


2022

# Management Report

OCN Microinvest SRL

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Date	Position	Name	Signature
12.05.2023	Administrator	Svinarencu Dumitru	

*Svinarencu Dumitru*

*D. Dumitru*

## 1. Economic overview

After a relatively good year in terms of weather conditions for the agricultural sector and overall economic growth, 2022 brought with it its challenges and uncertainties. To begin with, the outbreak of war in Ukraine drastically changed the perception of country and regional risk. The influx of Ukrainian refugees forced local authorities, businesses, and Moldovan citizens to concentrate their efforts on providing all possible aid and support to those seeking at least temporary refuge in Moldova.

The freeze of foreign and local investments in the economy due to an extremely high level of uncertainty caused the GDP to drop by 5.9% in 2022 compared to 2021.

The increase in energy resource prices, coupled with disruptions in supply/delivery chains, has led SMEs to adjust the prices of goods and services they offer their clients. This has caused the Annual Inflation Rate to increase significantly (from 13.94% in Dec-21 to 30.24% in Dec-22). The ongoing increase in the annual inflation rate, the National Bank has taken proactive actions to implement a series of monetary policy measures. Consequently, the base rate was gradually raised up to 21.5%.

Even though the peak of annual inflation was reached in Oct-2022 (34.62%), the Central Bank forecasted an average level of 13.7% for the following year. On the other hand, remittances remained strong, increasing by 8.31% (+USD 133.91m) and becoming the only source of financial stability for many low-income families dependent on emigrated family members.

In 2022, the lending sector witnessed a decline of 5.9% compared to the previous year. This downward trajectory in lending, coupled with the scarcity of financial resources required by the population, prompted the government to seek external assistance in the form of grants which were allocated to finance impactful social programs and facilitate wage increments. Despite the energy and economic crisis, the share of non-performing loans in the banking sector increased only slightly in 2022, reaching 6.4% (6.1% as of the end of 2021). The impact of the economic situation on the non-banking sector may be seen with a delay, but the sector remained stable during 2022, with over one hundred registered players that continue to be highly competitive in business, asset building and consumer lending.

2022 was also marked by changes in regulatory framework applied to financial sector of Moldova. The set of legislative acts included:

- changes of existing laws (Law on banking activity, Law on non-bank credit organizations, Law on loan agreements for consumers and Law on savings and loan associations) in terms of cost limitation, and
- implementation of Regulation on responsible lending which sets stricter creditworthiness assessment and limits for avoiding over indebtedness of consumer clients, imposed:
  - o on 1<sup>st</sup> of July 2022 to banks and
  - o on 1<sup>st</sup> of September 2022 to non-banking organizations.

According to IMF, the regulation increased the compliance with prudential borrower-based limits, where the share of approved loans during Jul-Aug which are above 40% limit of DSTI decreased from 60% in 2021 to 18% in 2022. As per latest IMF report, the activation of LTV and DSTI ratios as well as the stricter credit worthiness assessment for the NBCOs has contributed to a slowdown in non-banks credit by 21.9% in December 2022 compared to December 2021. Banks' lending to households is slowing, with 63.9% decrease of new real estate and consumer credit loans.

Regardless of the impact on financial sector and the beneficiaries of consumer loans, it is worth to mention that the regulatory changes implemented in 2022 have aligned the requirements for credit worthiness assessment and cost capping for banks and non-banking organizations, making them to play according to the same rules, even though non-banks do not access to any form of deposits.

## 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 with a share of 30.1% from the microfinance sector, and the fifth financial organization among the banking and non-banking system, according to the size of portfolio, which represents 5.2% share of total financial market. In Microinvest and its 16 secondary offices 250 employees pursue and develop a successful career, 73% of which are employed over 1 year. This team succeeded in building a diversified portfolio of almost 4 billion MDL, thus serving over 48,680 customers. Microinvest is further bolstered by its professional management team, which is composed of individuals with experience and expertise in banking and microfinancing.

In addition to professional administrative board and management team, the company has a solid shareholding structure (presented in the table below) consisting of foreign and local reputable non-profit and developmental financial institutions.

### O.C.N. „MICROINVEST” S.R.L. shareholder structure as of 31-Dec-2022:

	<u>2022</u>
BFSE Holding B.V.	54.86%
Soros Foundation Moldova	24.42%
S.A. "S.I.D.I." Solidarite Internationale pour le Developpement et l'Investissement	3.13%
"Oikocredit" Ecumenical Development Cooperative Society U.A.	12.81%
Driehaus Richard	<u>4.78%</u>
	<u>100.0%</u>

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.

Caught between the war in Ukraine, financial and energy crisis, with high level of uncertainties all-around, 2022 was marked by fierce competition from non-banking and banking organizations on one hand, and opportunities appeared on the market as result of some banks focusing on investing in state bonds at 21% per annum with zero risk, rather than financing the real economic sector. That's why Microinvest's GLP growth of 28.5%, PAR ratio of 2.7% and Accumulated risk of 10.9% at the end of the financial year are even more precious. The company remained liquid, profitable and efficient throughout 2022.

From today's perspective, the expectations for 2023 are that the environment will be similar to previous year, with a lot of uncertainties and changes which will require prompt reaction and adaptation. The Central Bank will gradually ease the monetary policy which will reactivate lending and in result will boost business activity in the country. Throughout the years, Microinvest has accompanied clients through good times and through crises, and demonstrating together resilience, emerging stronger after each crisis, because each crises creates also opportunities. The fact that resilience even in adverse environments is part of Microinvest DNA allow us to look with confidence and optimism at 2023.

### 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 2022, the return on capital (ROE) constituted 30.3% and CIR 26.3%.

Indicator	2020	2021	2022
ROE	30.1%	30.9%	30.3%
ROA	4.7%	4.9%	4.8%
CIR	27.5%	28.3%	26.3%

According to the Audited figures, the profit after tax, according to IFRS, is equal to MDL 185.5m. During 2022, Microinvest recorded an increase in interest and fee income compared to 2021, corresponding to loan portfolio growth of 28.5%. On the other side, the main challenges during 2022 were access to new funding, as well as sharp increase of cost of funds. During the year, the Operating Expenses (Overheads) were managed efficiently, which allowed MI to sustain CIR at a very good level of 26.3%.

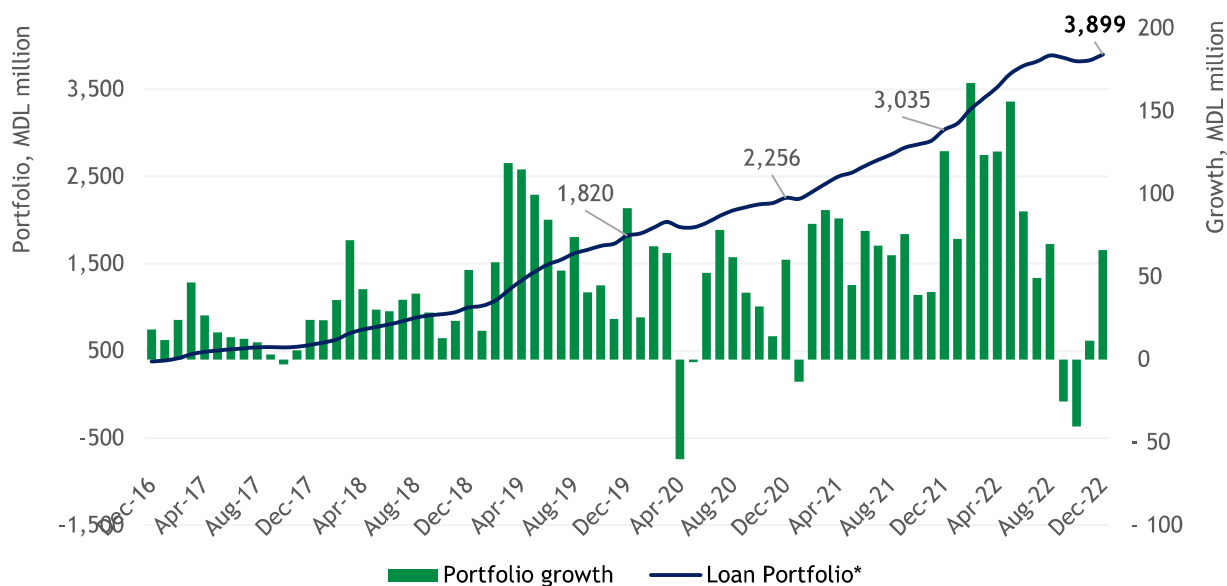
In the coming year, the Management foreseen a slight decrease of LP margin in the context of high market pressure on the pricing and increasing cost of funds, as well as limitation on retail segments which have higher margin.

### 4. Non-financial specific indicators

#### 4.1. Loan portfolio evolution

Even if 2022 was a challenging year, Microinvest managed to keep 5<sup>th</sup> 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 2022, the loan portfolio reached the level of almost 4 billion MDL (+28.5% compared to 2021), and its quality, in the context of war in Ukraine and energy crisis, was maintained at a high level: PAR 30 (according to IFRS) registered the value of 2.7% (1.8% in 2021).



\*Principal outstanding portfolio

The growth obtained during 2022 was generated mainly by growth of business portfolio (+25.0%), conditioned by several factors: (i) keeping focus on agri sector (29.0% of total portfolio) which requires continuous support in terms of financing working capital and investments in agri machinery and equipment in conditions of high inflation and more expensive imports; (ii) supporting clients' in their need to rebuild business activity and finding solutions such as reorienting to other markets for their products/services and for importing raw material; (iii) banks being busy with building high liquidity levels, reserves as per CB monetary policy requirements and investing in high-yields state bonds with zero risk.

## 4.2. Gross loan portfolio structure

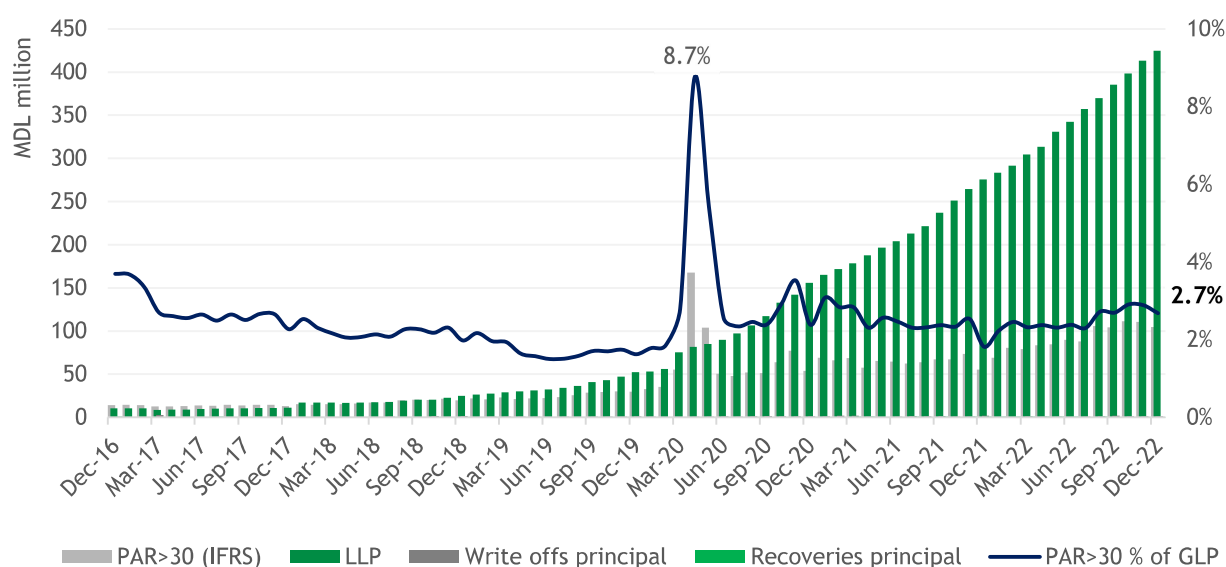
The distribution of the loan portfolio at the end of 2022 is presented in the table below:

Category*	LP, MDL	Share, %
Business	2,578,064,352	66.1
Car and HIL	1,055,006,401	27.1
Partners	125,575,878	3.2
Cash Loans	140,642,606	3.6
<b>Total</b>	<b>3,899,289,237</b>	<b>100.0</b>

\*Breakdown by financial products

## 4.3. Loan Portfolio quality

The effective work of the whole Microinvest team resulted in a good LP quality. As the end of 2022, PAR 30 reached the level of 2.7%, a little worse than 1.8% registered at the end of 2021, but a big achievement, considering the high level of uncertainty and the drastic increase in price of primary goods and services. The main factor that has contributed to maintaining the quality of the loan portfolio is close communication with clients and extended regulation over the level of indebtedness of the population. During 2022 Microinvest maintained a good risk management and the continuous improvement of collection processes.



The volume of restructured loans grew from MDL 244.3m in 2021 to MDL 345.2m in 2022. The quality of restructured exposures improved during the year from 11.3% to 10.1% - PAR>30 for total restructured LP.

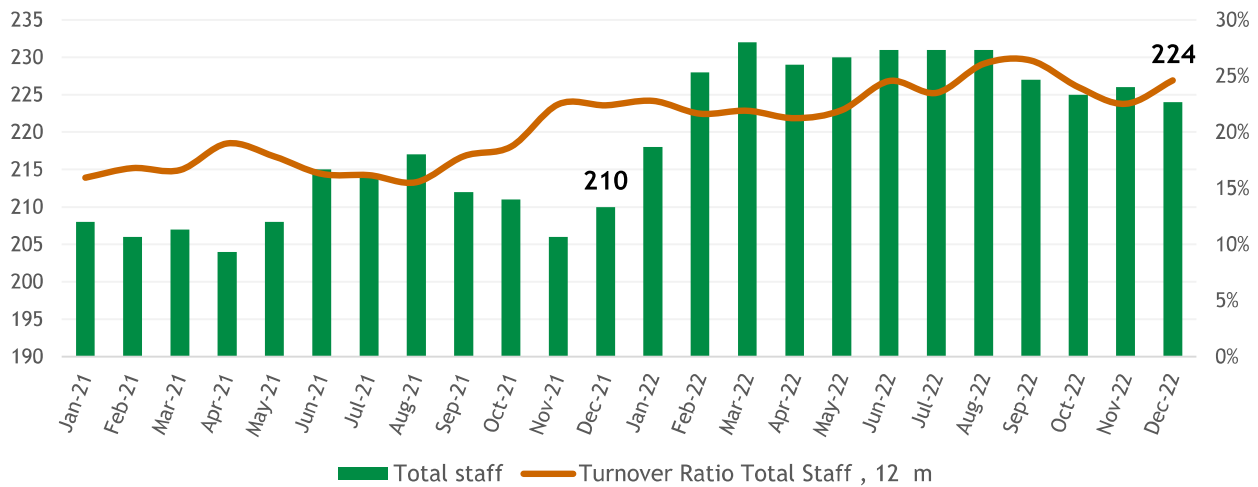
During 2023 the Company will continue to build sustainable assets with a low level of risk, thoroughly analyzing risk origination, ensuring systemic monitoring of the loan portfolio and maintain a sufficient level of coverage ratio of accumulated credit risk.

The main 2023 priorities for credit risk continue to be maintaining LP quality at high level simultaneously with decreasing the share of Restructured LP, considering the impact of the last year crises, forecasted inflation, as well as continuously speeding competition.

## 5. Human Resources Management

The main objectives in the field of human resources management in 2022 were: (A) preserve and further develop Microinvest culture of professionalism, high level of energy, engagement and team spirit; (B) hire and develop talented employees; (C) fast and qualitative onboarding process; (D) further develop the leadership potential; (E) raising up MI employer brand.

Labor market remains persistently tight, besides continuous decrease in number of young graduates and fierce competition for talent acquisition, beginning of 2022 brought additional pressure on HR market due to war in Ukraine. In spite of social, economic and political uncertainties, intensified migration, active headhunting activities from competitors' side, MI has managed to increase the number of staff up to 249 colleagues. In this difficult time, we managed to maintain the turnover ratio at 25% and retain experienced staff with more than 2 years' work experience in the company, for which turnover ratio is 14%. All this grace to unique "team" culture, stability and continuous investments in staff 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 started to be felt in 2022, the credit risk in environment is continuously high. However, Microinvest succeeded to generate high portfolio quality figures. At the end of 2022, PAR>30 reached the level of 2.7%, compared to 1.8% in 2021. The volume of restructured loans increased from MDL 244.3m to MDL 345.2m (41.3%). The value of PAR>30 including restructured loans reached the level of 10.7% compared to 8.9% registered as the end of 2021. The company kept building additional provisions during 2022, which brought a Risk Coverage Ratio at a very prudent level of 102.4% 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 remaining 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 2022 the liquidity ratio was equal to 13.8%, in line with internal limits. The liquidity coverage ratios for 1 and 3 months registered 81.0% and 48.8% respectively, being also in compliance with set limits.

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 2022, the Company's aggregated OCP (including Off-Balance Sheet items) amounted -2.0%, 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.

The gross and net exposure to local banks is closely monitored on monthly basis.

#### ***Funding risk management***

Access to funding is one of the main factors determining the portfolio growth. 2022 was a difficult year in terms of concluding new loan agreements with lenders since the country risk increased significantly in context of nearby war. For measuring funding risk, the FRMP was completed with one more covenant: long-term liquidity ratio, which value was at 86.6% at 2022YE within the limit at <100%.

#### ***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 and NIM of the company.

During 2022, the structure of BS by Interest Rate Sensitivity shows that the Company is exposed to IR risk for short term period, 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 unfavorable environment. In order to measure the Capital risk, the Company uses 2 indicators: Tier 1 Capital adequacy (>13%) and Total Capital adequacy (>15%). Microinvest managed to obtain high levels of capital adequacy at the end of 2022, equal to 17.7% and 17.8%.

## **7. Corporate governance**

During 2022, the shareholding structure of the company remained unchanged; however, there was a change in the Ultimate Beneficial Owner.

In March 2022, AGMM approved the structure of Administrative Board, consisting of 5 members, by fortifying it and including one independent member.

Since November 2022, in order to assure its sustainable development in future, the management team previously consisting of Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Business Officer, was enlarged with a new member, the Chief Operational Officer.

## 8. Subsequent events

Since the beginning of 2023, the shareholding structure of company changed as follows:

1. on 6 January 2023: Driehaus Trust Company LLC became the shareholder of Microinvest in respect of interest (4.78%) previously owned by the deceased Mr. Richard Driehaus
2. on 15 February 2023: OCN Microinvest SRL bought the interest owned by Driehaus Trust Company LLC (MDL 5,392,263) and became its own shareholder
3. on 10 March 2023: the General Meeting of Members adopted the resolution related to the reduction of the Company's share capital with MDL 5,392,263.

In response to highly competitive IT market and company ambitious plans, the Senior Management Team has proposed the implementation of the IT Park project. The objectives of this project are to strengthen our IT retention and hiring strategy, decrease IT staff turnover to 10% p.a., and optimize our company IT staff costs. The IT Park Moldova concept aligns with company's goals and will provide additional HR tools to respond to the highly competitive environment in the IT area.

### 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 Ocnița	North 2	or. Ocnița 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
16.	Service point Șoldănești	North 1	or. Șoldănești str. Victoriei, 1, MD 7201 tel. (022) 801-701

**Annex 2. O.C.N. "Microinvest" S.R.L. financial statements**

	<u>2022</u>	<u>2021</u>
	<u>IFRS MDL</u>	<u>IFRS MDL</u>
Interest income	844,918,730	606,540,321
Interest expense	<u>(288,248,108)</u>	<u>(185,586,438)</u>
<b>Net interest income</b>	<b>556,670,623</b>	<b>420,953,883</b>
Provision for impairment of loans	(170,354,648)	(137,746,620)
Provision for impairment of other financial assets	<u>(8,304,101)</u>	<u>(2,599,204)</u>
<b>Net interest income after provision for impairment of loans</b>	<b>378,011,874</b>	<b>280,608,059</b>
Recoveries of loans previously written off	7,760,053	7,121,983
Other operating income	8,139,037	7,753,250
Salary expenses	(87,949,420)	(73,213,946)
Depreciation and amortization expenses	(11,817,415)	(10,223,467)
Other administrative costs	(51,172,006)	(41,539,554)
Regulatory fee	(3,732,119)	(2,729,287)
Net foreign exchange (loss)/ gains	<u>(335,677)</u>	<u>(2,763,920)</u>
<b>Income/(Loss) before income tax</b>	<b>238,904,326</b>	<b>165,013,118</b>
Income tax (expense)/ credit	<u>(53,407,800)</u>	<u>(21,085,008)</u>
<b>Income/(Loss) for the year</b>	<b><u>185,496,526</u></b>	<b><u>143,928,110</u></b>
<b>Total comprehensive income/(loss) for the year</b>	<b><u>185,496,526</u></b>	<b><u>143,928,110</u></b>

	<u>31 December 2022</u>	<u>31 December 2021</u>
<b>Assets</b>		
Cash and cash equivalents	338,278,362	152,754,451
Due from banks and other institutions	502,186,337	363,744,456
Loans and advances to customers, net	3,483,893,491	2,750,640,261
Premises, equipment and right of use assets	29,124,308	26,703,835
Deferred tax assets	-	12,849,066
Intangible assets	7,804,594	5,305,501
Derivative financial instruments	7,462,279	168,629
Other assets	<u>2,540,344</u>	<u>3,835,466</u>
<b>Total assets</b>	<b><u>4,371,289,716</u></b>	<b><u>3,316,001,666</u></b>
<b>Liabilities</b>		
Interest-bearing borrowings	3,571,762,882	2,675,732,740
Grants for projects in process	89,742	139,417
Subordinated debts	30,614,942	30,124,075
Due to founders	-	616,620
Other liabilities	66,228,630	70,138,627
Lease liabilities	10,106,026	7,259,217
<b>Total liabilities</b>	<b><u>3,678,802,222</u></b>	<b><u>2,784,010,698</u></b>
<b>Shareholders' equity</b>		
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>565,694,437</u>	<u>405,197,911</u>
<b>Total shareholders' equity</b>	<b><u>692,487,494</u></b>	<b><u>531,990,968</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>4,371,289,716</u></b>	<b><u>3,316,001,666</u></b>