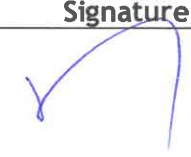


Management Report

OCN Microinvest SRL

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Date	Position	Name	Signature
20.05.2022	Administrator	Svinarenco Dumitru	

Dumitru Svinarenco

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1. Economic overview

According to Central Bank, Ministry of Finance and Independent analysts specialized in economic research, COVID-19 crisis and drought from 2020 became a low bar basis and therefore, in 2021 Moldova has registered a significant GDP estimated increase of around 10%. Despite the recession, in 2021, the salary growth maintained the trend of the past years. The wage growth trend was driven by the increasing shortage of labor force - employers are forced to actively increase salaries to retain and attract workers. The salary dynamics accelerated and in Jan-Sep:21, the real wage grew by 10.1% y-o-y. The remittances also registered an increase of 8.41% (+ USD 125.1m) during the year. In the context of economic recovery, during 2021, the employed population decreased by about 1%. The projections indicate certain marginal growths in the number of employed population between 0.5 and 1.0% in 2022. With an employment rate estimated increase of around 1%, the main risk for households is the accelerated increase in prices. The forecasts regarding the CPI dynamics are quite pessimistic and for 2022 is expected an average annual increase in prices close to 14%. The inflationary processes are attributable to a range of external factors, one of them being the energy crisis that hit all Europe, as well as the military actions in Ukraine.

Lending on financial market accelerated in 2021, achieving a y-o-y increase of 41.4% or 4.7 billion MDL. The Central Bank of Moldova took measures to control the inflation rate and increased the base rate up to 8.5%. On the other side, the government has approved a budget deficit for 2022 of around 15 billion MDL or ~6% of the GDP. These steps are taken to fight with increasing inflation, but at the same time, to help local SME to boost the economy and push through crisis.

The expected growth of GDP for 2022 is below 3%. Central bank is forecasting the inflation rate of 20.6% in September 2022 while the target remains as always 5%.

It is worth to mention that, despite the pandemic and payment moratorium measures imposed by regulator, during 2021 the share of non-performing loans at the level of the banking sector decreased, reaching 6.1% (7.4% as the end of 2020).

The evolution of the non-banking sector in the Republic of Moldova shows that although it has a small share in the economy, compared to the banking sector, its influence is very wide, offering credit services complementary to banking, available to individuals and small and medium enterprises throughout of the country. Even if 2021 was tough year, the non-banking sector remained stable, with over one hundred registered players. The market remained highly competitive in business, asset building and consumer lending.

2. Company's general presentation

Over the years, Microinvest has built a solid position on the market and positioned itself as a strong brand. The Company is the leader in the MSME lending in the Republic of Moldova, and the sixth financial organization among the banking and non-banking system, according to the size of portfolio. In Microinvest and its 15 secondary offices 239 employees pursue and develop a successful career, over 70% of which are employed over 1 year. This team succeeded in building a diversified portfolio of over 3 billion MDL, thus serving over 54,200 customers. One more strength of Microinvest is its professional management team, with experience and expertise in banking and microfinancing.

The Company provides loans and business assistance to micro, small and medium size entrepreneurs covering all regions of the Republic of Moldova. Many of the beneficiaries of Microinvest loans are private entrepreneurs living in rural areas.

In the competitive market, Microinvest stands out as a responsible, prudent, and transparent lender, which performs a detailed financial analysis of each client and offers risk-based prices.

In developing long-term strategies and day-to-day activities, the company relies on the following key principles: building strong and transparent corporate governance, developing a sustainable and profitable business model, promoting a conservative approach to credit risk management combined with individual approach to its clients. Management is confident that by integrating these values into its day-to-day activities, the company will be able to grow and develop its loan portfolio while maintaining its quality, achieving high efficiency while ensuring the minimum level of credit risk even in difficult and unpredictable times.

On top of previous two-years drought, continues pandemic and high level of uncertainties 2021 was marked by increased competition from banks, which entered aggressively the consumer market. That's why Microinvest GLP growth of 34.5% and a PAR ratio of 1.82% at the end of the financial year are especially precious. The company remained highly liquid, profitable and efficient through 2021.

O.C.N „MICROINVEST” S.R.L. shareholder structure:

	<u>2021</u>	<u>2020</u>
BFSE Holding B.V.	54.86%	54.86%
Soros Foundation Moldova	24.42%	24.42%
"S.I.D.I." S.A.	3.13%	3.13%
"Oikocredit" E.D.C.S. U.A.	12.81%	12.81%
Driehaus Richard	<u>4.78%</u>	<u>4.78%</u>
	<u>100.0%</u>	<u>100.0%</u>

Richard Driehaus has died on 09 March 2021, legal succession procedures are still in progress.

The forecast for 2022 is confident and positive, it provides a real hope that times of great uncertainty for all will be passed shortly. Even if Moldova is facing several crises at the same time, like painful grip of the pandemic, social and economic consequences, emergency in the energy sector, geopolitical risks and announced regulation changes the company still aims to focus on supporting its borrowers and improving LP quality.

Microinvest remains responsible and at the same time empathetic to the clients' needs. The customers always can call or visit any secondary office, at the same time business clients are assigned to a responsible loan officer, who offers an individual approach and is focused on what would be most beneficial for the growth and development of the client's business in this challenging period, constantly avoiding the occurrence of over-indebtedness.

3. Financial performance indicators

The company's efforts in terms of maintaining high quality standards even during crisis, creating a comfortable business environment and continuous staff development have significantly influenced the level of the financial performance indicators. As the end of 2021, the return on capital (ROE) constituted 30.9% and CIR 28.7%.

Indicator	2019	2020	2021
ROE	47.9%	30.1%	30.9%
ROA	7.0%	4.7%	4.9%
CIR	32.2%	27.5%	28.7%

According to the Management Accounts, the profit after tax, according to IFRS, is equal to MDL 143.9m. During 2021, Microinvest recorded a 21.7% increase of interest and fee income compared to 2020, corresponding to loan portfolio growth of 34.5%. On the other side, one of the main challenges during 2021 was attracting local currency funds at affordable prices in order, to assure loan portfolio growth, to maintain a sufficient level of liquidity and financial stability. All lenders, local and external, have shown their willingness to offer a continuous support to the Company. During the year, the Operating Expenses (Overheads) were managed efficiently, which allowed MI to sustain CIR at a very good level of 28.7%.

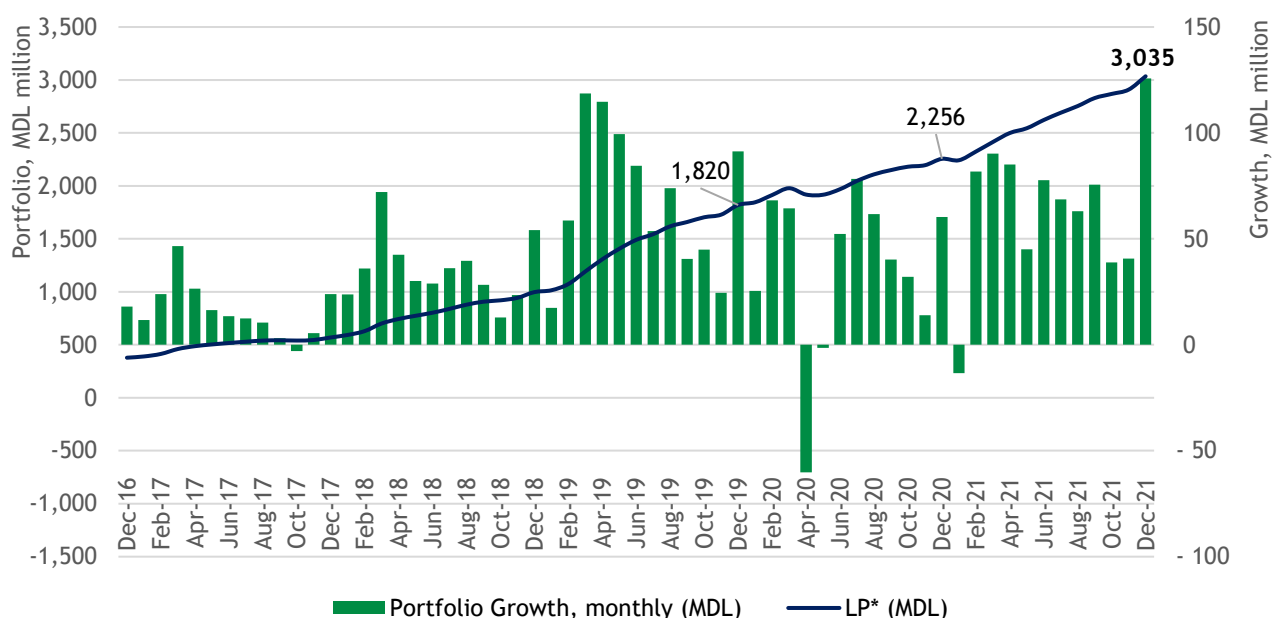
In the coming year, the Management intends to maintain LP yield in the context of high market pressure on the pricing, continue expanding the loan portfolio with qualitative moderate growth in all segments, while ensuring its systemic monitoring to maintain the value of operating expenses and risk costs within pre-established limits, thus contributing to the increase of the company's operating income.

4. Non-financial specific indicators

4.1. Loan portfolio evolution

Even if 2021 was not the easiest year, Microinvest maintained its 6th place in the top of the entire financial sector of the Republic of Moldova, according to the value of the loan portfolio, and strengthened the company's leading position on the country's non-banking financial market.

At the end of 2021, the loan portfolio reached the level of over 3 billion MDL (+34.5% compared to 2020), and its quality, in context of global Covid and energy crisis, was maintained at a high level: PAR 30 (according to IFRS) registered the value of 1.8% (2.4% in 2020).



*Principal outstanding portfolio

These impressive results of 2021 were determined by the following factors: (A) well-trained team in Secondary Offices and HO; (B) good reputation in the business and retail segments; (C) strong seasonal demand and concentration in agriculture which has already adapted to COVID times, balanced by targeting other non-agri segments in non-seasonal periods; (D) the rapid development and flexibility of credit products and business directions which permitted to adapt in a prompt way to market changes.

The focus during 2021 was on growth of the Business and Retail loan portfolio (+37.4% and +28.8% respectively), generated by attracting of the new borrowers and maintaining the existing ones by continuing to bring added value. Microinvest succeeded in maintaining the competitiveness in business segments by improving the existing business products and implementation of the new ones (credit line).

4.2. Gross loan portfolio structure

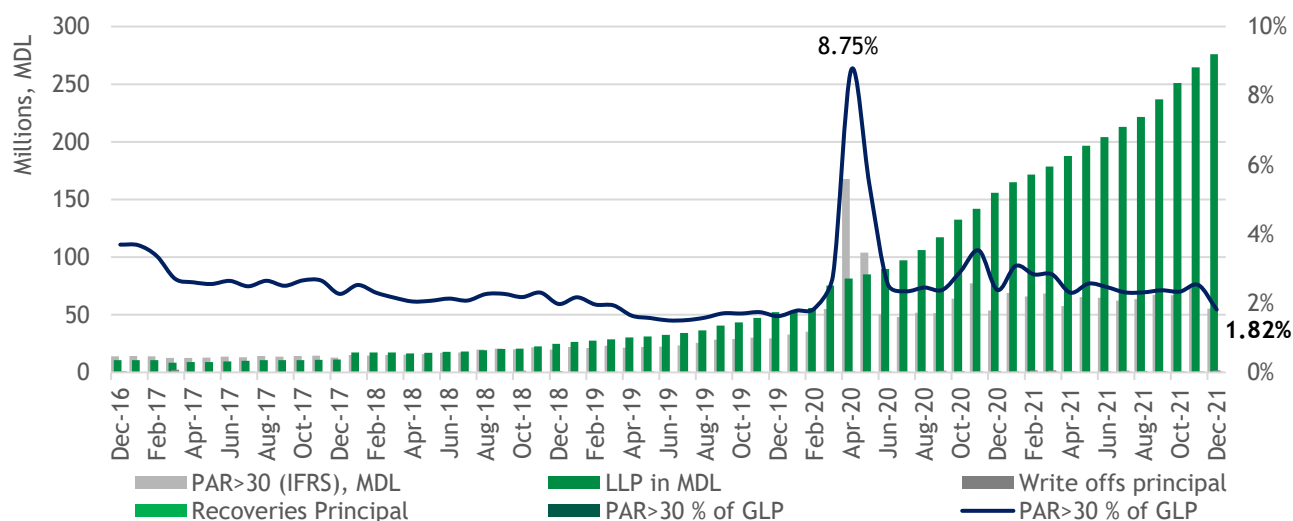
The distribution of the loan portfolio at the end of 2021 is presented in the table below:

Category*	LP, MDL	Share, %
Business	2,062,998,988	68.0
Car and HIL	663,150,588	21.9
Partners	175,716,606	5.8
Cash Loans	132,822,885	4.4
Total	3,034,689,068	100.0

*Breakdown by financial products

4.3. Loan Portfolio quality

2021 was a challenging year for the whole Moldovan economy. Nevertheless, due to effective work of the whole team, Company succeeded to maintain good LP quality. As the end of 2021, PAR 30 reached the level of 1.8%, much better than 2.4% registered at the end of 2020. The main factor that has contributed to maintaining the quality of the loan portfolio is close communication with clients regarding the solutions proposed by Microinvest for decreasing the impact of last year COVID-19 and drought crises, as well as the embracement of unceasing COVID-19 waves in a day-to-day life. During 2021 Microinvest maintained a good risk management and the continuous improvement of collection processes.



The volume of restructured loans decreased from MDL 276.8m in 2020 to MDL 244.3m in 2021. The quality of restructured exposures stays high, registering only 11.3% PAR>30 for total restructured LP.

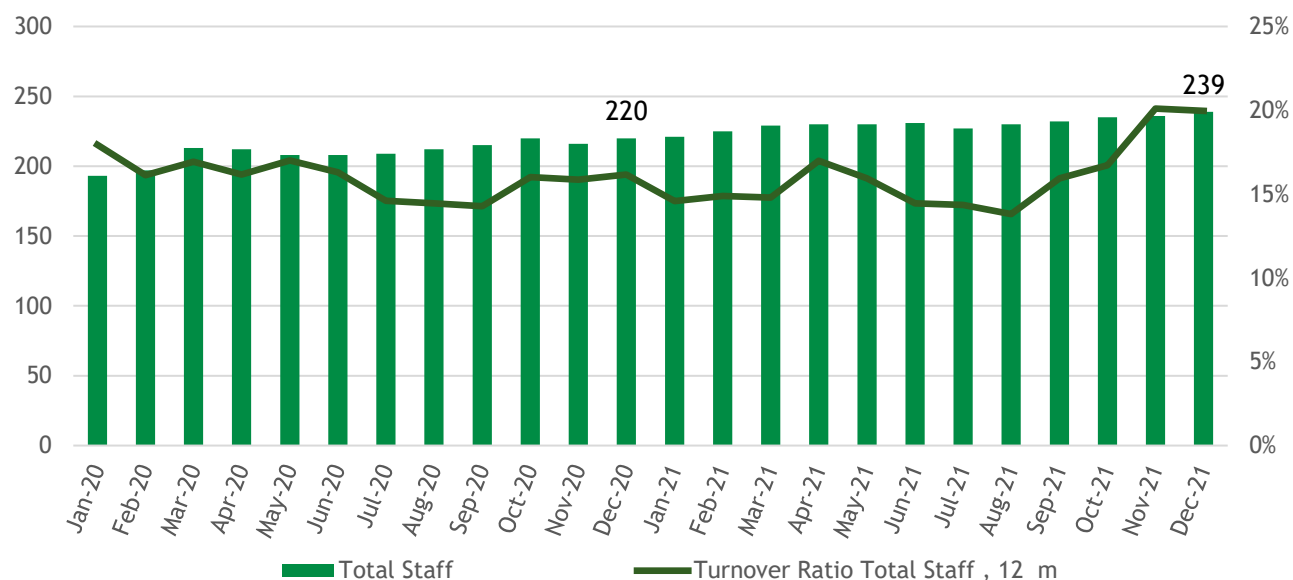
During 2022 the Company will continue to build sustainable assets with a low level of risk, thoroughly analyzing risk origination, ensuring systemic monitoring of the loan portfolio and maintain a sufficient level of coverage ratio of accumulated credit risk.

The main 2022 priorities for credit risk remain to be maintaining LP quality at high level simultaneously with decreasing the share of Restructured LP, considering the impact of the last year COVID-19 and drought crises, forecasted inflation increase, energy crisis, as well as continuously speeding competition.

5. Human Resources Management

The main objectives in the field of human resources management in 2021 were: (A) keeping the team united and ensure the staff turnover rate below 25%; (B) health and wellbeing of Microinvest colleagues; (C) development of leadership potential; (D) staff professionalism development; (E) keeping motivated, engaged, and happy colleagues; (F) continuing building strong MI culture.

In rather complicated HR market, where the number of young graduates decreases drastically, where the phenomenon of migration persists and the competition for talent becomes more serious MI has managed to increase the number of staff up to 239 colleagues following the trends of increasing business. The battle for people in the financial market continues to be fierce, Microinvest’s unique “team” culture helps not only to maintain the talent in the company but also to develop and build capacity for the future. Despite slight increase of the turnover rate in the second half of 2021 Microinvest remains ahead of competitors in terms of talent development.



6. Financial risk management

Financial Risk Policy of OCN Microinvest SRL sets out the basic framework for managing financial risks associated with activity of the Company, aiming to achieve healthy development of the

company and ensure proactive and systematic risk management practice, develops capacity to manage material risks it has identified, in a cost-effective manner, commensurate with organization's resources. Risk taking is an integral part of company operations. However, poor management of risks will result in losses, and endanger sustainability of the organization. Systematic and proactive risk management is essential for long-term sustainability.

Risk management is a continuous process that will implement the following on the systematic base:

- Risk identification
- Risk measurement
- Risk control
- Risk monitoring
- Risk management.

Microinvest is exposed to a spectrum of financial Risks: Credit, Liquidity, Currency, Counterparty, Interest rate and Capital Management.

Credit risk management

Due to events which emerged in Moldova during last year and the impact, which is still felt in 2021, the credit risk in environment is continuously high. However, Microinvest succeeded to generate high portfolio quality figures. At the end of 2021, PAR>30 reached the level of 1.8%, lower than 2.4% registered as the end of 2020. Also, the volume of restructured loans decreased from MDL 276.8m in 2020 to MDL 244.3m. The value of PAR>30 including restructured loans reached the level of 8.9% compared to 13.7% registered as the end of 2020. The company kept building additional provisions during 2021, which brought a Risk Coverage Ratio of 102% for PAR30 including Restructured portfolio. Microinvest continues to monitor closely the borrowers' financial situation to promptly react to their needs.

Liquidity risk management

The report on maturity gaps is prepared and monitored on a monthly basis for contractual maturities, separately for local and FX currency. Considering the ongoing uncertainty, the company continued to keep additional liquidity, thus there were no violations of the liquidity triggers and limits during the year. The Company ensured a comfortable level of liquidity throughout the year. As the end of 2021 the liquidity ratio was equal to 15.2%, much higher than the minimum liquidity buffer and internal trigger (3.0% and 5.0% respectively). The liquidity coverage ratios for 1 and 3 months also registered the values much higher than internal approved limits 50.0% and 55.7% respectively.

The company's approach of the liquidity management is to continuously assess its liquidity position and maintain sufficient liquid resources in order to meet its outstanding payment obligations.

Currency risk management

As the end of 2021, the Company's aggregated OCP (including Off-Balance Sheet items) amounted 0.4%, which is well within the limits and the internal trigger of 5%.

The management is realistic about the reliability of the mitigation measures in times of crisis/currency volatility and is developing/using a stress test that gives a realistic assessment of risk management tools failure in cases of high crisis.

Counterparty risk management

The main financial risk that the company faced is the Counterparty risk, driven by local banks used for back-to-back currency swaps. If a local bank refuses to provide swap options or fail, the company will face exposure to a combination of liquidity, funding, credit and FX risks.

During 2021, the company diversified its funding sources from local banking sector by executing financing agreements with three new banks. The gross and net exposure to local banks is closely monitored on monthly basis.

Interest rate risk

The principal tools for measuring interest rate risk are IRR gap analysis, IRR stress test according to predefined expected and maximum stress criteria, limits set on the resulting IRR relative to capital of the company.

During 2021 the structure of BS by Interest Rate Sensitivity shows that the Company was exposed to IR risk for short term periods, which could influence the Net Interest Margin.

Capital Management

Microinvest considers its capital as adequate when it can be assumed with sufficient certainty that the company has sufficient capital to adequately cover all the risks that have been incurred in course of its business operations even under extreme circumstances. In order to measure the Capital risk, the Company uses 2 indicators: Tier 1 Capital adequacy (>13%) and Total Capital adequacy (>15%). Microinvest managed obtain high levels of capital adequacy at the end of 2021, equal to 17.9% and 18.3%.

7. Corporate governance

The company's ownership structure remained unchanged. Since March 2021, in order to assure its sustainable development in future, the management team consisting of Chief Executive Officer, Chief Financial Officer and Chief Risk Officer, was enlarged with Chief Business Officer.

8. Subsequent events

BFSE initiated UBO change, expected completion in Q2, 2022.

During the Annual General Meeting of Members held on 17 March 2022, the new structure of the Administrative Board of the Company was approved, it was enlarged from 4 to 5 members by adding an independent Board Member - Andreas Thiele.

In the first quarter of 2022, Moldova is in the middle of the energy crisis with rising inflation. The Special Law intending to limit abusive lending practices was approved by Parliament in the second reading. The main provisions of the draft law are aimed at regulating the principles of evaluating the creditworthiness of a loan recipient and limiting the interest rate and other additional expenses related to the loan agreement. The law will introduce very restrictive lending criteria, which might significantly transform lending landscape in Moldova in 2022.

The military actions in Ukraine region represent a significant risk for Moldova, while its economic and social impact is still difficult to estimate.

Annex 1. List of Secondary Offices of O.C.N. “Microinvest” S.R.L.

Nr.	Secondary office name	Region	Address
1.	Secondary Office Cahul	South	or. Cahul bd. Republicii 15/5, MD 3909 tel. (022) 801-701
2.	Secondary Office Căușeni	South	or. Căușeni str. M. Eminescu 25, ap.18, MD 4304 tel. (022) 801-701
3.	Secondary Office Chișinău Botanica	Center	mun. Chișinău bd. Decebal 23/2, MD 2002 tel. (022) 801-701
4.	Secondary Office Chișinău Rîșcani	Center	mun. Chișinău bd. Moscovei 15/7, MD 2068 tel. (022) 801-701
5.	Secondary Office Comrat	South	or. Comrat str. Podedî 111, MD 3805 tel. (022) 801-701
6.	Secondary Office Drochia	North 2	or. Drochia str. 31 August 1989, nr.33, MD 5202 tel. (022) 801-701
7.	Secondary Office Edineț	North 2	or. Edineț str. Independenței 61, MD 4601 tel. (022) 801-701
8.	Secondary Office Florești	North 1	or. Florești str. Ștefan cel Mare, nr.6, MD 5001 tel. (022) 801-701
9.	Secondary Office Ocnîța	North 2	or. Ocnîța str. 50 Ani ai Biruinței 116, MD 7101 tel. (022) 801-701
10.	Secondary Office Orhei	South	or. Orhei str. M. Eminescu 5, ap.3, MD 3505 tel. (022) 801-701
11.	Secondary Office Rîșcani	North 1	or. Rîșcani str. Independenței 14a, MD 5600 tel. (022) 801-701
12.	Secondary Office Soroca	North 1	or. Soroca str. Independenței 75a, MD 3006 tel. (022) 801-701
13.	Secondary Office Bălți	North 1	mun. Bălți str. Ștefan cel Mare, 27/1, MD 3121 tel. (022) 801-701
14.	Secondary Office Chișinău Sculeni	Center	mun. Chișinău str. Ștefan cel Mare și Sfânt, 171/1, MD 2004 tel. (022) 801-701
15.	Secondary Office Ungheni	South	mun. Ungheni str. Naționale 27. nr.81, MD 3600 tel. (022) 801-701

Annex 2. O.C.N. “Microinvest” S.R.L. financial statements

	<u>2021</u>	<u>2020</u>
Interest income	606,540,321	498,536,714
Interest expense	<u>(185,586,438)</u>	<u>(167,854,122)</u>
Net interest income	420,953,883	330,682,592
Provision for impairment of loans	(137,746,620)	(123,733,619)
Provision for impairment of other financial assets	<u>(2,599,204)</u>	<u>(7,429)</u>
Net interest income after provision for impairment of loans	280,608,059	206,941,544
Recoveries of loans previously written off	7,121,983	3,999,616
Other operating income	7,753,250	6,180,786
Salary expenses	(73,213,946)	(56,878,830)
Depreciation and amortization expenses	(10,223,467)	(9,754,086)
Other administrative costs	(41,539,554)	(27,123,964)
Regulatory fee	(2,729,287)	(2,087,920)
Net foreign exchange (loss)/ gains	<u>(2,763,920)</u>	<u>159,139</u>
Income/(Loss) before income tax	165,013,118	121,436,285
Income tax (expense)/ credit	<u>(21,085,008)</u>	<u>(16,603,389)</u>
Income/(Loss) for the year	<u>143,928,110</u>	<u>104,832,896</u>
Total comprehensive income/(loss) for the year	<u>143,928,110</u>	<u>104,832,896</u>

	<u>31 December 2021</u>	<u>31 December 2020</u>
Assets		
Cash and cash equivalents	152,754,451	196,472,900
Due from banks and other institutions	363,744,456	164,571,097
Loans and advances to customers, net	2,750,640,261	2,109,800,803
Premises, equipment and right of use assets	26,703,835	27,684,376
Deferred tax assets	12,849,066	6,399,068
Intangible assets	5,305,501	4,557,021
Other assets	4,004,095	7,580,987
Total assets	<u>3,316,001,666</u>	<u>2,517,066,251</u>
Liabilities		
Interest-bearing borrowings	2,675,732,740	2,018,378,626
Grants for projects in process	139,417	1,895,091
Subordinated debts	30,124,075	31,639,144
Due to founders	616,620	0
Other liabilities	70,138,627	54,597,658
Lease liabilities	7,259,217	9,592,874
Total liabilities	<u>2,784,010,698</u>	<u>2,116,103,392</u>
Shareholders' equity		
Share capital	112,771,693	112,771,693
Secondary capital	(616,586)	(616,586)
Share premium	3,357,782	3,357,782
Statutory reserves	11,280,168	11,280,168
Accumulated deficit/profit	<u>405,197,911</u>	<u>274,169,801</u>
Total shareholders' equity	<u>531,990,968</u>	<u>400,962,858</u>
Total liabilities and shareholders' equity	<u>3,316,001,666</u>	<u>2,517,066,251</u>