

Towards the end of the first week of June almost all the countries that Mikro Kapital operates in came out of lockdown and started shifting to more flexible pandemic containment solutions that allowed a gradual return to pre-COVID-19 levels.

Likewise, in compliance with the requirements of the various countries, the local companies targeted by Mikro Kapital's investments have fully returned to operations by providing micro and impact finance services in all 17 countries where the group's network is present.

We are conscious that we have to deal with a "new normal" and that it will be very unlikely that we will be able to return to the world we knew before. However, the post-pandemic world offers multiple new scenarios and opportunities for entrepreneurial initiatives. Thanks to their extreme flexibility, SMEs will once again be able to play a leading role in economic recovery.

Consumer habits have also changed dramatically. For example, during the first week of lockdown in Russia the number of online orders increased by 78% compared to previous weeks.

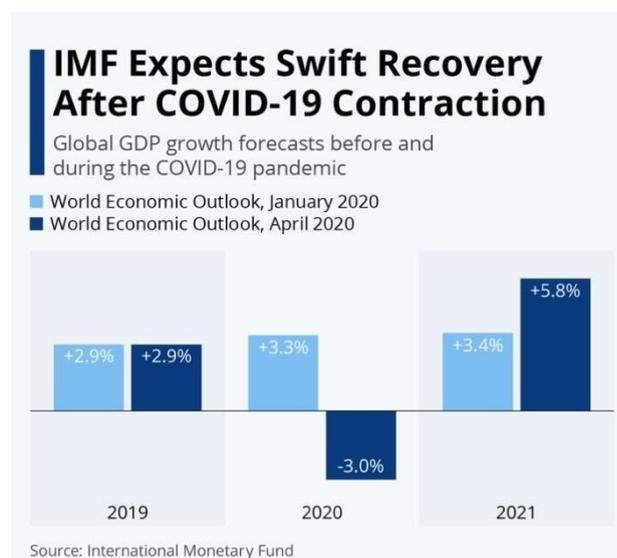
While online retailers are reporting a sharp increase in interest, offline retailers have accelerated their shift to online sales, installing new technologies in stores or converting "brick and mortar" stores into online stores only

Since the end of May 2020 Mikro Kapital has seen a moderate acceleration in the demand for new loans for the launching of new businesses or the digital conversion of traditional businesses. Among the many opportunities offered by our financial ecosystem, Mikro Kapital's microfinance solutions integrated with a goods and merchandise shared mobility platform for the delivery have allowed the group to position itself strategically to cover the growing needs of new digital entrepreneurs.

With more than 12 years of experience in the microfinance sector, Mikro Kapital is well positioned to support the business environment in emerging markets, stimulating the recovery in order to get out of crisis situations. We are strongly committed to supporting and improving our partnerships around the world.

COVID-19 has undoubtedly triggered significant market stagnation, and governments in various countries (not just in Europe) have launched financial support schemes for employees, households and businesses. From a macroeconomic point of view, the initial data collected by the statistical bureaus of the various countries indicate the real possibility of a sharp recovery in the third quarter of 2020, with positive effects becoming evident as early as June.

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.



## **How Mikro Kapital and microfinance are reacting to the COVID 19 shock?**

The economic impact of COVID-19 has created immediate and unprecedented challenges for low-income families and businesses. The same applies to financial service providers including microfinance institutions, agricultural lenders and digital finance providers.

In recent months the daily life of many MSMEs has changed and Mikro Kapital, thanks to a good knowledge of the sector, has been able to provide support to its customers, including the offer of flexible repayment plans (as agreed with the various local governments) but not only, it was able to quickly develop new technological solutions to help SMEs digitalize themselves. As in many areas all non-essential travels remain restricted, digital financial services play an important role,

Due to this during the pandemic most of the internet portals of our local subsidiaries have been updated to a new and modern platform that allows remote access to many dedicated services for existing customers and to manage new requests safely and remotely.

Furthermore, recent strategic changes have allowed us to deepen our experience in the field of impact finance, p2p technology and agricultural finance, one of the sectors least affected by the pandemic crisis by promoting collaboration between the various companies in the group and providing services to convert traditional businesses in digital business.

Even in this context of uniqueness, microfinance has proven to be an invaluable tool in contexts of post-crisis environment, as it is a financial instrument connected to the real economy and this mainly represented by the historical decorrelation that microfinance, especially that aimed at the small business, it has compared to the more classic financial markets as well as the consequent resilience to financial shocks, regardless of their nature.

### **Credit Portfolio Analysis**

Due to the fact that in many regions where Mikro Kapital operates lockdown started earlier in March-April 2020, the growth rate of the loan portfolio in our subsidiaries showed some slowing down.

In April 2020 cashflow of our final borrowers experienced some negative effect, due to lockdown (non-essential services and non-food shops have been closed), thus some of the clients negotiated some restructuring of repayment schedule for the loans which was the reason for the increase of "lenders concessions".

In May the situation started to improve. Lockdown in Russia started to ease anti-COVID measures. Industrial and construction companies came back to business as usual from mid-May. This allowed recovering money remittance to Central Asian countries from where many labor forces come from. So, the lockdown release (or reduction) is having positive effects on loan repayments in subsidiaries from Uzbekistan, Tajikistan, Kyrgyzstan, etc. as well. The first half of June easing continued, shops and outside cafes were opened recovering to much extent the business volume of small entrepreneurs working in commerce and service sectors.

Generally speaking, in all countries including Italy which was hit hardest by COVID-19, the portfolio of MK subsidiaries behaved better in this situation than in a conservative scenario. Important to mention that a big part of the loan portfolio in countries like Moldova and Romania is related to agribusiness which suffered much less and remained stable despite the lockdown. A broad client diversification combined with the majority of the loans granted within 10-15k EUR range, allows us to avoid risk concentration.

Caucasus (Armenia) and Central Asia countries (Uzbekistan and Kyrgyzstan) started recovery after strict lockdown due to COVID-quarantine in April, and in May most of the businesses restarted almost as usual.

Traditionally, the business of MK Armenia is focused on small entrepreneurs from sectors like commerce and trade, small hotels and restaurants, transportation – all those suffered most during the COVID-19 lockdown. The situation is improving as the business is recovering. Thanks to the recommendations of government and regulatory authorities all borrowers were able to apply for repayment restructuring.