



ANNUAL REPORT

2015



Microinvest is a leader in microenterprise segment financing in Moldova. We operate with more than 100 staff in 13 locations across the country. Our company serves micro business, agro, and consumer clients, providing finance for working capital, equipment and machinery, seed and fertilizer, household renovation, education and consumption needs. In the market where large banks are withdrawing and payday lenders entering, Microinvest stands out as responsible, conservative and transparent lender that conducts thorough financial analysis of its clients and charges rates commensurate with client risk and sustainable for the businesses. In 2015 we obtained SMART certification confirming our attention to standards of responsible lending. 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 if we deliver on those objectives, we will meet in the best possible way the interests of our shareholders and our lenders.

FOREWORD FROM THE CEO

2015 was a difficult year for Microinvest. The Moldovan GDP contracted by -0.5%, the local currency devalued by over 20%, remittances and exports declined substantially, and three major banks collapsed. A combination of external political and economic shocks and internal turnaround efforts has cost the company financially, primarily in terms of declining loan portfolio volumes, increasing arrears and the cost of funds - which one can see clearly in the financials. However, by the end of the year, the company managed to put those challenges behind it, bring the portfolio quality to pre-crisis levels, and focus on business development and growth.

In the second half of 2015 we saw opportunities to restart company growth, building a sustainable and balanced portfolio allocated to micro business, micro agro and micro consumer loans. The banking penetration in those largely informal segments is low, and business yields of over 30% are both attractive to us financially, and still sustainable for our customers in the long run.

In 2015 an experienced management team joined from a reputable and internationally owned bank, helping support our strategy and day-to-day operations, strengthen internal processes and infrastructure, and building a foundation for future growth.

We are firm believers that the key to sustainable portfolio is a strong, stable, well trained and developed workforce and in particular the team of loan officers, who fully share company core values, are capable of conducting a thorough assessment of client payment and debt bearing capacity, and can manage their loan portfolios effectively. With that in mind, we invested heavily in staff training and staff retention, and set ourselves ambitious targets for portfolio growth that were fully achieved by year-end. We built a strong platform for 2016 - 2017 development, aiming to grow significantly the company portfolio in this period, all the while reducing portfolio risks, building higher provisioning buffers, and reaching a reasonable return on equity.

We believe that in the future successful microfinance will combine traditional relationship-based models with more technology-driven approaches. In 2015 we invested in our data mining and scoring, aiming to grow its importance in our credit decision making; and also embarked on a project to develop e-money services. Microinvest is one of the few certified e-money issuers in Moldova, and we plan to start offering both web and mobile e-money transfers and payments to our customers in 2016.

In all these developments, we enjoyed strong support from our shareholders and the group of our international lenders, including with Western government support, offering their resources, expertise and guidance for the company. Their continuing support gives us confidence in reaching our forward objectives.

Dumitru Svinarenco,
CEO



COMPANY OVERVIEW

MARKET OVERVIEW AND STRATEGY

We have had a presence in the majority of Moldova's towns and villages since 2003 and have a good knowledge of the market. Moldova is an exciting market for micro finance and micro payments. We evaluate the total market for micro business and micro agro enterprises at over 100 thousand in number, and the market for micro consumer customers at over half a million. Moldovan micro businesses have shown remarkable resilience in the face of several economic and political shocks, and are currently looking for finance to take advantage of the more stable environment and improving access to the EU market. In the micro consumer area, our target group are underbanked customers who are looking for a transparent and responsible lender.

In 2014-2015 many of the competitors, including leading banks, have withdrawn completely from the market or changed their strategy.

The remaining companies typically have very narrow regional and segment scope, or do not have resources for growth. With its continued shareholder and lender support, country-wide network and a sustainable growth strategy, Microinvest is uniquely positioned to increase its market share. We also benefit from our well-trained staff and well developed credit risk, collection and fraud control systems that allow us to maintain high portfolio quality.

Our current market share in Microfinance is about 8%. Based on strong growth in H2, 2015 we see potential to increase market share to 12% by the end of 2016 and to 20% over the following three years.

Key figures, 2011-2015 (MDL '000)

Item	2011	2012	2013	2014	2015
Business LP	171 580	159 732	166 099	170 373	164 298
Consumer LP	35 734	54 303	64 940	65 349	80 602
Yield, %	21.21	23.11	25.15	25.60	27.02
ROE, %	12.38	4.19	6.68	-2.76	-8.47
ROE*, %	12.38	4.19	6.68	3.79	-0.67
PAR30, %	5.49	3.87	4.38	6.15	6.27
Nr of staff	96	104	109	110	102
Nr of branches	16	16	16	16	14

* Net of extra organizational restructuring and legal expenses.



OUR CLIENTS

Microinvest served over 1 300 micro business, 1 600 micro agro, and 5 900 micro consumer clients in 2015. We look to finance businesses and households with stable income, reasonably low debt levels and good credit history. In our experience, such customers are both more likely to take opportunities to grow their business and incomes, and also show higher resilience in the face of adverse conditions. When starting our relationship, we invest considerable efforts in understanding the true financial situation of our customers, and keep in close touch after loan disbursement.

ACTIVE AND WELL TRAINED STAFF

In 2015 we improved our staff management approach. Well trained and dedicated staff are key to the company's success, and we invested a lot of efforts to reorganize such HR areas as staff attracting, developing and retaining.

We established an induction program approach that puts careful multistage selection of truly motivated new employees above quick hiring. Induction programs are organized regularly, providing a pool of well-trained and dedicated junior employees.

During 2015 we implemented a systematic approach to staff development, with the primary focus on customer service skills, credit risk assessment and portfolio management skills. We value commitment and desire to learn, and help our employees to develop all necessary skills to become better professionals.

We also reviewed our compensation approach, remuneration reflecting now institutional long term objectives and team spirit, instead of driving for individual results.

As a result of those moves, we were able to thoroughly change the staff dynamics in the company, bringing the total staff turnover to 25%, as opposed to over 80% in 2014.

We believe that those changes allowed us to improve customer acquisition and service, reduce customer defaults and portfolio risks, and also improve staff satisfaction and motivation for working in Microinvest.

SIMPLE STRAIGHTFORWARD PRODUCTS

Our customers are straightforward business people. They value the simple products that we provide, our streamlined approach to paper work and collateral, and our efforts to avoid over indebtedness.

To further meet their expectations, in 2015 we simplified our product offering, reducing it to two main products - a business instalment loan, with a payment schedule that can be adjusted to meet customer cash flows; and a business credit line. We also retrained our loan officers to enable direct and straightforward discussions with clients, focusing mostly on benefits and risks of the debt for their business or household, and on any additional advice they might have for the business based on their experience.

In 2015 we obtained a SMART certificate, confirming our adherence to responsible and transparent lending standards.

We also obtained the license from the National Bank and started the development of the micro payments (e-money) product with the aim of offering country-wide peer-to-peer transfers and payments via web and mobile, as well as via our branches and our partners.

RISK MANAGEMENT

CONSERVATIVE CREDIT RISK MANAGEMENT

We adhere to the notion that micro finance and micro consumer credit risk can and should be assessed individually, aiming to minimize the default risk for each individual client. This is both a good long-term business practice, and a strong attitude of responsibility towards our clients. We do not want to engage in lending that does not care about the risks that it brings to customers.

With that in mind, we invested extensively in training of our loan officers in customer risk assessment, portfolio management and portfolio recovery skills. We have also strengthened our centralized underwriting unit that screens all loans, and made them responsible for loan officer risk training and development.

If a customer falls into arrears, we carefully review the situation, and in cases when the business is salvageable, offer restructuring and support on turning around the business and recovery.

We pay serious attention to fraud prevention. Every staff member has to know and adhere to our Code of Conduct. We also run an operational risk and fraud prevention unit that conducts regular controls preventing violations of procedures or the Code of Conduct.

Despite adverse economic and political conditions, portfolio risks remained stable, and are set to decline as the environment stabilizes in 2016-2017.

SYSTEMATIC FINANCIAL AND OPERATIONAL RISK MANAGEMENT

We pay close attention to financial and operational risk management via careful process design, setting up warning limits and controls. A conservative risk culture is propagated throughout the institution.

Our risk approach is characterized by conservative limits for open currency position, liquidity, interest rate risk, funding and counterparty risks. We aim to keep those risks at 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 with the counterparty list, 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 emerging realities. All warning limit violations are immediately escalated to Management, and all hard 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

We have a clear and transparent shareholding and Board structure. Our shareholders and Board members all have extensive experience with microfinance over a long period of time and across many countries, and they are actively involved in defining the core values, company strategy, staff strategy, risk appetite, all core risk management policies and limits, as well as monitoring the company business, staff and risk performance on a quarterly basis.

The Board ensures that an independent and fully structured internal audit departments conducts a systematic review of all core units and processes via a combination and risk-based and compliance audits and reports to the Board audit committee on a quarterly basis.

SHAREHOLDERS

as of 31 Dec 2015

BFSE Holding B.V. (B.F.S.E)	52.26%
Soros Foundation Moldova	15.90%
S.A. "S.I.D.I." Solidarite Internationale pour le Developpement et l'Investissement	3.42%
"Oikocredit" Ecumenical Development Cooperative Society U.A.	12.81%
Soros Economic Development Fund	10.83%
Driehaus Richard	4.78%
	100%

BOARD OF DIRECTORS

Mr. Clive Moody, Chairman (BFSE)

Mr. Paul Panciu (BFSE)

Mr. Uwe Konst (OikoCredit)

Mr. Neal de Laurentis (Soros Economic Development Fund)

Mr. Marcel Vamari (Soros Foundation Moldova)

Mr. Gael de Pontbriand (Independent)

Mr. Dmitrii Svinarenco (CEO of the Company)

KEY FUNDING PARTNER SUPPORT

We enjoy continuous and strong support from our IFI funding partners, who support our core values, strategy and our mode of operation. Our lenders know and support our shareholders and the Board. All our IFI funding partners have been appraised of our strategy objectives, and we trust will remain on board with us for the foreseeable future.

Î.M. OMF MICROINVEST SRL

**CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 2015**

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

Î.M. OMF MICROINVEST SRL

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015
(All amounts are in Moldovan Lei (MDL), unless otherwise stated)

	Notes	2015	2014
Interest income	4	72,083,328	65,559,806
Interest expense	5	(34,152,695)	(24,036,479)
Net interest income		37,930,633	41,523,327
Provision for impairment of loans	13	(5,473,910)	(6,984,439)
Net interest income after provision for impairment of loans		32,456,723	34,538,888
Recoveries of loans previously written off	6	2,945,157	3,970,020
Other operating income	7	628,723	987,316
General and administrative expenses	8	(42,721,612)	(42,687,525)
Net foreign exchange (loss)/ gains		(1,287,549)	203,381
(Loss) before income tax		(7,978,558)	(2,987,920)
Income tax (expense)/ credit	9	(333,461)	64,703
(Loss) for the year		(8,312,019)	(2,923,217)
Total comprehensive (loss) for the year		(8,312,019)	(2,923,217)

The financial statements were authorized for issue on 05 July 2016 by the Executives of the Group represented by:

Mr Dmitrii Svinareco
Administrator



Mr Dumitru Strogoteanu
Chief Financial Officer

The notes from pages 5 - 70 are an integral part of these consolidated financial statements.

Î.M. OMF MICROINVEST SRL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015
(All amounts are in Moldovan Lei (MDL), unless otherwise stated)

	Notes	31 December 2015	31 December 2014
ASSETS			
Cash and cash equivalents	10	5,072,704	5,112,936
Due from banks and other institutions	11	179,851,870	223,663,386
Investments held to maturity	12	-	9,999,056
Loans and advances to customers, net	13	233,413,308	223,998,040
Premises and equipment	14	12,640,208	13,245,874
Deferred tax assets	9	2,486,377	2,819,838
Intangible assets	15	2,214,409	1,191,343
Other assets	16	2,910,854	20,851,549
Total assets		438,589,730	500,882,022
LIABILITIES			
Interest-bearing borrowings	17	343,953,624	390,717,891
Grants received	18	-	152,424
Other liabilities	19	2,769,912	2,556,777
Provision for liabilities and charges	20	-	2,975,716
Total liabilities		346,723,536	396,402,808
SHAREHOLDERS' EQUITY			
Share capital	21	103,046,693	106,231,922
Secondary capital		(858,398)	257,373
Share premium		3,357,781	3,357,781
Accumulated deficit		(13,679,881)	(5,367,862)
Total shareholders' equity		91,866,195	104,479,214
Total liabilities and shareholders' equity		438,589,730	500,882,022

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Chief Financial Officer

The notes from pages 5 - 70 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

Notes	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Interest receipts	74,034,783	65,704,531
Interest payments	(37,521,348)	(24,449,489)
Recoveries from loans previously written off	2,945,157	3,970,020
Other income received	476,297	944,922
Payment to employees and suppliers	(38,827,357)	(38,773,175)
Income taxes paid	<u>(2,091,938)</u>	<u>(1,016,528)</u>
	(984,406)	6,380,281
<i>(Increase) / decrease in assets:</i>		
Loans and advances to customers, net	(9,452,035)	9,693,847
Due from banks and other institutions	83,284,891	(118,878,831)
Other assets	16,065,664	(17,911,723)
<i>Increase in liabilities:</i>		
Increase in provisions for legal services	(2,975,716)	-
Other liabilities	<u>209,852</u>	<u>(1,379,826)</u>
Net cash used in operating activities	86,148,250	(122,096,252)
Cash flows from investing activities		
Purchase of intangibles	(1,758,559)	(494,237)
Purchase of Premises and equipment	(461,158)	(1,380,426)
Purchase of state securities	<u>9,999,056</u>	<u>(9,999,056)</u>
Net cash used in investing activities	7,779,339	(11,873,719)
Cash flows from financing activities		
Borrowings received	186,679,275	357,306,516
Borrowings repaid	(275,626,435)	(222,425,824)
Contributions in share capital	<u>(4,301,000)</u>	-
Net cash from/(used in) financing activities	(93,248,160)	134,880,692
Foreign exchange difference	<u>(719,660)</u>	<u>5,081</u>
Net increase/(decrease) in cash and cash equivalents	(40,231)	915,802
Cash and cash equivalents at 1 January	<u>5,112,936</u>	<u>4,197,134</u>
Cash and cash equivalents at 31 December	10 <u>5,072,705</u>	<u>5,112,936</u>

The notes from pages 5 – 70 are an integral part of these consolidated financial statements.



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of the Î.M. OMF Microinvest SRL

1 We have audited the accompanying consolidated financial statements of Î.M. OMF Microinvest SRL and its subsidiary CSV Schimb Optim Plus SRL (together, the 'Group') which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

2 Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3 Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

4 An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

- 5 We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

- 6 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ICS PricewaterhouseCoopers Audit SRL
ICS PricewaterhouseCoopers Audit SRL

Chisinau, 6 July 2016





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