

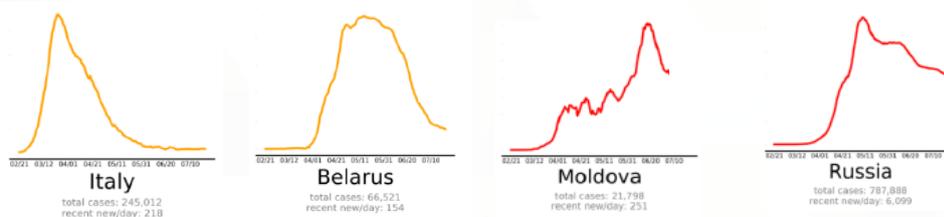
Newsletter Mikro Kapital – July 2020

General Overview

The month of June was pervaded by a sense of less uncertainty than in previous months which was reflected in the markets. The continued debates at European and world institutions level on the use and the amounts of the funds destined to cope with the economic crisis started to converge towards an agreement. This, together with the decreasing even if discontinuous trend of the new infections, contributed in generating a sense of measured optimism.

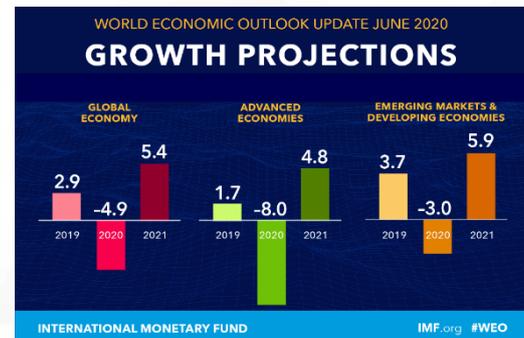
During the month of June, in all the countries in which Mikro Kapital operates, the easing of the pandemic containment measures that began in late May continued and, even if in a heterogeneous way, we returned to almost pre-COVID-19 levels of activity.

Always in compliance with the directives issued by the Governments in different countries, the local Subsidiaries which benefits of Mikro Kapital's investments are now fully operational, providing financial impact services in all 17 countries where the group's network is present. The progressive releasing of the lockdown restrictions obviously depends on the decline in cases of infections and deaths caused by Covid-19: quite significant, in countries like Italy and Belarus, more contained in Moldova and in Russia as an example.



In Emerging Markets, currency depreciation puts some upward pressure on prices, but a decline of the demand and the reduction of oil price resulted in a modest slowdown in consumer price inflation from 4.0% in 2019 to 3.8% in 2020.

The International Monetary Fund has also revised its GDP growth forecast (World Economic Outlook) for the global economy from 3.3% to -3.0% for this year, but expects a strong return to growth in 2021. For emerging markets and developing countries growth will be around 5.9%, which will partially compensate this year loss.



Not all industries have been impacted in the same way by pandemic containment measures and not all of them are reacting in the same way. One of the most affected sectors is undoubtedly the tourism, which in recent months has shown, and continues to show, all its fragility in coping with the needs for social distancing, the restrictions on travels and the fears of new infections in general. The impact of Covid and restrictions on this industry will be clearer at the end of the current holiday season.

98% of the loans disbursed by the Mikro Kapital Subsidiaries to the end borrowers are out of the tourism sector, mostly in the agri-food sector. These activities, considered as essential, have never been the subject of the most restrictive blocks, thus never having to completely stop.

During the last months Mikro Kapital continued to support the businesses that started or further developed a progressive digital transformation of their activities in order to answer to a new demand: a clearly growing market for online services.

Mikro Kapital

The "new normality" emerging every day during what we can call the "post-pandemic period", confirms the ability of SMEs to adapt to the new economic scenarios by responding to new market needs and seizing the opportunities that are gradually being presented. Since 2008 in the microfinance sector, Mikro Kapital has been supporting small entrepreneurs. Today it is a reference in emerging markets for the recovery from the crisis due to Covid-19.

Mikro Kapital's business overview

April was the most difficult month generally speaking. Our activities were running only at 42% of the planned volume of operations compared to our business plan. After that period we registered an unexpected quick growth. Mikro Kapital and its satellite companies recovered 62% already in May (+50% in one month) and in June they reached again the same level of activities they had before Covid. If we look at the business plan in June/July we are at about 80% of it, which has however to be considered as being quite aggressive.

We stick to our quality. During Covid we had a PAR30 around 8.33% for Mikro Fund and around 5.41% for Alternative nonetheless we were able in the last month to meet the higher quality standard of our business and we significantly decreased the PAR30 to 5,5% for Mikro Fund and 3,5% for Alternative as per the end of June 2020. We believe this is a great result in terms of quality of the portfolio. Of course, we can't forget that we had to restructure some of our loans portfolio, but the restructured part – from May on – already started to decrease. In fact, this very positive dynamics enable us to maintain the expected business plan for the current year.

If we look at the disbursed loans volumes we faced a challenging period during COVID lockdown, but with reference to the profitability we were extremely successful. Slightly above our business plan.

Initially also our car sharing suffered from the lockdown, since the biggest part of it is concentrated in Russia and the operativity was reduced during the lockdown period.

The situation changed as many people now strongly prefer car sharing instead of public transportation. From June onwards our sharing business delivered very positive results. We fully reached breakeven point last month and a positive EBITDA. Now Mikro Kapital, with Delimobil and Anytime, is the first car sharing business in Russia.

Credit Portfolio Analysis

The last two months marked the substantial reduction in the number of infections and deaths due to Covid with the consequent further relaxation of the measures aimed to contain the pandemic. This resulted in an almost complete recovery of activities throughout Europe. Moreover, the positive expectation for the future boosted the restart phase in all the European markets. SMEs confirmed to be the backbones of the economies thanks to their reactivity, capability to adapt to new scenarios and to catch new business opportunities.

Caucasus (Armenia) and Central Asia countries (Uzbekistan and Kyrgyzstan) started to recover after strict lockdown due to COVID-restrictions in April and in June most of the businesses work and perform almost as usual.

Traditionally, the business of Mikro Kapital Romania and Moldova is focused on small entrepreneurs from sectors like commerce, agribusiness and transportation, mainly linked to food delivery – all those suffered less during the COVID-19 lockdown. The situation is improving as the business is recovering. Thanks to the recommendations of government and regulators all borrowers were able to apply for repayment restructuring, which were analyzed individually.

The most important indicators to monitor the recent impact of the pandemic into the underlying investments of Mikro Kapital are PAR30 and PAR90. In fact, as described in the table below, you can note a slight increase in the arrears % in April, followed by a return-to-normality at the end of May and further reduction in June, even lower than the levels of pre-Covid period (March).

The delay of repayments of the final borrowers reflects the impact of the COVID-19 on our portfolio until May and in June shows a consistent and continuous reduction, while on a Fund level the NPLs are stable at zero.

On a subsidiaries level we did not record any increase of NPLs as we generally recognize an NPL after 180 days (if in IFRS) or 360 days (if in Russian or Belarusian accounting standards). Therefore, the variation in % of NPL in our portfolio is not affected by the Covid-19 crisis.

Write offs in general are done when companies undergo liquidation or restructuring process, therefore it is early to say that any variation of write off figures is due to the Covid-19 situation.

We continued to reduce possible impacts of previous lockdowns offering new products to finance “anti-COVID renaissance” which aimed at assisting business to restart their activities after quarantine. For some of them we provide just short-term working capital loans, for some others even capital investments if the potential of the businesses improved in a new market environment.

Additional update on latest News

Belarus elections

On Sunday 9th August elections took place in Belarus that confirmed Lukashenko as president with 80% of votes. Part of the population and of course the opposition, are not accepting the result and consequently protests and riots started. Since 1994 Belarus is facing similar situations during the election periods: riots and protests happened in 2006, 2010, 2015. This is not surprising and we were prepared.

Mikro Kapital decided to protect the car sharing business by stopping the service for the whole week and the day before the elections all the cars were moved in a safe place outside of the city. This extra measure was not imposed by the city but was our own decision in order to reduce risk of damages and to avoid that cars could be used in improper way.

For what concern Mikro Kapital’s business is going well. We registered an increase of leasing requests, however for the moment we decided not to increase the portfolio exposure in the country. 70% of the collateral is represented by vehicles , that means, in the worst case scenario, it is easily transferrable to Russia for example, to be sold.

We will continue to closely monitor the situation and to follow news and events in order to eventually be able to quickly react in case of need. Overall we are not concerned with our business in the current situation.

Russian Covid Vaccine

President Vladimir Putin announced recently that the first coronavirus vaccine worldwide has been registered in Russia.. Developed by the Gamaleya National Research Center, it has officially been registered with Russia’s Health Ministry. The vaccine trials yielded positive results with all volunteers having built up immunity to the coronavirus. A mass vaccination is planned as early as October.

This should have a huge positive impact on several economies, first of all in Russia, and Mikro Kapital business will be in a position to benefit from that evolution.

KEY HIGHLIGHTS of Mikro Fund and ALTERNATIVE as of June 30, 2020

	Dec-15		Mar-16		Jun-16		Sep-16		Dec-16		Mar-17		Jun-17		Sep-17		Dec-17		Mar-18	
	Mikro Fund	ALTERNATIVE																		
Weighted PAR30 of controlled entities, in %	4,14%	1,78%	6,57%	1,73%	6,53%	0,75%	6,79%	1,76%	4,36%	1,24%	2,13%	1,55%	2,20%	1,66%	2,65%	1,27%	2,11%	2,53%	4,16%	2,35%
Weighted PAR90 of controlled entities, in %	2,16%	1,58%	5,14%	1,50%	5,21%	0,20%	4,12%	1,26%	1,97%	0,28%	1,23%	1,53%	1,31%	1,21%	1,34%	0,92%	0,86%	0,34%	1,97%	1,85%
% of NPL at the fund level	0,85%	0,00%	1,57%	0,00%	1,61%	0,00%	1,61%	0,00%	1,30%	0,00%	0,94%	0,00%	0,89%	0,00%	0,87%	0,00%	0,00%	0,00%	0,00%	0,00%
	Jun-18		Sep-18		Dec-18		Mar-19		Jun-19		Sep-19		Dec-19		Mar-20		Apr-20		May-20	
Weighted PAR30 of controlled entities, in %	3,34%	2,17%	2,74%	2,27%	2,06%	1,56%	3,15%	1,88%	2,66%	2,26%	4,95%	3,64%	5,04%	3,74%	6,35%	3,84%	8,33%	5,41%	6,81%	4,58%
Weighted PAR90 of controlled entities, in %	1,56%	1,49%	1,32%	1,26%	0,84%	0,61%	1,13%	0,79%	1,28%	0,86%	2,51%	2,54%	3,87%	2,59%	3,90%	2,68%	5,40%	2,65%	3,20%	2,62%
% of NPL at the fund level	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
	Jun-20																			
Weighted PAR30 of controlled entities, in %	5,52%	3,58%																		
Weighted PAR90 of controlled entities, in %	3,53%	2,69%																		
% of NPL at the fund level	0,00%	0,00%																		