

COVID-19 – Mikro Kapital update and market outlook

We continue with our weekly updates on Mikro Kapital's operations during the global COVID-19 outbreak. These are indeed dynamic times and we are constantly responding to the ever-changing situation.

Mikro Kapital since 2008 offering investments connect to our micro and impact finance along the Silk Road – in Russia, Belarus, Moldova, Tajikistan, Armenia, Kyrgyzstan, Kazakhstan, Uzbekistan, Czech Republic and other countries – and in each of those countries, the situation is a bit different.

At this point, though, we see that governments are acting without exception everywhere to protect public health. Mikro Kapital Group responds and take several steps to protect our employee and activities also providing support to those who are most in need during these difficult times.

Russia

Nowadays the situation with COVID-19 in Russia still under control. Contagion is limited as intelligent and digital containment policies have been used avoiding states of emergency or quarantine. The Russian government deeply concerned about the dramatic developments in Europe and the United States and takes every necessary measure to support the economy and citizens.

Russian President Vladimir Putin appealed to the country through TV-statement and instructed the Government to make amendments of specific laws and support different categories of citizens and business. He also announced a non-working period for those people who are not involved in security and life and support matters to limit social connections and prevent the spreading of the coronavirus COVID-19.

Meanwhile Russian business, already highly developed on digital business, adapting to the COVID-19 new reality pretty fast and entrepreneurs increased their activity into an on-line format. Now a lot of small and medium-sized businesses – one by one, offers their services and goods through delivery. People isolated in their homes have a strong interest in such comfortable and secure services. This course of events gives hope in the sustainable development of the business in a new format.

Impact on Mikro Kapital Companies' operativity:

- Mikro Kapital has more than 800 employees in Russia and still has zero Covid-19 cases so far. The business is operational, in order to protect our employees, we implement social distancing, intelligent work and the use of health facilities for the sanitation of offices and common spaces.
- Only 8-9% of Mikro Kapital lending portfolio is geographically located in the Moscow, 40 lending branches in Russia and more than 130 in all countries along the "Silk Road" .
- Local companies have adopted all the measures envisaged by the local government, from March 25th there is an extended holiday period until April 30th, 2020, to encourage the population to stay

homes and avoid a forced quarantine as in other countries of the world. This period can probably be reduced based on the trend of the infections, which currently remain limited.

- The Moscow City's Entrepreneurship and Innovation Department launched a special service for "Small Businesses of Moscow" in order to help and quickly resolve issues experienced by business owners caused by the spread of coronavirus.
- In just two days, various economic packages were approved to support MSMEs in order to minimize the inconvenience caused by the pandemic. The measures include financial support, tax reduction and financial subsidies of up to 50% for the starting of traditional business on platforms as internet or social media.

Update situation in the other countries where we operate – East Europe and Central Asia.

- In almost all the countries where we operate our offices are open and operational with the limitations enforced by law (social distancing, use of protective mask and disinfectant).
- In all Central Asian countries, restrictive measures were introduced after March 27 to reduce COVID-19 infections. Many of the countries have closed borders and do not allow foreigners to enter their territory.
- These rules do not limit the business of MSMEs which operate mainly in the domestic market.
- Currently, cases in Central Asia are less than 500.

Impact on Mikro Kapital business:

- Currently, we register an increase of loan applications and, at the same time an increase of interest rate market, this is having an increase in loan portfolio with a good margin. This was quite often happened during all previous crisis, in 2008, 2011, and 2014.
- There is no evidence of Mikro Kapital's clients suffering from coronavirus impact. Except for Italy, where we will most likely see an increase of PAR30, due to the Italian government decision of allowing delays in the monthly instalments. However, it is important to mention that all our loans disbursed in Italy are collateralized up to 80% by Mediocredito. Our loan portfolio in Italy weights 0.3% of the overall A.u.M. (5% of Alternative) and is protected by a 43% of equity buffer.
- Overall, the granularity of our loan portfolio and the diversification of client sectors guarantee a high level of protection to our assets. Indeed, we have almost no exposure to such sectors as aviation, tourism and luxury goods. Most of our client's activities are linked to agricultural and distribution-related businesses, which are essential to be open and fully functional especially in these days.
- The car-sharing services offered a great transport opportunity to the population who avoided using mass transports by preferring independent and safer transports. Car sharing is registering a strong interest from SMEs that are using it to deliver goods and services booked via the internet or other platforms (delivery of groceries via WhatsApp).
- The ruble remains dynamic, however, at the Fund's level, we hedge our outstanding loan portfolio against the FX risk.
- On the other hand, at the controlled entities' level, the current RUB devaluation has indeed also a positive impact for our Group on the fixed costs side, which are in local currency.

Although the performance of global markets is heavily penalized by the COVID-19 crisis and other financial disturbances such as the oil's cost, in some countries we already recorded the increase in new requests for loans to SMEs to strengthen business, in particular for agriculture, small pharmacies and medicines home delivery and many services relating to catering and food distribution.

Microfinance has always stood out for being unrelated to global markets and for providing effective financial solutions in areas with a high number of MSMEs not served by traditional financial services.

Mikro Kapital will continue to provide you with updated information as soon as it becomes available.

Luxembourg, 03.04.2020

The President of the Mikro Kapital Group,
Vincenzo Trani



The CEO of Mikro Kapital Management SA,
Aleksandr Eremin


