



**ANNUAL
REPORT
2017**



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MICROINVEST

is a leader in microenterprise segment financing in Moldova. We operate with more than 120 staff in 12 locations across the country and serve over 18,000 micro customers. Our company serves micro business, agricultural, and consumer clients, providing finance for working capital, investments, consumption and educational needs. In a market, dominated by payday lenders, Microinvest stands out as responsible, cautious and transparent lender that conducts thorough financial analysis of its clients and charges sustainable rates commensurate with client risk. In our strategy and day-to-day activities, we pay attention to the following key principles: building strong and transparent corporate governance, developing a sustainable and profitable business model, promoting a conservative risk management approach throughout the institution, respecting and supporting our clients and developing our staff. We believe that by integrating those values into our strategy and day to day operations we can build a large and high-quality portfolio of micro customers, achieve high efficiency, low credit risk and stable returns for our shareholders. In 2017 the company increased its loan portfolio by MDL 191m to reach MDL 569m, reduced PAR 30 to 2.27%, and achieved an ROE of 26%.

MICROINVEST AT A GLANCE



Total Clients:

17 768



Total Portfolio:

569 395 933



Employees:

120



MICROINVEST



WE see 2017 as another successful year for Microinvest. We managed to continue portfolio growth, improve portfolio quality and balance with building up the institution itself, its managerial and staff capacities for sustainable future. Our efforts brought the efficiency at the level of 57% cost-income ratio and enabled to achieve 26% ROE.

We encountered growing demand in all our core segments of the market, especially strong in the agriculture. The competition started to be more pronounced, but not yet at the high level.

We continue to position the company as faster and simpler than the banks, cheaper and more responsible than the other MFIs. So far, this positioning worked out well, and we were able to steadily increase the number of businesses and households looking for a reliable long-term finance partner.

Microinvest is a staff-driven company. We feel that HR market is becoming tougher and will represent the biggest challenge for many Moldovan businesses and institutions. This is why we are proud that we can build our team in such circumstances and consider it to be our most precious competitive advantage on a long run. Our expectations towards our colleagues are high. We want our front-line employees to be proactive, to be in the field closer to clients, to be able not only to serve clients on the highest level but to assess credit risk, support clients with adequate financing. Nevertheless, our approach combining systematic hiring, induction program, training and “leadership” style of management on the one hand, active entertainment in organization on the other is paying off and we constantly progress in building strong team. We received an external confirmation that we are on a right track in HR area when Microinvest was selected by independent survey done by AXA Management Consulting as # 3 best employer on the Moldovan market - the only finance company to achieve this, and ahead of many traditional favourites, such as telecoms or IT companies.

We are especially proud that in 2017 we have managed to transform three Branches and HO in new Microinvest Standard. We try to make our Branches transparent, spacious, modern, with minimalistic design. It is very important for us that our staff and clients feel themselves comfortable in company’s offices, so the atmosphere really represent our value of transparency and reflect our approach in creating long term partnership.



2017 was crucial year in promoting Microinvest brand. Significant progress was achieved in three main fields: we started to turn into new standards our Branch network and, for the first time ever we appeared on TV and significantly improved presence in internet and social media. We accomplished an integrated TV, Radio, Facebook, and internet campaign featuring testimonials from our clients. We believe that we achieved higher recognition on the market as a responsible, and quality-driven company.

We look with confidence in 2018. We plan to continue to focus on generating further growth while improving our portfolio quality. Our main focus will be efficiency, aiming to reduce cost-income ratio to 50%. We will continue renovating our Branches into new standards, optimizing processes, as well as broader use of technology to achieve this goal. But we strive to remain a company with a human face and a human touch. Our customers will always have the opportunity to call or visit and talk to us face to face, and each of our clients will have a responsible manager, who will be focused not only on sales, but on what is best for the customer business and household, and also on preventing customers from taking more debt than they can bear.

Looking back at 2017, we are optimistic about our capacity to build up the company and on achieving even better results in 2018 and beyond. We are grateful to our customers, our staff, shareholders, IFI and local bank lending partners, who made those achievements possible and we count on their support in the future.

**DUMITRU
SVINARENCO** | *CEO*

MARKET OVERVIEW AND STRATEGY

Followed by the relatively stable year of 2016, in 2017 economy of Moldova showed increasing trend. The GDP registered 3% growth in parallel with a declining rate of inflation (from 6,8% to 4,4% in 2017) and rate of unemployment. The local currency continued to appreciate in parallel with stronger economic growth driven mainly by private consumption and financial resources higher demand. As a result, interest rates continued to decline. The microfinance financial sector remained split by the pay - day lenders, banks and narrow product - oriented (cars, mortgages) financial institutions, most of which registered in 2017 considerable growth of the loan portfolio and profitability level.

MICROINVEST

became number one in the microfinance sector by assets and number two by loan portfolio. On the growing market, we managed to maintain our market share of 12% during 2017 and to increase company's brand awareness, by being presented on the TV, radio, Internet, specialized events during the whole year. We positioned ourselves as "Trusted partner" for the clients with fast and straightforward financial services and responsible approach to lending.

PORTFOLIO DEVELOPMENT, 2011-2017 (MDL '000)

Item	2011	2012	2013	2014	2015	2016	2017
Business income LP	171 580	159 732	165 099	170 373	164 298	277 473	420 702
Non-business income LP	35 734	54 303	64 940	65 349	80 602	100 787	148 694
ROE, %	12.38	4.19	6.68	-2.76	-8.47	7.24	26.4
ROE*, %	12.38	4.19	6.68	3.79	-0.67	7.24	26.4
PAR30, %	5.49	3.87	4.38	6.15	6.27	2.32	2.27
Nr of employees	96	104	109	109	102	122	120
Nr of branches	16	16	16	16	14	14	12

*According to Local Standards

In our LP there are 2500 clients with incomes from business activity and 15 500 salary and remittances receivers. Our average disbursed amount to business entrepreneurs is MDL 186.000 and to consumer clients about MDL 11.000. Microinvest's business clients are: the owner of the auto service who wants to enlarge activity, by buying equipment, the producer of the furniture who would like to fill up his raw materials stock. You can see our agricultural clients with spring flowers on the market or buying a tractor for the next season. Salary and remittances receivers are usually families who buy cars, household goods and renovate their houses. We believe in our customers and we are proud of the fact they choose Microinvest. We consider that our clients are permanently developing middle class of the country, which seeks with loans to make something better, simpler and quicker.





Our products

are designed to match client cycle and client business. With entrepreneurs we opt to discuss their business needs and to adjust the proposal accordingly, without squeezing the client into narrow limits of standardised products. In 2017 we managed to sign partnerships contracts with big importers of the agriculture and production equipment. We would like our clients to get tailored turn-key solution to satisfy their needs: they get fixed assets together with financing solution at once. For our consumer clients we struggle to be the company which gives quick decision with minimum documents and with maximum responsibility in approach to payment capacity of the client.



More and more often HR area is treated as a business. There is a need for a long-term strategy, convincing engagement, attractive image and competent retention of employees. In 2017 Microinvest has been very active in these areas. We made a huge step forward to be closer to our potential candidates. We went to universities to get to know them, to know their expectations and to talk about the opportunities of working in MI. We communicated with them through social networks, talked about the possibility of trainings and career development in our company. For the first time, we have tried to invite university students on internship where some of them received a working contract.

Attracting best candidates is not enough. To create a strong dedicated team there is need to invest in its development, mood, maintaining ambition and not the last-the remuneration package. More than 500 training days were given for the company's employees, inclusive middle management, loan officers and front line people. One of the focuses was the creation of corporate culture, because we believe that if an employee finds reflection of his personal values in the life of the company, he feels himself comfortable at work, has long-term view on collaboration with the employer and has the ambition to achieve great results. Several bright recreation events were held at the company level. Thanks to excellent results in 2017, the company once again proved that the longer the employee is with the company and the better the results they demonstrate, respectively the higher is the financial motivation.

We are especially proud that our internal positive feelings about very high levels of engagement of our employees were proved by external parties. Microinvest has won the 3rd place in the Best Employer Contest performed by well-known specialists in the area "Axa Management Consulting". We believe that such confirmation will inspire us to continue development in HR area to drive our future successes.



CREDIT RISK MANAGEMENT

09

In Microinvest we continue to apply conservative risk management standards. We have a full separation between business development and risk management, up to and including the top management level. All our credit exposures pass through centralized underwriting. However, we also invest in the risk training of our loan officers, insist on very high accountability for the quality and arrears management of own and transferred portfolios in the branches, and try to structure incentives to avoid reckless risk taking.

We highly value and strive to constantly improve on a balanced business and risk mindset throughout the organization, intending to achieve high risk awareness, conservative risk appetite and zero tolerance to negligence and fraud. We have a separate fraud prevention unit that constantly reviews a significant sample of our exposures, aiming to ensure uniform credit standards across the institution and detect fraudulent activities.

Following the international practices, the company has started to develop a new approach for loans provisioning in 2017, considering forward looking features based on IFRS 9 requirements which will help to continue sustainable development of the company on the long run.

One of the significant achievements of 2016, followed by 2017 was the reduction of PAR30 from over 9% in 2015 to below 3,7% in 2016 and 2,27% in 2017. In 2017 the separate focus was done on the management of the consumer clients loan portfolio quality. Lack of the common standards on this market lead to the high risk of over indebtedness and company struggled to be balanced in combining speed and responsibility.

We see that preserving good level of the credit risk gives us possibility to offer more flexible and convenient conditions to our clients, that helps to enlarge our share and uniqueness on the market.

FINANCIAL AND OPERATIONAL RISK MANAGEMENT

We pay close attention to financial and operational risk management via careful process design, detailed documentation of key processes, exhaustive staff training and setting up warning limits and controls. A conservative risk culture is spread throughout the institution. Our risk approach is characterized by cautious limits for open currency position, liquidity, interest rate risk, funding and counterparty risks. We aim to keep those risks close to zero, and in any case, limit their impact at below 10% of equity. The 4-eyes controls principle is in place for all key processes. In cases when risks cannot be avoided, like the local banks counterparty risk, we aim to minimize them.

We also have fully structured ALCO, Credit Risk, Financial and Operational Risk and HR committees, and standard reports and limits that allow us to consistently monitor and to react in a timely way to any emergencies. All warning limit violations are immediately escalated to Management, and all maximum limit violations to the Board.

The risk function conducts stress tests on a regular basis to assess company vulnerability in various extreme scenarios. The results are reported to the risk committees, which are responsible for assessing the risks and taking mitigation measures when necessary.

CORPORATE GOVERNANCE AND SHAREHOLDERS

An integral part of Microinvest business model are strong shareholders and the Board who carry forward the company mission of profitable, but responsible lending. This is also a condition for collaboration with international lenders, and it is important for our positioning on the market.

We watch carefully that the business, risk and finance areas are structurally separated from each other, and we make sure that the business side cannot override the limits set forward by the risk and finance areas.

At the same time, we have an intensive formalized communication between the areas in the form of committees, which allows us to address any important topics in a structured and systematic manner.

Importantly, we practice full transparency in internal and external communications, and maintain an open door policy. You will see in our offices that people can easily talk to each other or to senior management, and no topic is blocked for discussion. We also believe that it is critical to ensure a close cooperation between the branches and the head office. In particular the management team is committed to investing a significant part of their working time to branch visits and working with branch managers and staff, setting the tone and ensuring two-way communication, awareness and timely reaction to the realities on the ground.

	2017
B.F.S.E. Holding B.V. - Olanda	52.26%
Fundația Soros - Moldova - Republica Moldova	26.73%
«Oikocredit» Ecumenical Development Cooperative Society U.A. - Olanda	12.81%
Driehaus Richard - SUA	4.78%
Solidarite Internationale pour le Development et l'Investissement SA («SIDI SA») - Franța	3.42%
	100%

TOP MANAGEMENT TEAM



DUMITRU SVINARENCO,
has more than 17 years experience
in banking.

Dumitru is the Chief Executive Officer of the Institute and is responsible for business development and HR.



RODICA JALBA,
has more than 14 years
experience in banking.

Rodica is Chief Risk Officer and is responsible for Credit Risk management, Underwriting and Recovery operations.



DUMITRU STROGOTEANU,
has more than 11 years experience in
banking.

Dumitru is Chief Finance Officer and is responsible for Accounting, Funding and Reporting functions.

Mr.
DUMITRU SVINARENCO
CEO of the company

SUPERVISORY BOARD



Mr.
ANDREW WALSH
Chairman (B.F.S.E)



Mr.
MARCEL VARMARI
Soros Foundation Moldova



Mr.
UWE KONST
OikoCredit

Mr.
STEPHAN BOVEN
Independent member

OUR LENDERS



responsAbility



CoopEst

FMO
Entrepreneurial
Development
Bank



symbiotics



IFI SUPPORT

Similar to our shareholders and the Board, our IFI lending partners are also crucial for the mission and governance of Microinvest. We enjoyed continuous support from our partners throughout 2017 and added several new lender partners during the year. These relationships are important not only from the perspective of funding, but also for being aware and implementing best practices in governance, capacity building, risk and finance management.

GINDEA OLEG

Flower Production in Greenhouses

We started to deal with flower production in 2004 on the land plot next to our house in 3 small greenhouses. We decided to make this our main activity because we wanted a decent living at home. So we constructed 3 flower greenhouses on a land plot located on the hill. And in 2015 we constructed another 4 greenhouses on the hill and 1 greenhouse near our house.

In parallel with the expansion in the number of greenhouses, our family extended too. I am proud to have 4 beautiful children who see their parents together at home and who can offer them a nice childhood. Together with the whole family, we handle all jobs in greenhouses: we seed, plant, take care, and bring the flowers to the market. Now we have flowers for all seasons of the year: tulips, pot flowers, eustoma flowers, asters, chrysanthemums.

In parallel, I began to provide construction services, because I built the house on my own, and I learned how to do this job too. With the express aim to start work in construction I began to cooperate with Microinvest. They offered me funding to buy equipment for producing roofing materials, then to buy tulips bulbs and all the materials necessary for their planting. Further, in cooperation with Microinvest, I bought another land plot where I plan to build a couple of flower greenhouses. I have obtained all this thanks to my family, which stimulates me day after day, and Microinvest team, which offered me a source of funds to accomplish all my plans. I will continue to work with Microinvest by the reason of competence of the people who work there, facilities offered to me as a farmer and the fact that I have obtained all the credits without collateral.



THEODOR MAYR

Exporter of Processed Timber and Manufacturer of Furniture Fittings for Export

I am from Austria and my boyhood dream was to build my own house and make wooden furniture. So I've come to learn woodwork. I fulfilled my dream of my own house, but I got even more - I've started my own business. Initially, I was engaged in the sale of woodworking machinery in Moldova, and then I decided to deal with wood processing myself.

Now, our company, Maybermayr SRL, is dealing with export of processed timber in Korea and the USA as well as with manufacture of furniture fittings also for export. I've got to manage a team of 25 people and I'm not going to stop at that.

That's why I've been looking for a financing partner to support me in my plans for development. That's why I began to collaborate with Microinvest. What can I say about Microinvest team? First of all, they are the professionals who keep their word. Secondly, they are fast and thirdly, Microinvest provides funding of up to 300,000 lei without collateral.

Thanks to these qualities I've managed to get financing for purchasing raw materials within 2 days, without distracting me from my principal activities. Due to the Microinvest trust to me as a client, I'll continue to work with it to develop my business.

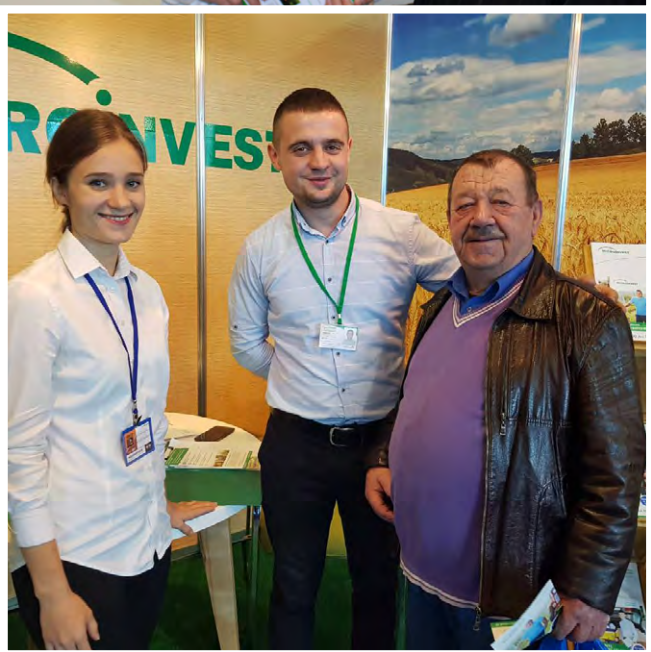


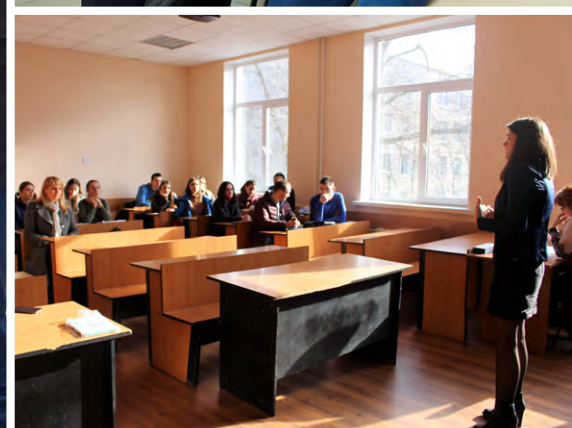
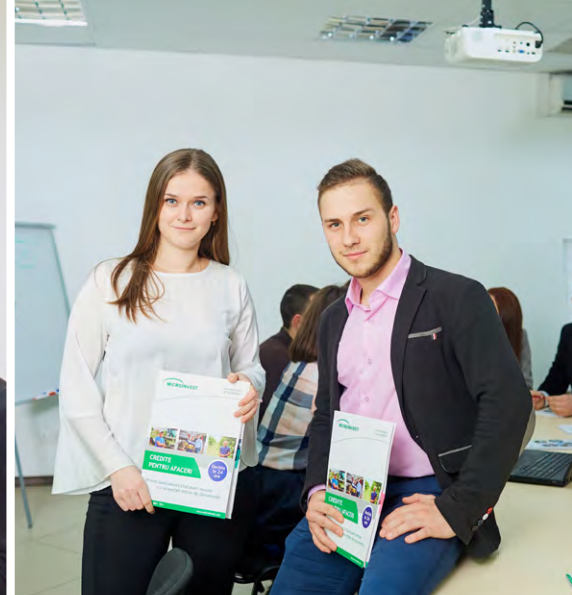
GATMAN VALENTINA

Librarian

I work as a librarian in my native village. This I have learned and in this field I have worked all my life. I am pleased to have a job at home, but the revenues are too small to make reserves. When I needed to repair my house and I had not enough money, Microinvest helped me and I obtained a loan in 30 minutes only with the identity card. I'm glad that there are such partners as Microinvest which understands our needs and helps us with funding. When you know that there is a shoulder to lean on next to you, you can make plans for the future and feel more secure tomorrow. I'll continue to work with Microinvest for the sake of quickness, understanding, and support.









Î.M. OMF MICROINVEST SRL

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2017**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL
REPORTING STANDARDS**

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of IM OMF Microinvest SRL

Opinion

We have audited the accompanying consolidated financial statements of IM OMF Microinvest SRL and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Group 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 in Moldova, 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.

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 the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

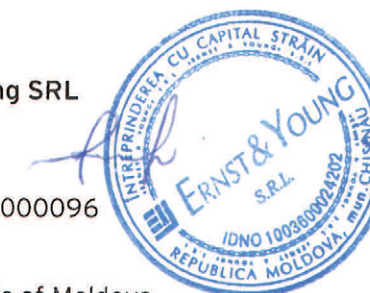
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting 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 Group'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 concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Group 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

On behalf of

ICS Ernst & Young SRL

Raisa Gonta
Licensed auditor
License serie AG 000096



13 July 2018
Chisinau, Republic of Moldova

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts are in Moldovan Lei (MDL), unless otherwise stated)

	Notes	2017	2016 Restated*
Interest income	3	143,408,590	97,578,654
Interest expense	4	(60,954,456)	(48,319,842)
Net interest income		82,454,134	49,258,812
Provision for impairment of loans	11	(6,537,108)	(2,988,252)
Net interest income after provision for impairment of loans		75,917,026	46,270,560
Recoveries of loans previously written off	5	3,339,123	4,603,753
Other operating income	6	7,716,145	2,277,201
General and administrative expenses	7	(52,647,909)	(44,921,016)
Provisions for legal services		(47,000)	
Net foreign exchange (loss)/ gains		(769,916)	(171,542)
Income/(Loss) before income tax		33,507,468	8,058,956
Income tax (expense)/ credit	8	(4,534,183)	(2,554,827)
Income/(Loss) for the year		28,973,285	5,504,129
Total comprehensive income/(loss) for the year		28,973,285	5,504,129

* Certain amounts shown here do not correspond to the 2016 financial statements, and reflect adjustments made, refer to note 2.6.

The financial statements were authorized for issue on 13 July 2018 by the Executives of the Group represented by:

Mr Dmitrii Svinareco
Administrator




Mr Dumitru Strogoteanu
Chief Financial Officer



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

(All amounts are in Moldovan Lei (MDL), unless otherwise stated)

	Notes	31 December 2017	31 December 2016 Restated*
ASSETS			
Cash and cash equivalents	9	12,684,969	9,873,519
Due from banks and other institutions	10	272,446,131	207,341,779
Loans and advances to customers, net	11	564,355,847	368,656,649
Premises and equipment	12	12,838,385	13,661,974
Deferred tax assets	8	955,034	1,351,797
Intangible assets	13	3,161,180	3,378,163
Other assets	14	3,840,869	3,708,179
Total assets		870,282,415	607,972,060
LIABILITIES			
Interest-bearing borrowings	15	723,463,159	496,256,363
Other liabilities	16	20,475,646	14,345,373
Total liabilities		743,938,806	510,601,736
SHAREHOLDERS' EQUITY			
Share capital	17	103,046,693	103,046,693
Secondary capital		(858,398)	(858,398)
Share premium		3,357,781	3,357,781
Accumulated deficit/profit		20,797,532	(8,175,753)
Total shareholders' equity		126,343,609	97,370,324
Total liabilities and shareholders' equity		870,282,415	607,972,060

* Certain amounts shown here do not correspond to the 2016 financial statements, and reflect adjustments made, refer to note 2.6.

The financial statements were authorized for issue on 13 July 2018 by the Executives of the Group represented by

Mr Dmitrii Svinareco
Administrator




Mr Dumitru Strogoteanu
Chief Financial Officer



The notes from pages 5 – 73 are an integral part of these consolidated financial statements.



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