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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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 2018

of the Microfinance Company „SMART CREDIT" LLC

Chişinău, 2019

CONTENT **PAGE**

GENERAL INFORMATION

Microfinance Company (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 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;
- 1, Barbu Lautaru street, Cimislia city, Rep.of Moldova.

The Company's number of employees as at 31 December 2018 was 29 persons.

For the revised year (2018), 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, the Cimislia 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 Local banks, Kiva, Coopest, Envest, Persons, SMEs	**Key Activities** Loans Insurances	**Value Proposition** Fast, simple loans and insurances for disadvantaged people. We help people to fulfill their dreams.	**Customer Relationships** Long term partership	**Customer Segments** Rural people from Ungheni, Calarasi, Cimislia and Chisinau Regions
	Key Resources Team Software Money		**Channels** Branches, Referents, Billboards, Newspapers, Flyers	
Cost Structure Money, HR		**Revenue Streams** 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 2018 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 from 19.12.2018.

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 Microfinance Company "SMART CREDIT" LLC which comprise the statement of financial position as at December 31, 2018, 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, 2018, 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.

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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 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

REPUBLICA MOLDOVA S.R.L. DTC AUDIT IDNO 1009600001072 SOCIETATEA DE AUDIT

Chişinău, Republic of Moldova
March 07, 2019

O.C.N. „SMART CREDIT" S.R.L.
BALANCE SHEET
PREPARED AS AT 31 DECEMBER 2018

ASSETS	Notes*	2018 MDL	2017 MDL
Cash in hand	2	1 989 161	383 369
Current bank accounts	2	2 987 131	23 684
Other cash equivalents	2	2 573	4 118
Investments in securities and shares	2.1	200 000	-
Changing the value of investments in securities and shares		-	-
Deposits with banks		2 447 548	2 460 222
Loans and borrowings to customers	3	51 491 664	41 887 948
Provisions for loans and borrowings impairment	4	-1 644 108	-1 185 927
Receivables on income accrued (interests on loans, penalties, etc.)	4	482 558	523 702
Provisions for interests on loans and borrowings	4	-41 695	-33 939
Property and equipment, intangible assets – net	5	2 330 408	2 399 662
Other assets	6	827 008	330 269
Total Assets		**61 072 248**	**46 793 108**
LIABILITIES			
Savings deposits received		-	-
Deposits for providing loans		-	-
Bank credits, loans and borrowings received	7	41 014 453	31 477 549
Due to interests on bank credits, loans and borrowings received	7	1 365 371	211 508
Other liabilities	8	15 936	371 583
Total Liabilities		**42 395 760**	**32 060 641**
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		12 208 212	12 208 212
Net profit (loss) for the year		3 944 021	x
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		**18 676 488**	**14 732 467**
Total Liabilities and Equity		**61 072 248**	**46 793 108**

These financial statements were authorized to be issued on 01 March 2019 by Company'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*	2018 MDL	2017 MDL
Interest income on granted loans and borrowings	9	14 145 783	12 050 623
Other interest income		12 322	12 057
Interest expenses on deposits		-	-
Interest expenses and similar charges related to bank credits, loans and borrowings received	10	4 144 916	3 698 491
Net result from the calculation and reverse of provisions for impairment of granted loans and borrowings	11	-2 371 434	-1 420 284
Gross profit/ (loss)		**7 641 755**	**6 943 905**
Other operating income (commissions, penalties, other rendered services)	12	5 294 896	4 940 477
General and administrative expenses	13	7 557 655	5 440 622
Other operating expenses	14	581 534	446 546
Operating profit/ (loss)		**4 797 462**	**5 997 213**
Investment gain/ (loss) – net		-	-
Financial gain/ (loss) – net	15	-173 957	465 191
Profit/ (loss) of the period before tax		**4 623 505**	**6 462 404**
Income tax expenses	16	-679 484	-856 522
Net profit (loss)		**3 944 021**	**5 605 882**

These financial statements were authorized to be issued on 01 March 2019 by Company's directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

REPUBLICA MOLDOVA, SOCIETATE CU RASPUNDERE LIMITATA, 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.*

O.C.N. „SMART CREDIT” S.R.L.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Value at the end of 2017 year MDL	Increases MDL	Decreases MDL	Value at the end of 2018 year MDL
Share and additional capital				
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	12 208 212	-	-	12 208 212
Net profit (loss) of current year	-	3 944 021	-	3 944 021
Total Retained earnings	**12 208 212**	**3 944 021**	-	**16 152 233**
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	**14 732 467**	**3 944 021**	-	**18 676 488**

These financial statements were authorized to be issued on 01 March 2019 by Company’s directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________

Mrs. Barbaneagra Larisa, Chief-accountant ____________

O.C.N. „SMART CREDIT" S.R.L.
CASH FLOW STATEMENT (Direct Method)
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 MDL
OPERATING ACTIVITIES	
1.1 Cash Flow	
Interest receipts	14 804 377
Interest payments	917 356
Other cash receipts related to operational activity	4 012 958
Payments to employees and social contributions	4 044 407
Other payments related to operational activity	5 751 112
Total 1.1	**8 104 460**
1.2 Increase (decrease) in assets	
Interest receipts from bank deposits	571 532
Receipts from the repayment of loans and borrowings	45 189 036
Payments of granted loans and borrowings	56 489 199
Payments of bank deposits	-
Total 1.2	**- 10 728 631**
1.3 Increase (decrease) in liabilities	
Receipts form of banks credit, loans and borrowings received	18 369 064
Repayment of banks credit, loans and borrowings received	9 857 220
Payments on income tax	880 314
Total 1.3	**7 631 530**
NET CASH FLOW FROM OPERATING ACTIVITIES	**5 007 359**
INVESTING ACTIVITIES	-
Payments to buy non-current assets	159 897
Other cash receipts or payments	-
NET CASH FLOW FROM INVESTING ACTIVITIES	**- 159 897**
FINANCING ACTIVITIES	
Deposit receipts of shares, issued shares	-
Other proceeds from financing activities	11 661
Payments for repurchase of quotas and shares	-
Dividends paid	-
Other cash payments	291 429
NET CASH FLOW FROM FINANCING ACTIVITIES	**-279 768**
NET CASH FLOW BEFORE EXTRAORDINARY ITEMS	**4 567 694**
Extraordinary cash receipts or payments	-
TOTAL NET INFLOW	**4 567 694**
Effects of exchange rate changes	-
Cash and cash equivalents at the beginning of year	**411 171**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**4 978 865**

These financial statements were authorized to be issued on 01 March 2019 by Company's directors represented by:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

REPUBLICA MOLDOVA SOCIETATE CU RĂSPUNDERE LIMITATĂ ORGANIZAŢIA 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.

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:

	2018		2017	
	USD	**Euro**	**USD**	**Euro**
Average for the period	16.8031	19.8442	18.4902	20.8282
Year end	17.1427	19.5212	17.1002	20.4099

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%/28,5% (23%/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 2018 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 2018, according to the Tax Code, "Smart Credit" LLC paid income tax, the amount was calculated based on taxable income of 2018 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 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 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 18 – 28 % 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.

	2018 MDL	2017 MDL
Cash in hand	1 989 161	383 369
Current at bank	228 997	10 267
Cash at bank - foreign currency	2 758 134	13 417
Other cash	2 573	4 118
TOTAL	**4 978 865**	**411 171**

2.1 Investments in securities and shares

	2018 MDL	2017 MDL
Share in the capital of "Smart-Program" Ltd	200 000	-
TOTAL	**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	-	347 581	-	4 426 219	-	4 773 800
Real estate/ Development	-	2 708 718	-	28 722 359	-	31 431 077
Consumer loans	-	386 150	-	3 557 346	-	3 943 496
Industry / Trade	-	439 007	-	5 448 531	-	5 887 538
Other purposes	-	1 245 772	-	4 209 981	-	5 455 753
Total loans and borrowings		**5 127 228**		**46 364 436**	-	**51 491 664**
Receivables on income accrued (interests on loans, penalties, etc.)						**482 558**

Loans are granted by persons under the loan agreements. The number of loan beneficiaries at 31.12.2018 was 2695 persons.

The maximum amount of the loan to a beneficiary at 31.12.2018 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 31.12.2018 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	-	2 764 910	2 764 910	399 156
From 1 to 3 months	-	5 704 280	5 704 280	1 574
From 3 months to 1 year	-	21 110 547	21 110 547	-
From 1 to 3 years	-	20 069 110	20 069 110	-
From 3 to 5 years	-	1 842 817	1 842 817	-
More than 5 years	-	-	-	-
Total	**-**	**51 491 664**	**51 491 664**	**400 730**

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	48 993 382	281 270	2	x	979 868	x
Watch	1 173 235	37 431	5	5	58 662	1 872
Sub-standard	631 498	31 313	30	30	189 449	9 393
Doubtful	693 549	50 716	60	60	416 129	30 430
Loss	-	-	100	100	-	-
Total	**51 491 664**	**400 730**	x	x	**1 644 108**	**41 695**

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 Company 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 2018 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 2017	Additions	Disposals	Assets at the end of 2018	Accum. depreciation 2018	Net book value, at the end of 2018
	MDL	MDL	MDL	MDL	MDL	MDL
Property, plant, equipment:						
Office building	1 550 481	-	-	1 550 481	216 452	1 334 029
Car and vehicles	761 672	-	-	761 672	323 511	438 161
Equipment and other fixed assets	635 852	258 611	35 420	859 043	324 613	534 430
Intangible assets:						
Computer software	94 584	-	78 820	15 764	11 560	4 204
Software's license	-	24 480	-	24 480	4 896	19 584
Total Assets	**3 042 589**	**283 091**	**114 240**	**3 211 440**	**881 032**	**2 330 408**
Less accumulated depreciation	**642 927**	**351 031**	**112 926**	**881 032**	**x**	**x**
Net book value	**2 399 662**	**x**	**x**	**2 330 408**	**x**	**x**

6 Other assets

	At the end of year 2018	At the end of year 2017
Small value items, net value	143 644	109 475
Payments in advances	13 581	5 279
Settlements with state budget	272 733	-
Other current receivables	29 480	-
Prepaid expenses	75 478	56 989
Other current assets	292 092	158 526
Total Current assets	**827 008**	**330 269**

7 Bank credits, loans and borrowings received / Accrued Interest

	Ending balance, year 2018 MDL	In foreign currency EUR / USD	Ending balance, year 2017 MDL	In foreign currency EUR / USD
Long-term bank credits, loans and borrowings, including:	**7 029 258**	N/A	**4 896 425**	N/A
Credit contracts dated 10.07.2017 and 23.11.2017 BC Moldova Agroindbank SA	3 362 912	N/A	3 872 728	N/A
Loans and borrowings contracts, persons	3 666 346	N/A	1 023 697	N/A
Long-term loans from unrelated parties, including:	**20 058 568**	-	**7 941 057**	-
OikoCredit Loan Agreement No.PT 2390a dated 13.12.2017	7 254 770	N/A	-	N/A
Envest Microfinance Fund LLC Credit contract dated 14.11.2017 and 07.11.2018	3 428 540	200 000 USD	1 710 020	100 000 USD
Amended and Restated KIVA Contract dated 15-15.10.2015, KIVA Microfond, California Non-Profit Public Benefits Corp.	3 518 898	205 270,91 USD	3 169 552	185 351,74 USD
COOPEST NETHERLANDES BV Senior Loan Agreement dated 13.12.2016 and 28.12.2017	5 856 360	300 000 EUR	3 061 485	150 000 EUR
Total Long-term financial liabilities	**27 087 826**	x	**12 837 482**	x
Short-term bank credits, loans and borrowings, including:	**13 926 627**		**18 640 067**	
Loans and borrowings contracts, persons	13 926 627	N/A	18 640 067	N/A
Total Short-term financial liabilities	**13 926 627**		**18 640 067**	
Total Financial liabilities	**41 014 453**	x	**31 477 549**	x
Accrued Interest on:				
Credit contracts dated 10.07.2017 and 23.11.2017 BC Moldova Agroindbank SA	4 093	-	18 328	-
Loans and borrowings contracts, persons	683 365	-	172 051	-
OikoCredit Loan Agreement No.PT 2390a dated 13.12.2017	419 882	N/A	-	N/A
Envest Microfinance Fund LLC Credit contract dated 14.11.2017 and 07.11.2018	33 529	1 955,87 USD	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 Senior Loan Agreement dated 13.12.2016 and 28.12.2017	224 502	11 500 EUR	0	0 EUR
Total Interests on bank credits, loans an borrowings received	**1 365 371**	x	**211 508**	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 2018 MDL	Ending balance, year 2017 MDL
Payables to employees	-	25 723
Debt Insurance	-	63 211
Other payables	15 936	185
Payables to state budget	-	282 464
Total Other liabilities	**15 936**	**371 583**

9 Interest income on granted loans and borrowings

	2018 MDL	2017 MDL
Interest income on:		
Granted loans and borrowings	14 145 783	12 050 623
Total Interest income on granted loans and borrowings	**14 145 783**	**12 050 623**

10 Other interest expenses

	2018 MDL	2017 MDL
Interest expenses on granted credits, loans and borrowings	4 144 916	3 698 491
Total Other interest expenses	**4 144 916**	**3 698 491**

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

	2018 MDL	2017 MDL
Provisions derecognizing income	1 894 875	1 659 000
Provisions recognition expenses	4 266 309	3 079 284
Total Net profit/ (loss)	**- 2 371 434**	**- 1 420 284**

12 Other operating income

	2018 MDL	2017 MDL
Commissions	3 178 386	3 167 680
Penalties, fines	1 330 385	1 255 253
Other income	786 125	517 544
Total Other operating income	**5 294 896**	**4 940 477**

13 General and administrative expenses

	2018 MDL	2017 MDL
Administrative staff and management costs	4 222 610	3 056 582
Depreciation of fixed assets	386 197	338 435
Taxes, duties and fees, other than income tax	51 554	22 540
Travel	160 185	164 116
Other general and administrative expenses	2 737 109	1 858 949
Total General and administrative expenses	**7 557 655**	**5 440 622**

14 Other operating expenses

	2018 MDL	2017 MDL
Fines and penalties	-	-
Other expenses	581 534	446 546
Total Other operating expenses	**581 534**	**446 546**

15 Financial profit/ (loss) - Net

	2018 MDL	2017 MDL
INCOME		
Foreign exchange gain	1 105 220	1 074 541
Other		
LOSS		
Foreign exchange loss	1 279 177	609 350
NET FINANCIAL PROFIT / (LOSS)	**-173 957**	**465 191**

16 Income tax expenses

	2018 MDL	2017 MDL
Current income tax expenses	679 484	856 522
INCOME TAX EXPENSES	**679 484**	**856 522**

Signed by Company's management:

Mrs. Angheluta Ecaterina, Executive director ____________________

Mrs. Barbaneagra Larisa, Chief-accountant ____________________

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S.R.L.
IDNO 1010609001442