension costs and employee's benefits

The Company contributes in respect of its employees to the Government social, medical and retirement contribution at the statutory rates in force during the year at 33,5% (23%, 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 2017 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 2017, according to the Tax Code, "Smart Credit" LLC paid income tax, the amount was calculated based on taxable income of 2017 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 Company. Company's loan products are unsecured business and consumer loans with maturity of not less than 1 month and not longer than 60 months; the loan amounts of not less than approximately 100 EUR and not more than approximately 6300 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 Company's knowhow and are not disclosed in Annual Report Annex.

The Company 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 1/3 of new loan applications are rejected by Company. 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 18 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 Company's target is CPI above 90 but it actually varies by loan product, customer Company and even issuing offices (Moldovan regions).

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

• Debt collection rates;

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

• Company's actual performance versus the budgeted performance.

Company reviews the risk identification and management policies and procedures according to the change of Company’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 (6-10 %),
- and a ROE of at least 10 % to have 19% equity in assets.

Thus at present the company's management believes that the 24 – 29 % annual interest rate on loans fulfil 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.

	2017 MDL	2016 MDL
Cash in hand	383 369	1 169 842
Current at bank	10 267	7 200
Cash at bank - foreign currency	13 417	997 565
Other cash	4 118	8 718
TOTAL	**411 171**	**2 183 325**

3 Loans and borrowings to customers, receivables on income accrued

	Short-term		**Long-term**		**Total**	
	secured	*unsecured*	*secured*	*unsecured*	*secured*	*unsecured*
Agriculture/ food industry	-	391 468	-	5 121 986	-	5 513 454
Real estate/ Development	-	2 207 999	-	19 894 074	-	22 102 073
Consumer loans	-	1 853 023	-	6 641 593	-	8 494 616
Industry / Trade	-	157 246	-	3 327 386	-	3 484 632
Transport	-	175 257	-	1 946 729	-	2 121 986
Other purposes	-	-	-	171 187	-	171 187
Total loans and borrowings		**4 784 993**		**37 102 955**	-	**41 887 948**
Receivables on income accrued (interests on loans, penalties, etc.)						**523 702**

Loans are granted by persons under the loan agreements. The number of loan beneficiaries at 31.12.2017 was 2324 persons.

The maximum amount of the loan to a beneficiary at 31.12.2017 was:

a) 130 000 MDL – unsecured loans for business destination;

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

Under the terms of maturity, loans and interest at 31.12.2017 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	-	2 310 900	2 310 900	385 679
From 1 to 3 months	-	4 696 154	4 696 154	-
From 3 months to 1 year	-	17 388 512	17 388 512	-
From 1 to 3 years	-	16 173 430	16 173 430	-
From 3 to 5 years	-	1 318 952	1 318 952	-
More than 5 years	-	-	-	-
Total	-	**41 887 948**	**41 887 948**	**385 679**

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 Company 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	40 062 113	x	2	x	801 244	x
Watch	1 073 510	34 332	5	5	53 675	1 717
Sub-standard	401 288	20 555	30	30	120 386	6 166
Doubtful	351 037	43 426	60	60	210 622	26 056
Loss	-	-	100	100	-	-
Total	**41 887 948**	**98 313**	x	x	**1 185 927**	**33 939**

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 judgement are included into Internal regulations of the Company nr.02 from 01.04.2012, and which are in correlation recomandation 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 2017 year, the company portfolio were 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 2016	Additions	Disposals	Assets at the end of 2017	Accum. depreciation 2017	Net book value, at the end of 2017
	MDL	MDL	MDL	MDL	MDL	MDL
Property, plant, equipment:						
Office building	1 550 481	-	-	1 550 481	172 153	1 378 328
Car and vehicles	212 000	549 672	-	761 672	218 946	542 726
Equipment and other fixed assets	479 270	177 870	21 288	635 852	176 820	459 032
Intangible assets:						
Computer software	94 584	-	-	94 584	75 008	19 576
Total Assets	**2 336 335**	**727 542**	**21 288**	**3 042 589**	**642 927**	**2 399 662**
Less accumulated depreciation	**343 333**	**307 950**	**8 356**	**642 927**	**x**	**x**
Net book value	**1 993 002**	**x**	**x**	**2 399 662**	**x**	**x**

6 Other assets

	At the end of year 2017	At the end of year 2016
Small value items, net value	109 475	72 212
Payments in advances	5 279	7 412
Settlements with state budget	-	-
Other current receivables	-	-
Prepaid expenses	56 989	62 465
Other current assets	158 526	55 307
Total Current assets	**330 269**	**197 396**

7 Bank credits, loans and borrowings received / Accrued Interest

	Ending balance, year 2017 MDL	In foreign currency EUR / USD	Ending balance, year 2016 MDL	In foreign currency EUR / USD
Long-term bank credits, loans and borrowings, including:	**5 303 229**	N/A	**2 591 892**	N/A
Credit contract no.C-042 dated 23.09.15, BC FincomBank SA	-	N/A	688 126	N/A
Credit contracts dated 10.07.2017 and 23.11.2017 BC Moldova Agroindbank SA	3 872 728	N/A	-	-
Loans and borrowings contracts, persons	1 430 501	N/A	1 903 766	N/A
Long-term loans from unrelated parties, including:	**1 710 020**	**-**	**-**	**-**
Envest Microfinance Fund LLC Credit contract dated 21.11.2017	1 710 020	100 000 USD	-	-
Total Long-term financial liabilities	**7 013 249**	x	**2 591 892**	x
Short-term bank credits, loans and borrowings, including:	**24 464 300**		**21 041 983**	
Loans and borrowings contracts, persons	18 233 263	N/A	17 345 896	N/A
Amended and Restated KIVA Contract dated 15-15.10.2015, KIVA Microfond, California Non-Profit Public Benefits Corp.	3 169 552	185 351,74 USD	3 696 087	184 976 USD
COOPEST NETHERLANDES BV Credit contract	3 061 485	150 000 EUR	-	-
Total Short-term financial liabilities	**24 464 300**		**21 041 983**	
Total Financial liabilities	**31 477 549**	**x**	**23 633 875**	**x**
Accrued Interest on:				
Credit contract no.C-042 dated 23.09.15, BC FincomBank SA	-	-	3 342	-
Credit contracts dated 10.07.2017 and 23.11.2017 BC Moldova Agroindbank SA	18 328	-	-	-
Loans and borrowings contracts, persons	172 051	-	167 025	-
Envest Microfinance Fund LLC Credit contract dated 21.11.2017	21 129	1 235,61 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 Credit contract	0	0 EUR	-	-
Total Interests on bank credits, loans an borrowings received	**211 508**	**x**	**170 367**	**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 2017 MDL	Ending balance, year 2016 MDL
Payables to employees	25 723	780
Debt Insurance	63 211	55 432
Other payables	185	3 597
Payables to state budget	282 464	92 467
Total Other liabilities	**371 583**	**152 276**

9 Interest income on granted loans and borrowings

	2017 MDL	2016 MDL
Interest income on:		
Granted loans and borrowings	12 050 623	8 579 201
Total Interest income on granted loans and borrowings	**12 050 623**	**8 579 201**

10 Other interest expenses

	2017 MDL	2016 MDL
Interest expenses on granted credits, loans and borrowings	3 698 491	3 420 843
Total Other interest expenses	**3 698 491**	**3 420 843**

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

	2017 MDL	2016 MDL
Provisions derecognizing income	1 659 000	979 086
Provisions recognition expenses	3 079 284	1 952 253
Total Net profit/ (loss)	**- 1 420 284**	**-973 167**

12 Other operating income

	2017 MDL	2016 MDL
Commissions	3 167 680	2 243 780
Penalties, fines	1 255 253	778 667
Other income	517 544	163 725
Total Other operating income	**4 940 477**	**3 186 172**

13 General and administrative expenses

	2017 MDL	2016 MDL
Administrative staff and management costs	3 056 582	1 744 159
Depreciation of fixed assets	338 435	213 026
Taxes, duties and fees, other than income tax	22 540	16 113
Travel	164 116	156 147
Other general and administrative expenses	1 858 949	644 007
Total General and administrative expenses	**5 440 622**	**2 773 452**

14 Other operating expenses

	2017 MDL	2016 MDL
Fines and penalties	-	-
Other expenses	446 546	762 044
Total Other operating expenses	**446 546**	**762 044**

15 Financial profit/ (loss) - Net

	2017 MDL	2016 MDL
INCOME		
Foreign exchange gain	1 074 541	230 316
Other		
LOSS		
Foreign exchange loss	609 350	272 953
NET FINANCIAL PROFIT / (LOSS)	**465 191**	**-42 637**

16 Income tax expenses

	2017 MDL	2016 MDL
Current income tax expenses	856 522	552 376
INCOME TAX EXPENSES	**856 522**	**552 376**