

# Press release

---

MFI SMART CREDIT LLC

10, NATIONALA STREET, UNGHENI, REP. OF MOLDOVA

Dear shareholder, dear stakeholder, dear supporter, dear friend,

A few days ago, our chief accountant gave me the last draft of our balance sheet and the profit and loss statement as per 31<sup>st</sup> of December, 2017. And I cannot but scream “Hourrah, we made it !!”.

I am particularly orgulous of our results, because we reached our prime goal. In our last press release we said, that we need sufficient

## **EXTERNAL FUNDING**

in order to achieve our expansion targets. I am proud to announce, that in 2017 we found external funders who believed in us and who gave us short, medium and long term loans. SMART CREDIT now is funded by

- **KIVA** is an international nonprofit organization, funded in 2005 and based in San Francisco, with a mission to connect people through lending to alleviate poverty. KIVA supports us to create a better future for deprived persons, their families and their communities. KIVA is our first external lender, thanks to KIVA we could develop and grow.
- **CoopEst - Inpulse** is a Brussels-based investment manager with special know-how on social investments and microfinance. They developed strong skills in managing alternative investment funds providing responsible long-term financing to socially driven microfinance institutes striving to bring positive changes in the life of final beneficiaries while ensuring competitive financial and social returns.
- Oikocredit **Ecumenical Development Cooperative Society U.A. (OIKOS)** by its Romanian subsidiary grants us a medium term loan of € 350.000. OIKOS is a cooperative society offering loans or investment capital in developing countries with the aim of effecting positive social change. It is one of the world's largest private financiers of the microfinance sector. OIKOS was conceived in the 1968 World Council of Churches. We are in contact with OIKOS since five years and have done

various due diligences. We finalized our endeavors end of 2017, the credit however was disbursed in 2018.

- **Invest Microfinance Fund, LLC** is a Delaware registered US Fund specializing in Microfinance. Invest was founded by Jon Bishop in 2006 in order to finance very small microfinance institutions (Tier 3 MFIs), which have traditionally faced enormous difficulties in obtaining access to credit. Invest's niche is to lend to small, financially sound microfinance institutions (MFIs) that serve economically and geographically marginalized borrowers.

As of Jan. 1<sup>st</sup>, 2018 our creditors express their trust in granting us the following credit lines :

	Currency	Former credit lines	New lines
<b>KIVA</b>	US\$	200.000	400.000
<b>CoopEst</b>	€	150.000	300.000
<b>OIKOS</b>	MDL	.-	350.000
<b>Invest</b>	US\$	.-	100.000

Since the OIKOS lines were drawn in Jan., 2018, you will not yet find them in our balance sheet per 31.12.2017.

I should add, that these institutions not only grant credits but also give us advice on f.e. useful measures to be taken. They are our sparring partners and believe me, sometimes this expression is a very true one. I sometimes feel like in a boxing ring, they are pretty tough and do not accept any excuses. We have to deliver monthly reports and to justify our financial data as well as organizational changes.

But before I try to justify myself, I would like to invite you to take a glimpse on

## Moldova Economy Data

	2012	2013	2014	2015	2016
Population (million)	3.6	3.6	3.6	3.6	3.6
GDP per capita (EUR)	1,600	1,732	1,641	1,652	1,728
GDP (EUR bn)	5.7	6.2	5.8	5.9	6.1
Economic Growth (GDP, annual variation in %)	-0.7	9.4	4.6	-0.5	4.1
Unemployment Rate	5.9	4.1	3.5	4.2	3.8
Inflation Rate (CPI, annual variation in %)	4.7	4.6	5.1	9.7	6.5
Current Account (% of GDP)	-7.6	-5.2	-5.3	-5.0	-3.8
Current Account Balance (USD bn)	-0.5	-0.4	-0.4	-0.3	-0.3
Trade Balance (USD billion)	-3.1	-3.1	-3.0	-2.0	-2.0
Exports (USD billion)	2.2	2.4	2.3	2.0	2.0
Imports (USD billion)	5.2	5.5	5.3	4.0	4.0
International Reserves (USD)	2.5	2.8	2.2	1.7	2.2
External Debt (% of GDP)	82.6	83.1	82.0	98.3	96.2

## MOLDOVA'S ECONOMY

While data for the fourth quarter of 2017 has not been released, the latest data indicates that the economy picked up pace from the third quarter. The turnover from retail sales picked up in Q4. This suggests there was an upturn in private consumption, bolstered by a rise in average real earnings and a pick-up

in remittances aided by stronger performances in Russia and the Eurozone. Industrial production growth also climbed in the quarter. On the downside, the external sector continued to drag on growth as imports outpaced exports.

Economic growth is expected to remain broadly stable in 2018, thanks to an improvement in domestic demand and the external sector. An expected moderation in inflationary pressures, and solid remittance inflows, should support private consumption. Reducing the bulk of non-performing loans in the fragile banking sector will be crucial to boosting long-term prospects. FocusEconomics panelists project a GDP growth of 3.9% in 2018, which is unchanged from last month's forecast, and 4.2% in 2019.

The world bank forecasts for 2018 an economic growth of about 4.0% (3.1% according to the pessimistic scenario and 4.8% according to the optimistic scenario). It is based on the assumption that the agricultural year will be favorable boosting export capacities. This would foster public investments, and the household consumption will grow. On the other hand, the economy will continue to grow **under** its potential due to two reasons. First, the

- uncertainty that is currently affecting the companies' decisions to invest. This hampers the growth of bank lending, due to both low demand from companies, and limited supply: banks will be cautious to assume risks, including in the context of Basel III implementation. Second, the
- competitiveness constraints, which affects the exports; and with the growing consumption, the net exports will have a negative impact on the economic growth.

The low competitiveness in general remains the main problem of the Moldovan economy, the share of exports in GDP and levels of FDI per capita are the lowest compared to countries in Central and Eastern Europe. Moreover,

Moldova is also losing the competition for its own labor force: the number of emigrants with higher education increased in 2017, revealing an erosion of human capital, which is the main source of the country's long-term competitiveness. According to Global Competitiveness Report 2017-2018, Moldova ranked the 89th out of 137 countries, recording the poorest performances in areas of critical importance for such a small country with scarce resources: institutions, financial sector, sales market, innovations and business environment complexity.

- The competitiveness of the Moldovan economy can be increased and, respectively, a qualitative economic growth can be achieved only by systemic reforms. The main reforms should focus on the following:
  - Institutional framework that ensures **strengthening the rule of law** and fighting corruption.
  - an **improved business environment**, focused on the needs of small and medium-sized enterprises.
  - In the financial sector, improve the **corporate governance** in banking and non-banking financial institutions by enhancing transparency and shareholding quality and thereby attracting strategic investors.
  - In the **budgetary-fiscal area**, develop a clear and less discretionary Tax Code and strengthen the capacities of the Court of Accounts.
  - The state-owned enterprises need a **broad reform** in order to increase their transparency and corporate governance.
  - In the labor market, more efforts for the **economic empowerment** of young people.

## POLITICS

With the Parliamentary elections getting closer and in an attempt to mask the competitiveness flaws and slow pace of reforms, there is a risk of political pressures on the budgetary-fiscal and monetary policies. The pressures might target the budgetary and monetary expansion in order to boost the demand and investments via administrative interventions for electoral purposes (e.g. higher salaries, social benefits or public investments; or even a more relaxed monetary policy in order to boost lending activity). Under these circumstances, the Ministry of Finance and National Bank of Moldova (NBM) will have to resist these pressures, keeping a prudential stance of both budgetary-fiscal and monetary policies. In the first case, the budget planned for 2018, though it seems balanced, has a number of risks. The first relates to the

- high **dependency on the foreign budget** support: if external grants are excluded, the budget deficit is estimated at 4.7% of GDP. The second risk derives for the
- **population ageing trends**, which pose on larger transfers to the State Social Insurance Budget. The third risk stems from the
- **precarious economic situation** at the local level that, in tandem with the
- limited **capacities of local public authorities**, making LPAs to need more transfers from the central budget.

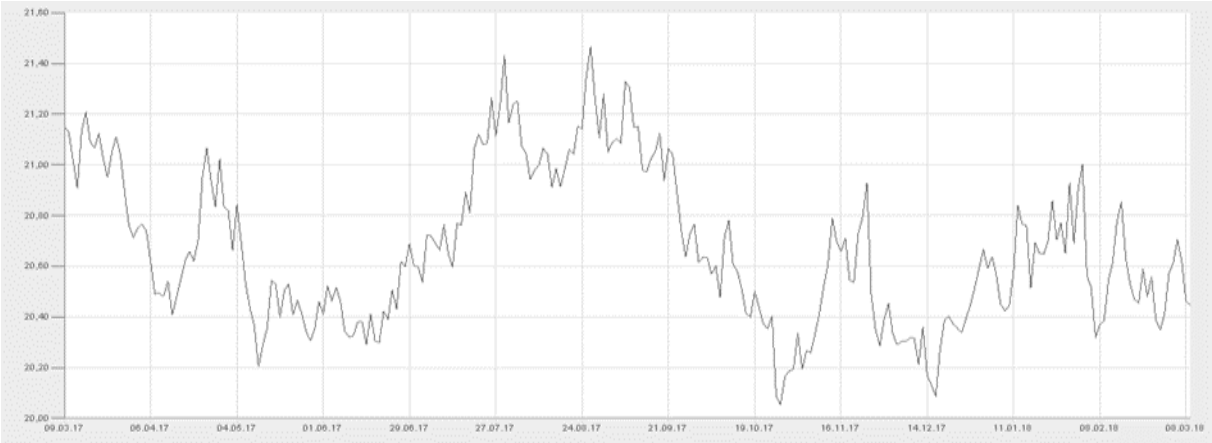
Hence, any deviation from the budgetary prudential norms, especially under political pressures, could significantly destabilize the public finance system, constraining the economic growth. In this context, any budgetary amendment for electoral purposes needs to be avoided.

The government, and especially PDM, will likely lobby for modifying the Electoral Code by adopting a uninominal or mixed electoral system in order to

gain an advantage during the next parliamentary elections. The presidency has no new powers, but his direct election may allow President Dodon to project his agenda onto the public and state institutions. Relations with the EU will stagnate, at best, and could see a downturn if Dodon pursues his anti-European agenda. The president promised to work at improving relations with Russia by negotiating better market access for Moldovan goods and Moldovan workers in Russia.

**THE CURRENCY**

The Moldovan Lei vs. € showed a surprisingly strong performance in the year passed.



To underline this statement please read the following data :

Currency	2.01.2017	31.12.2017
Euro	20,5154	20,9994
US \$	17,08403	19.91552



This overly strong performance is a threat for the future : we will be forced to invest more in order to be hedged in case of tectonic dislocations of the currency which become more and more probable.

Enough with the preliminary facts, let's look at the

## **2017 FINANCIAL DATA.**

I personally cannot but congratulate the team to this wonderful performance. They all outperformed the past years and they just did a fabulous job. Those are the most important key figures:

	<b>2016</b>	<b>2017</b>	
<b>Portfolio</b>	29.162	41.888	+ 43,6 %
<b>Bank credits</b>	23.634	41.478	+ 75,5 %
<b>Total equity</b>	9.116	14.732	+ 61,6 %
<b>Interest income</b>	8.579	12.051	+ 40,5 %
<b>Interest expenses</b>	3.421	3.698	+ 8,1 %
<b>Interest margin</b>	4.185	6.944	+ 65,9 %
<b>Personal costs</b>	1.744	3.057	+ 75,3 %
<b>Net profit</b>	3.241	5.606	+ 73 %

In analyzing the data, let's start with our most valuable asset we have,

## OUR TEAM

GENDER / BRANCH	NUMBER	PERCENT
Female	24	7,7 %
Male	2	92,3 %
Total	26	100 %
Ungheni	14	54 %
Ungheni Crestiuk	5	19 %
Calarasi	3	12 %
Chisinau	4	15 %

This year we had a unusually high fluctuation in our team, we had to let go nine members of our team. It is part of our policy to keep fluctuation as low as possible. Fluctuation not only hurts us financially, it also disables the team building processes. So we will make an effort to keep and build up the team. And we will go on investing heavily in our team: training the team members, teaching them the English language, and : showing them our appreciation by augmenting their salaries in a reasonable measure.



## OUR INFRASTRUCTURE & TARGET CLIENTELE

We started as a monobranch mfi in the western city of Ungheni. But soon we realized that people in near-by Calarasi appreciated our business model. So in 2016 we opened a branch in the center city of Calarasi near to the bus station.

<b>Branch</b>	<b>Main Target clientele</b>
Ungheni	Rural population, women
Crestiuk	City population, SME
Calarasi	SME, urban population
Chisinau	Rural population

In Calarasi, we wanted to focus on the urban population of this small city, targeting to those who are not offered services by conventional commercial banks. So we take accurate aim at the lower middle class, but also to women whose husbands are working abroad.

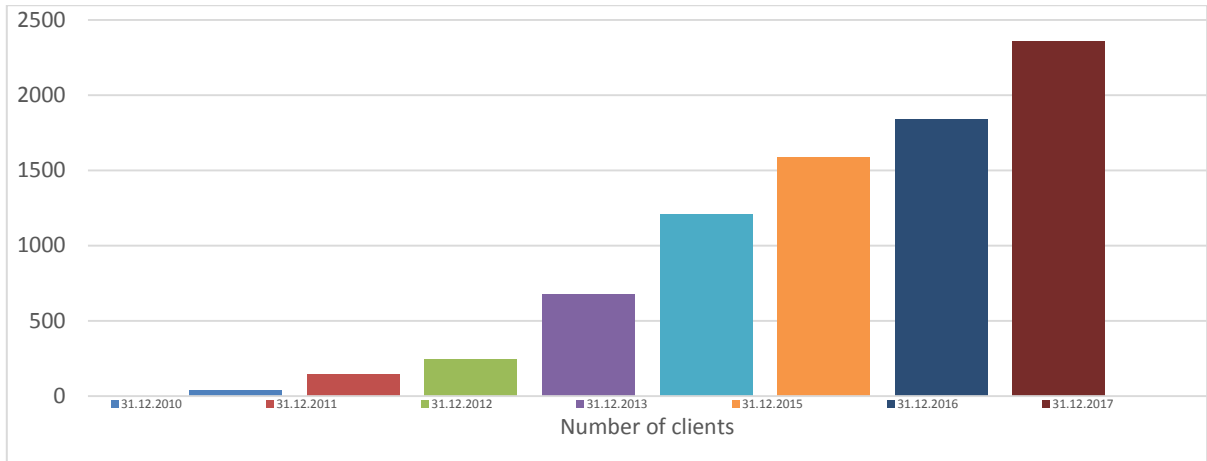
Later on we realized that we could not fully satisfy our client's need in Ungheni we opened a second branch in this rural city and started to address ourselves to small firms earning money by exporting and importing to the EU, and to all residents of the agricultural areas around this city.

Then we went to Chisinau. Yes, Chisinau is a metropolitan region, but we do not target at the city population, but rather at the surrounding rural areas. There are lots of farmers who daily enter the city to sell their products at the various markets. There are also lots of people who come into the city for administrative matters. We target to this clientele and to the small enterprises.

Of course, this expansion did not happen without experiencing problems and setbacks. We have made one or the other miscast, but have been able to correct them promptly. We have burdened on some of our staff all charges, now we have to think about our processes and try to make the future as lean as possible. Whether we consolidate now? We plan so, but the market is not asleep, and if we think there's a chance we should not miss, then we'll be pre-decide it within the team and then present this proposal to the board. Foremost parameter for any new branch is the proven need of financial services by our prospective

**CLIENTS.**

Speaking of clients : We are proud to have grown in the number of clients to now 2.354 clients compared to 2.222 at the end of June, 2017.



But speaking of clients, we want you to meet one of our clients :

Alexandra is a 19-year-old farmer in Coseni village from the Ungheni region of Moldova. She is married and has a two-year-old daughter. Her husband is also a farmer, and they are busy all the time with their activities. Until starting her

own business, Alexandra had worked in Russia for two years, and she decided to invest the earnings in farming. Her first invest started with five sheep and two horses. Now, on the farm, she raises two horses, three pigs and ten sheep. Additionally, Alexandra processes 3 hectares of land, where she grows cereals for animal feed and others vegetables used for family consumption.



The production that grows on her land is not sufficient, and so Alexandra decided to purchase some more. She asked us for a loan from Kiva to purchase one hectare of agricultural land to grow more production, because she has a goal to increase the number of sheep to thirty.

Alexandra is a proud farmer. She loves her work and she revealed me, what she is offering her family tonight :

### **Salata de vinete**

This is a very tasty salad, easy to make and very appreciated by those who love eggplants. It is tastier if the eggplants are grilled on a smoky outdoor barbecue.

Grill the eggplants on a temperature medium low to low somewhere between 20 to 40 minutes or until the skin is evenly charred and the eggplant collapses, the flesh should be really soft. Than peel and chop it, then mixed with onion and mayonnaise and add smashed garlic and herbs.

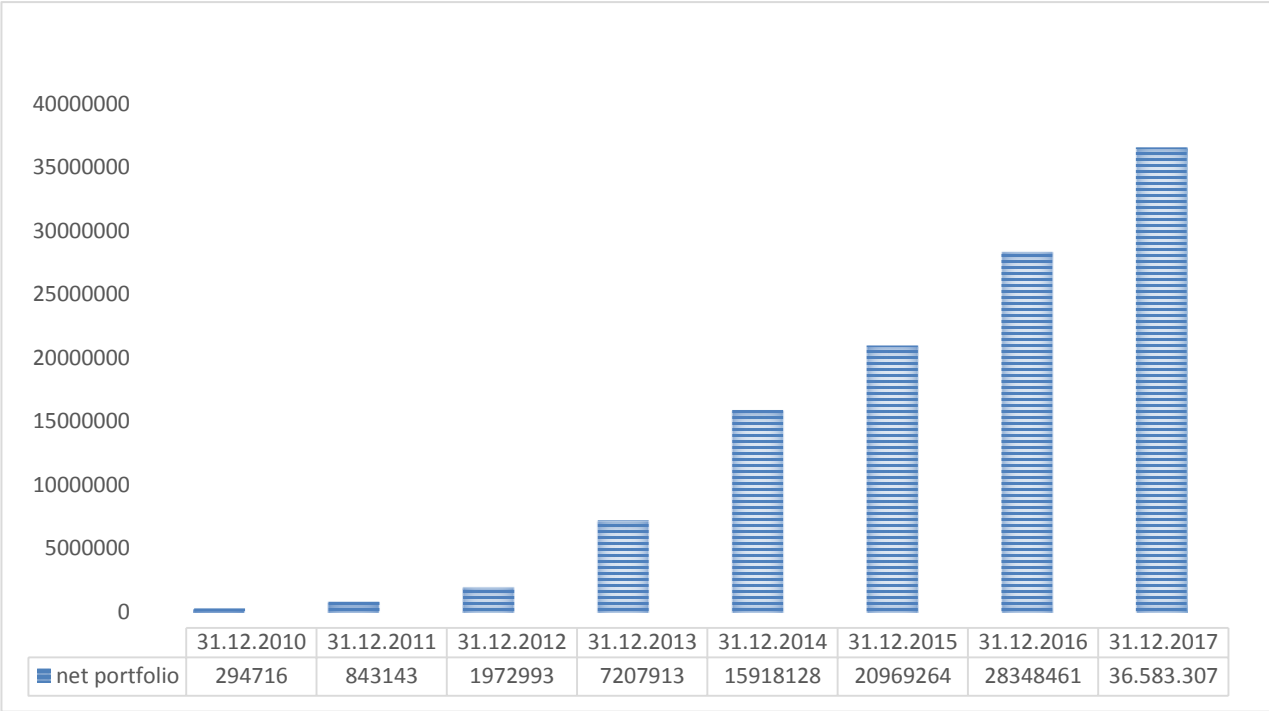
**Salata de icre**

Buy salted fish eggs, mix them with oil and lemon until they are like a mayonnaise, then add some boiled wheat semolina and chopped onion. That’s it. And Alexandra serves homemade bread for this purpose.

Back to our today’s reality: In line with the growth of our clientele we also show a far higher

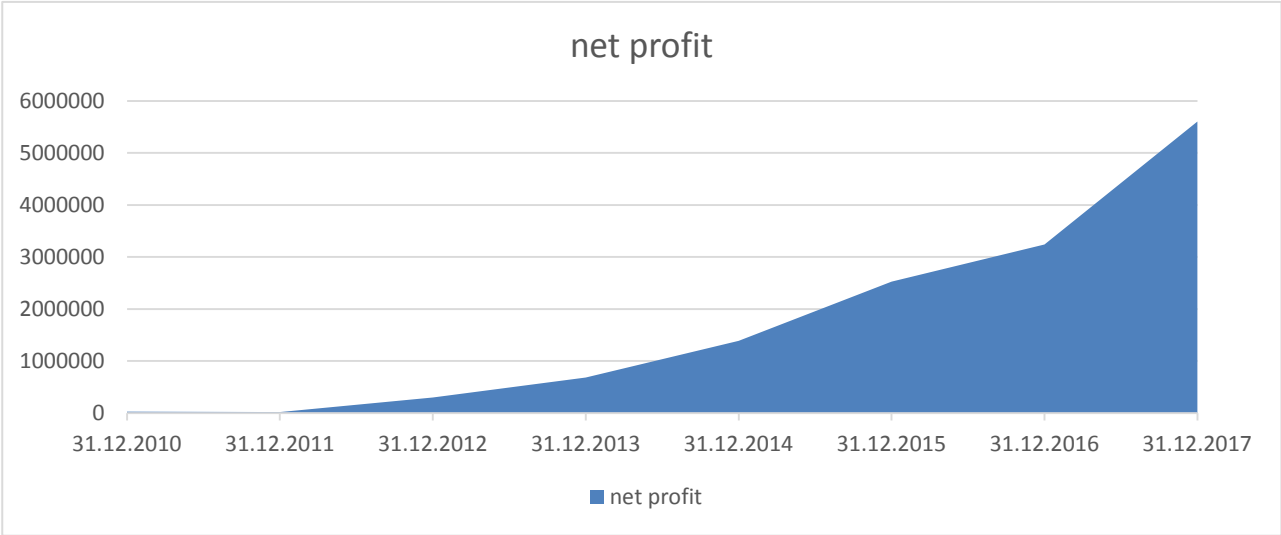
**PORTFOLIO,**

which states agility and intensity of our “work on the client”.



# NET PROFIT

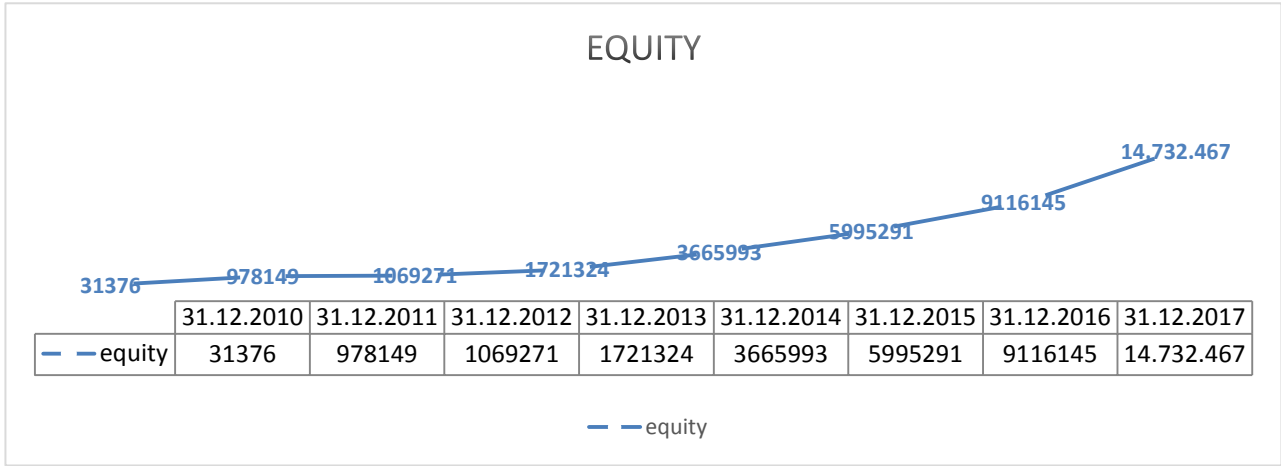
In spite of difficult surroundings (new branches, fluctuation within the team, new processes), we proudly show a net result of MDL compared to 2.834.129 at the end of June 2017.



We will not disburse any dividends and use all the results to strengthen our capital. So in the next years we intend not to disburse dividends, but keep them to finance the growth. And in consequence

# OUR CAPITAL

increases steadily.



A last work concerning

## QUALITY MANAGEMENT

End of January, 2018 all the board members received from our new Principal Internal Auditor Irina Miron the Internal Audit Report for 2017. Irina pointed at some risk conclusions and operational issues that require adjustments. I feel I should share with you the **General audit conclusion:**

*“In audit’s opinion, the activity of the SmartCredit is well governed, managed by and authorized to the right levels (Executive Director, Chief Accountant, Chief of Credit Department, Branch Managers) and appropriate controls, like delegation of tasks, verifications, approvals and reporting are in place. Monitoring of credit activity performance and portfolio quality is performed by branch managers, Chief of Credit Department, responsible persons from recovery unit and Executive Director, on a weekly base, also reporting on forecasted figures vs. actual figures is done so.*

*Although, there is scope for improvement as presented in recommendations into audit reports in order to enhancing the existing effectiveness of credit activity, monitoring of the clients and quality of the portfolio and the strategic objectives and sustainable growth of the Company.”*

So this is, what I wanted to transmit to you. Thank you for your patience and your interest. I ask you to support SMART CREDIT also in the future. CREDIT derives from “credere” and if stakeholders go on believing in us I am not afraid of our economic future, we will make it!

My team and I send you our best greetings, we wish you a peaceful Easter time, a wonderful summertime and a golden autumn. We are looking forward to stay in touch with you and are always at your disposal

Sergiu Cozmolici

Chairman of the Board of Directors  
MFI SMART CREDIT LLC  
10, nationala street, Ungheni, Rep. Of Moldova  
www.smartcredit.md  
[info@smartcredit.md](mailto:info@smartcredit.md)