Annual Report and Financial Statements 2020

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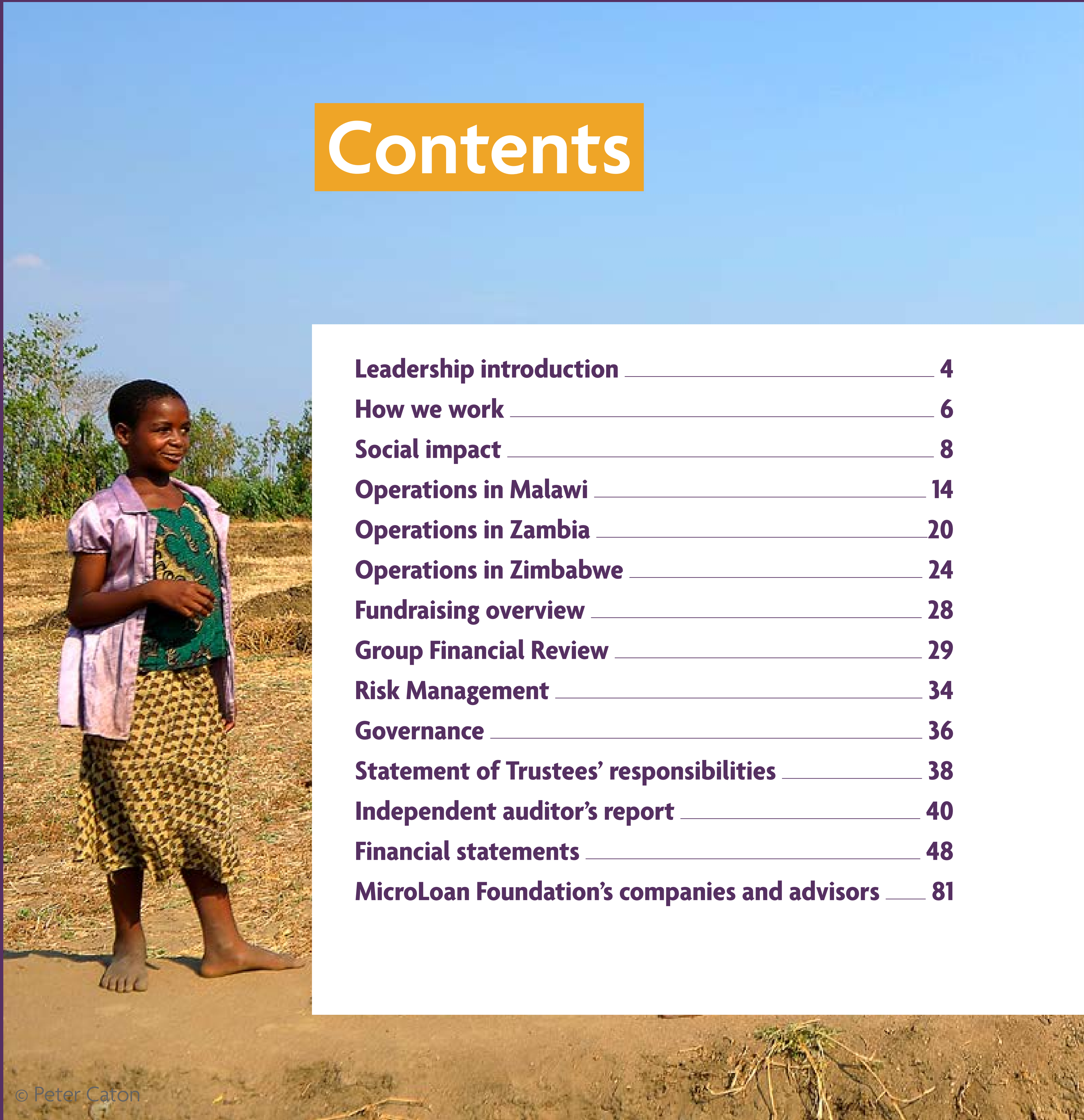
Registered charity number: 1104287 (England and Wales); SC041941 (Scotland).
Company limited by guarantee registered company number: 04828558 (England and Wales)

To date over 280,000 women have joined MicroLoan Foundation to start their own small businesses and begin their journey out of poverty. As a result, their children have increased access to food, healthcare and education, taking the total lives impacted to 1.4 million.



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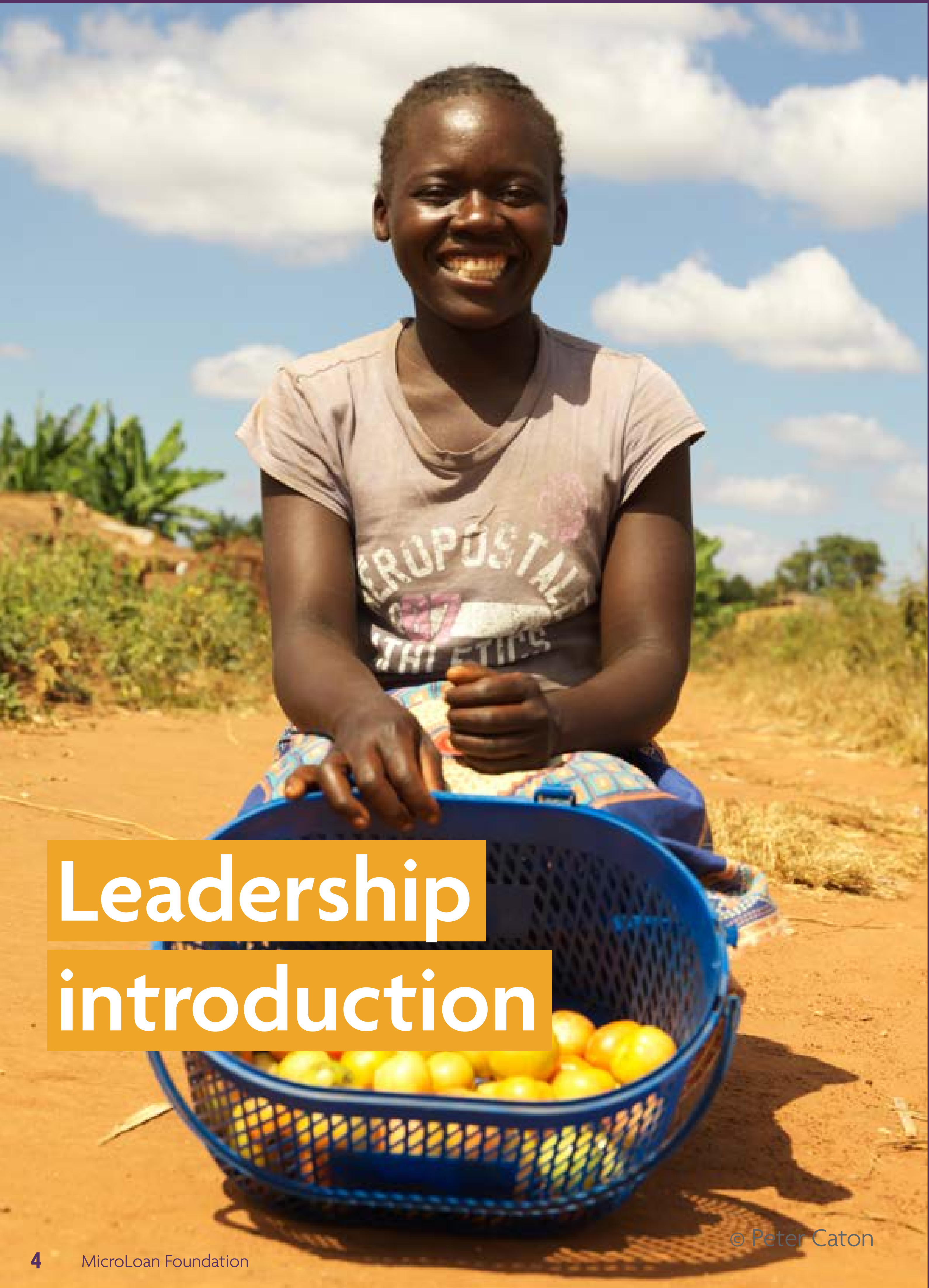


Leadership introduction

It is our pleasure to introduce the 2020 Annual Report for MicroLoan Foundation. Our social microfinance model is specifically developed for poor, rural women with low levels of literacy. This demographic has been severely impacted by the COVID-19 pandemic.

Yet, even in the face of these unprecedented challenges, the MicroLoan team have continued to deliver our mission on the ground. We are immensely proud of our team who persevered with adaptability, passion, determination and innovation. MicroLoan provides pro-poor financial services and business support to women in Malawi, Zambia and Zimbabwe. When the pandemic hit, we took swift action to protect our clients and their families. Their lives and livelihoods were threatened by food shortages, economic turmoil and restrictions on movement, preventing them from generating income. MicroLoan offered additional mentoring, health information, top-up credit, rescheduled loans and, for the hardest hit families, loans were written off. Our high-touch approach has been adapted to ensure the health and wellbeing of our staff, clients and wider communities whilst we continue deliver our much-needed livelihoods programme to benefit more women than ever before. Over 85,000 women were able to access pro-poor financial services and training in 2020. This is more individual clients than any previous year and an outstanding achievement.

MicroLoan Malawi continues to strive for Operational Self Sufficiency, with this key milestone within reach in 2021. MicroLoan Zambia recorded strong performance and saw record growth in active client numbers in the year. Due to the macroeconomic climate, MicroLoan Zimbabwe is now one of very few microfinance providers operating in the country and we are well positioned for growth.

To achieve our goal to impact 1 million lives every year, five-year strategic plans have been drawn up, incorporating smart technologies and product diversification.

Over the coming years we will see new agricultural products and services for smallholder farmers, higher value loans for the most successful and ambitious entrepreneurs, and improved savings options through digital channels.

To date, over 280,000 women have joined our programme to start their own small businesses and begin their journey out of poverty. As a result, their children have increased access to food, healthcare and education, taking the total lives impacted to 1.4 million. We would not have been able to achieve this without the support from our donors, investors, partner organisations, Board members and the wider MicroLoan community. We are humbled by and truly grateful for your generosity and continued belief in our mission.

Dr Mick Jackson
Chairman

Medha Wilson
Group Chief Executive Officer

How we work

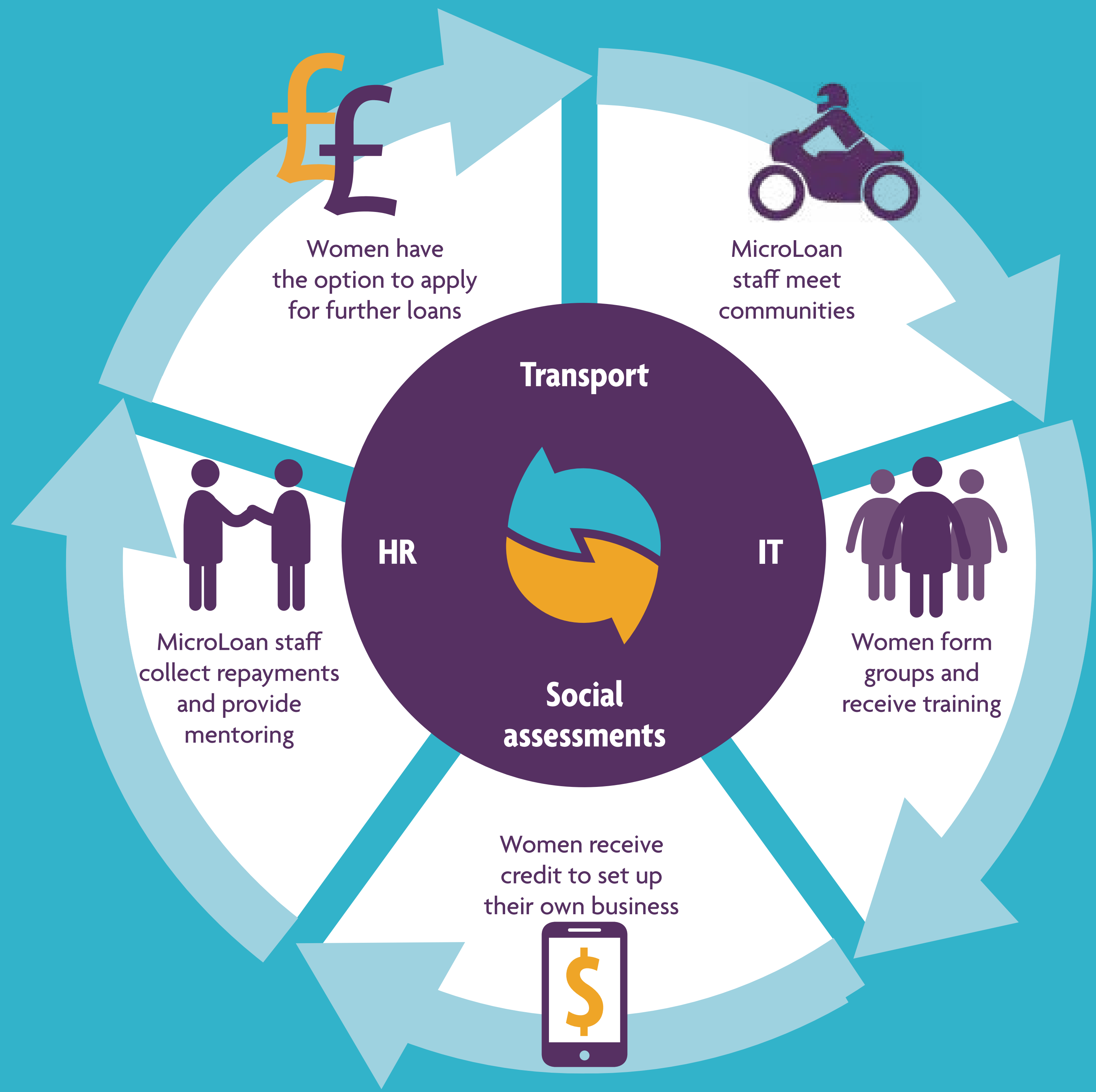
MicroLoan gives women living in poverty the opportunity to kickstart their own income generating activities by providing small loans, training, and ongoing business support.

Our Loan & Training Officers travel long distances into rural communities to meet with traditional leaders and introduce our work. The leaders then invite MicroLoan to attend a village meeting where we inform women about the opportunity to join a loan group and start a business. Focusing our operations in rural areas means that we reach women with little access to finance, therefore the most in need of our services.

Before accessing a loan, the loan group completes seven training modules to develop their financial literacy skills. Delivered through song, dance and role play, our training methodology is specifically designed for rural women with low literacy levels. Each group of five women have a collective responsibility for their loan repayments. Learning together ensures they can support each other both socially and financially.

In Zambia and Zimbabwe, women receive their loans via mobile money. In Malawi, loans are disbursed in cash but we plan to roll out mobile money services during 2021. Once women have received their loans, they put their training into practice by setting up small businesses such as farms, grocery stores or hairdressing salons. Our Loan & Training Officers continue to visit every two weeks to provide mentoring, and once a month they bring together a cluster of loan groups for advanced business training. These sessions are a great opportunity for women to meet other female entrepreneurs in their area and share their experiences. Due to COVID-19 restrictions on large gatherings, we adjusted our model and delivered the monthly business training to only group leaders who then trained their peers.

MicroLoan is different to traditional charities and operates through a model that aims to reach Operational Self Sufficiency where interest income from the loan book covers direct operational costs (excluding loan book growth and capital expenditure). This is to create a sustainable institution that is not reliant on charitable donations for its day to day running costs. With a repayment rate consistently above 96%, the revolving loan book combined with operational interest income enables us to grow and expand our reach, supporting more women year on year. This means every donation to MicroLoan is a gift that keeps on giving.



Our training methodology is designed for women with low literacy levels and is delivered through dance, song, and role play.

Social impact

MicroLoan's social mission is to alleviate poverty and we measure our impact carefully. Social Performance Management is a range of processes and activities used to ensure we are achieving our aim of helping the poorest women to transform their lives. Our Social Performance Management model is often cited as an example of best practice and was recognised by TrueLift, a global initiative striving for accountability and learning in pro-poor programmes.

COVID-19 Impact

The COVID-19 pandemic has reversed decades of progress towards reducing poverty and gender inequality worldwide. According to the United Nations, the pandemic will push 47 million more women and girls below the poverty line.

Women make up the majority of the labour force in the informal sector. Many of MicroLoan's clients are street vendors, smallholder farmers or engage in cross border trade. These women have seen their livelihoods collapse as a result of lockdowns and travel restrictions. As schools closed, pressure mounted as women, who often bear the brunt of caring responsibilities, had to make sacrifices in order to assume their caregiving role. Many families were facing food shortages and female-led households were at particularly high risk.

To better understand the impact of COVID-19 and how MicroLoan can help, we conducted client surveys in Malawi and Zambia in June and July 2020.

In a time of crisis like the COVID-19 pandemic, clients are forced to use coping strategies to survive. Over 55% of clients were able to use positive coping mechanisms such as relying on savings or finding ways to earn additional income. 19% resorted to negative coping mechanisms such as taking on additional debt or selling household assets. 25% used a combination of negative and positive coping strategies.

When asked how MicroLoan can support them during the pandemic, 92% of women in Malawi and 76% of women in Zambia suggested rescheduling loan repayments or providing access to further loans. We listened and responded by rescheduling loans, providing emergency capital, and in some cases we wrote-off loans.

The financial situation of households has been severely impacted. All of the women surveyed in Malawi said they are a lot worse off. In Zambia, 63% said they are a lot worse off, and 28% said they were a little worse off.

100% of women interviewed in Malawi and 57% in Zambia said they were experiencing hunger at a time of the year when they would otherwise not.

The findings from these client surveys are deeply concerning but reinforce the importance of MicroLoan's savings training and facilities which encourage savings behaviour and build resilience. 97% of clients are able to make savings compared to 11% before joining MicroLoan, giving them a positive coping mechanism to fall back on in times of crisis.

Long-term Impact

Poverty is extremely complex, and it is crucial that we understand and measure poverty from a long-term perspective.

MicroLoan collects data using the Poverty Probability Index®, an innovative measurement tool that determines the likelihood of a household living below the poverty line. We have been collecting Poverty Probability Data since 2012 which helps us to assess if we are reaching the poorest segment of the population and if their poverty status is improving over time.

In 2020, MicroLoan provided financial literacy, business training and small affordable loans to over 85,173 women in Malawi, Zambia and Zimbabwe.

340,692 children and vulnerable adults in their care have improved access to healthcare and are able to go to school.

Moving out of poverty takes time and is a long-term goal for our clients. Before reaching this crucial milestone, MicroLoan is able to measure and report on a range of positive changes for women who build their own businesses and increase their household income.

In 2020, 77% of all new clients were living below the global $2.50 per day poverty line and 46% were living in extreme poverty, meaning they were struggling to survive on less than $1.25 per day.

Over 17% of our clients who have been with us for more than one year are moving out of extreme poverty. This is a significant achievement considering many of these families have been living in poverty for generations.

16%
of women have increased asset ownership (such as livestock, a bicycle or land)

97%
of families have food security compared to **85%** before joining MicroLoan

7%
of women have one or more paid employees

96%
of women can afford to seek medical treatment compared to only **89%** previously

Women report a
218%
average increase in business profits after joining MicroLoan

75%
of women can send all of their female children to school compared to **58%** previously

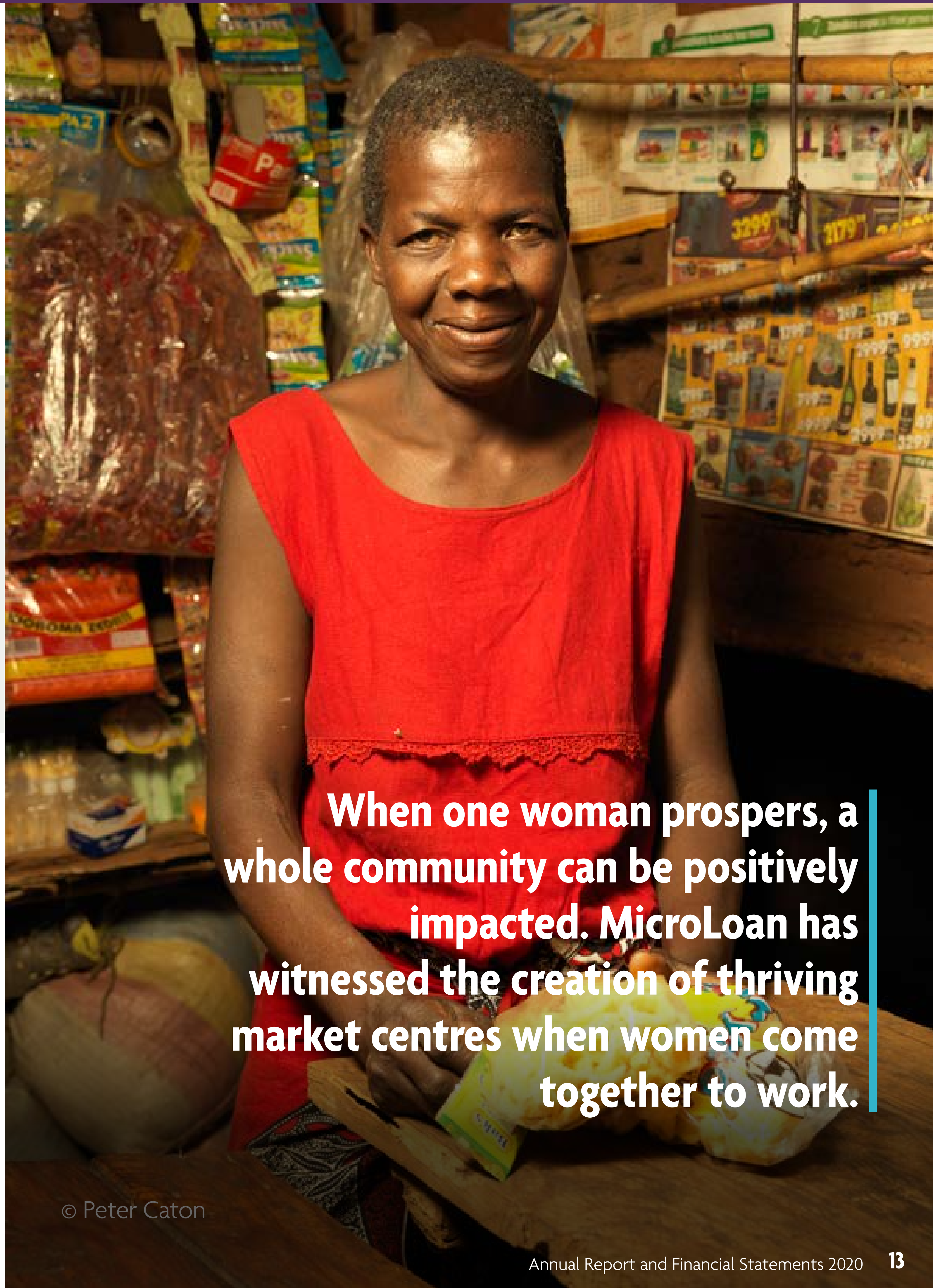
Evidence shows that a woman prioritises her family's welfare when spending her income, improving their health, education and living situation. When one woman prospers, a whole community can be positively impacted. As her business grows, often with support from her husband or adult children, the local economy benefits, and employment opportunities are created for others. MicroLoan has witnessed the creation of thriving market centres when women come together to work.

The United Nations Sustainable Development Goals are the blueprint for achieving a better and more sustainable future for all. Our work contributes directly to the goals No Poverty, Zero Hunger and Gender Equality.

The impact of our work also addresses the goals on Quality Education, Decent Work and Economic Growth, Climate Action, Life on Land and Partnerships for the Goals.

SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY
2 ZERO HUNGER
4 QUALITY EDUCATION
5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
15 LIFE ON LAND
17 PARTNERSHIPS FOR THE GOALS



When one woman prospers, a whole community can be positively impacted. MicroLoan has witnessed the creation of thriving market centres when women come together to work.

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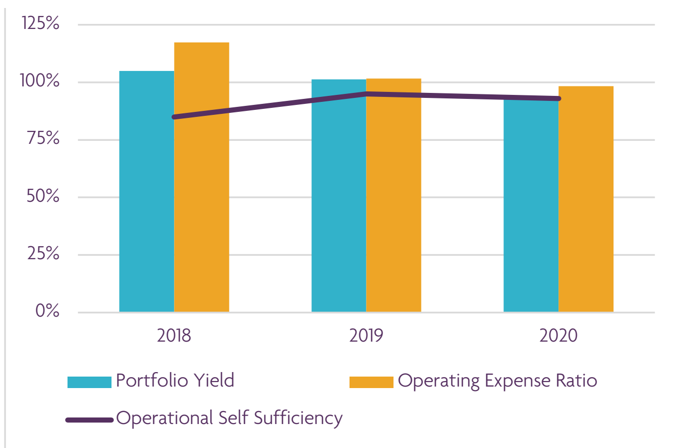
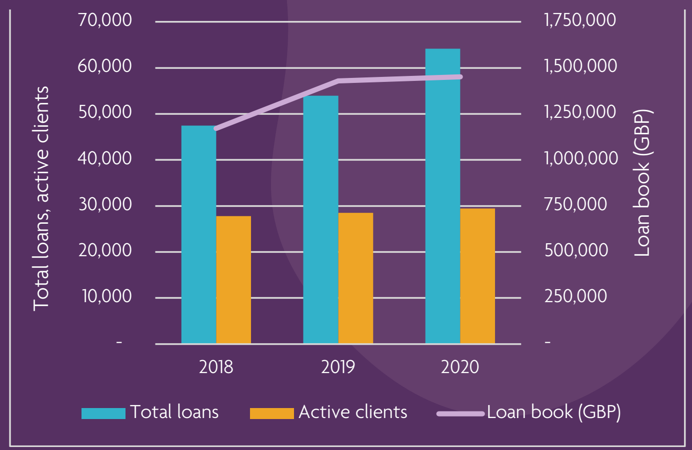
Operations in Malawi

Portfolio Yield, Operating Expense Ratio and Operational Self Sufficiency

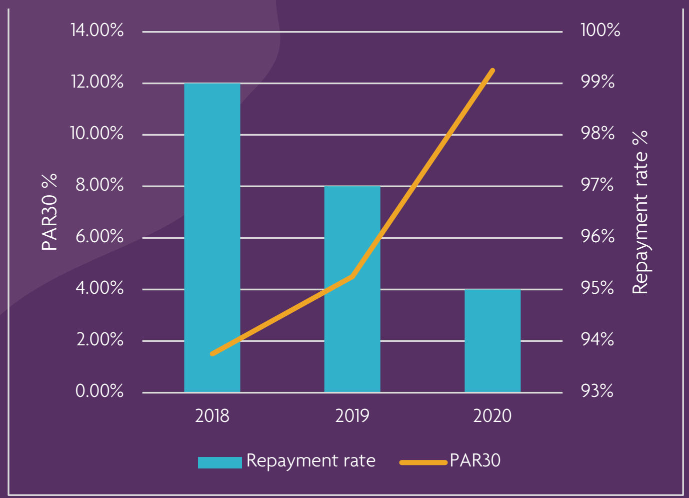


	2018	2019	2020
Total loans made	47,487	53,985	64,169
Active clients	27,820	28,480	29,454
Loan book (GBP)	1,171,001	1,428,932	1,451,858
Average loan size (GBP)	62	77	78
PAR30	1.50%	4.50%	12.50%
Repayment rate	99%	97%	95%
Operational Self Sufficiency	85%	95%	93%
Portfolio Yield	105%	101%	94%

Total loans made, active clients and outstanding loan book



Repayment rate and PAR30



MicroLoan Malawi continues to strive for Operational Self Sufficiency, with this key milestone within reach in 2021.

With the impact of the COVID-19 pandemic, coupled with some of the lag effects of the tropical cyclone Idai and drought from the previous year, Malawi experienced a sluggish Gross Domestic Product (GDP) growth of 0.6% in 2020, compared to the 4.5% growth seen in 2019. Headline inflation was largely kept in check and fell from low double digits a year earlier to 8.6% at the close of 2020. A mid-year presidential election brought some stability to the fragmented political landscape that arose out of the disputed 2019 elections, which had resulted in ongoing country-wide demonstrations that disrupted economic activities.

The COVID-19 pandemic adversely affected MicroLoan Malawi's operations and the livelihoods of many of our clients. Nevertheless, we were able to record favourable outcomes in several of our key performance indicators. During the financial year 2020, MicroLoan Malawi registered a modest growth in active clients of 3%, largely reflecting the challenges of client retention in the face of the pandemic. We witnessed a 7.5% growth in interest income as a result of initiating a strategy of rationalising unprofitable product lines to complement our efforts in cost containment. Deliberate efforts to closely monitor our cost drivers whilst driving operational efficiency slowed the growth of our operational expenses to only 11.6% for the year. We also yielded an Operational Self Sufficiency rate of 93% on account of the smaller revenue growth.

The strategies that we have implemented during the course of the year have not only stabilized our operations but have also created a strong platform for growth in 2021 and beyond.

Portfolio at Risk (PAR) is an indicator of loan portfolio quality and PAR30 indicates the ratio of loan book overdue by more than 30 days. PAR30 closed the year at 12.5%, up from the 4.5% registered in 2019, and the decline in loan portfolio quality closely tracked the evolution of the pandemic. With almost a third of our clients living below the poverty line, it will take time for these vulnerable households to reverse the negative impact of the pandemic. We continue to pay close attention to this metric and have implemented specific measures such as enhanced monitoring and support for loan restructuring (where necessary), to rapidly improve the quality of our portfolio for the 2021 financial year.

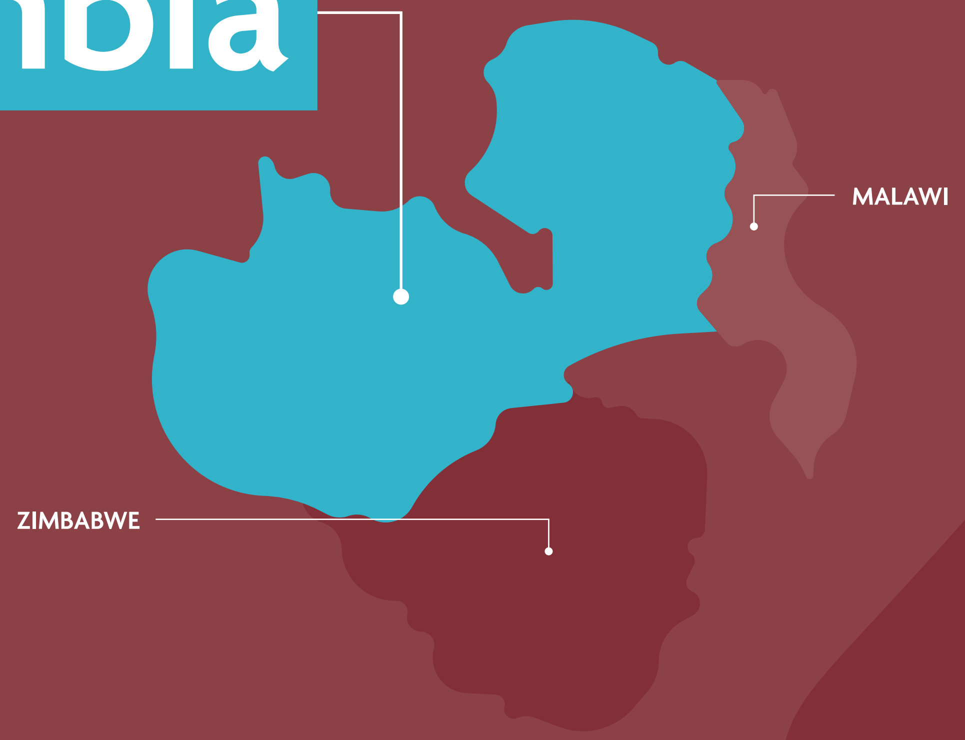
On assuming his role in April 2020, the new Chief Executive Officer initiated a comprehensive digital transformation strategy aimed at making the institution more agile and primed for accelerated growth. During the year, we commenced a pilot in a few branches to test the roll out of mobile money to our clients. This is particularly relevant in the current context of the pandemic, where group meetings and travel restrictions severely disrupt our operations and our ability to disburse and collect loans.

In 2021, we aim to step up our efforts to roll out mobile money across all branches and to integrate the mobile money platform into our core management information system, Musoni.

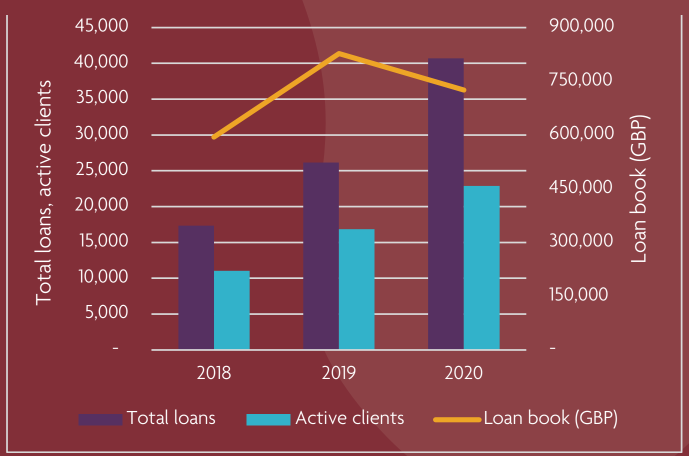
As part of our expansion strategy, we look to open three new branches and develop additional loan products in the Small and Medium Enterprise (SME) and agricultural space to closely match specific clients' needs.

Our high-touch approach has been adapted to ensure the health and wellbeing of our staff, clients and wider communities whilst we continue deliver our much-needed livelihoods programme to benefit more women than ever before.

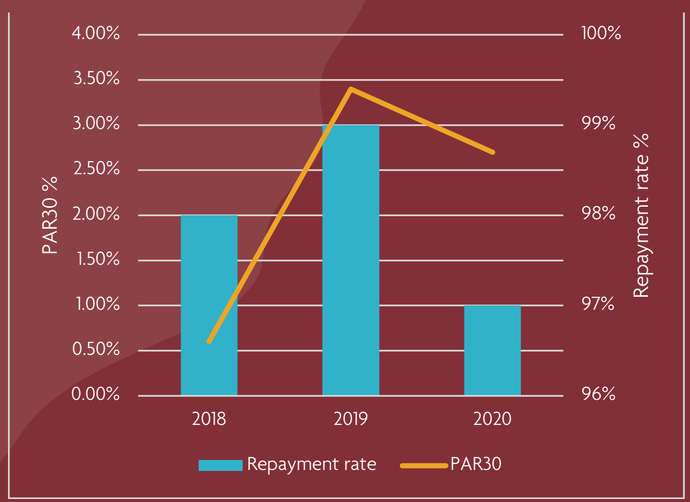
Operations in Zambia



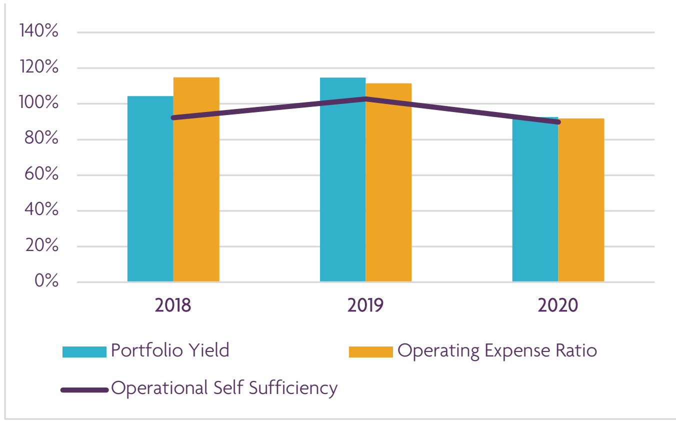
Total loans made, active clients and outstanding loan book



Repayment rate and PAR30



Portfolio Yield, Operating Expense Ratio and Operational Self Sufficiency



	2018	2019	2020
Total loans made	17,336	26,144	40,679
Active clients	11,023	16,862	22,900
Loan book (GBP)	593,832	827,106	725,760
Average loan size (GBP)	83	81	59
PAR30	0.60%	3.40%	2.70%
Repayment rate	98%	99%	97%
Operational Self Sufficiency	92%	103%	90%
Portfolio Yield	104%	115%	93%
Operating Expense Ratio	115%	112%	92%

MicroLoan Zambia recorded strong performance and saw record growth in active client numbers in the year.

The COVID-19 pandemic pushed the Zambian economy further into contraction by 1.2% in 2020, having already witnessed a weakened position in previous years as a result of persistent droughts, falling copper prices and unsustainable fiscal policies. In 2020, the Zambian Kwacha witnessed over a 50% depreciation against the US Dollar and the British Pound, with inflation remaining in double digits and averaging about 15.7% during the year, up from 9.3% in the previous year.

It is notable that despite the pandemic and the macroeconomic instability, our operations in Zambia have remained resilient. MicroLoan Zambia's active clients grew by 36%, up from 16,845 in 2019 to 22,900 in 2020, as we continued to see growth across our branches in the Eastern, Southern and Northern provinces. The loan book demonstrated an impressive 37% growth in Zambian Kwacha terms between 2019 and 2020, however in British Pound terms the loan book shrunk by 13% because of the significant devaluation of the Zambian Kwacha. MicroLoan Zambia was able to maintain the quality of its loan portfolio, recording a PAR30 of 2.7% at the end of the year.

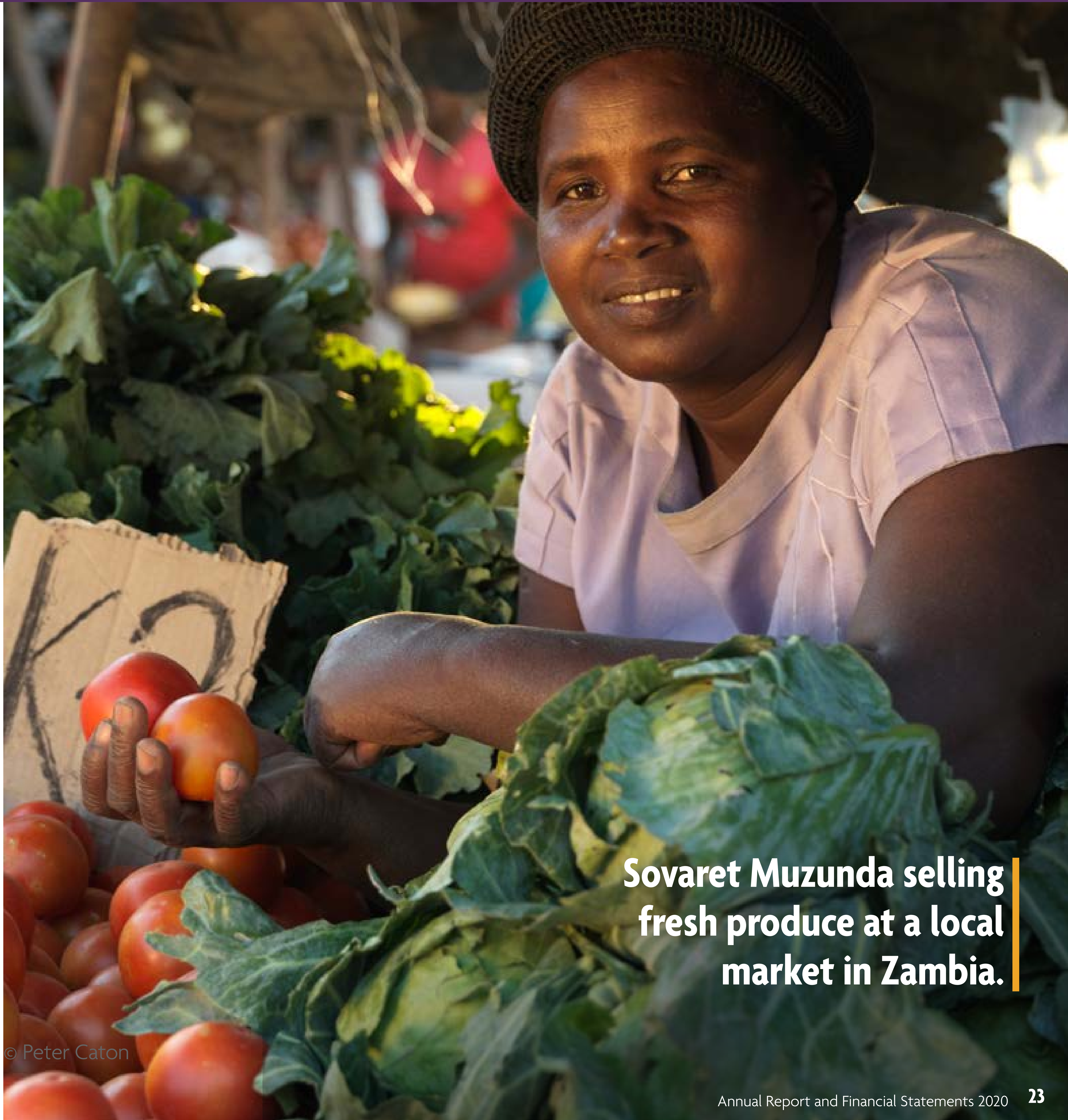
Operating expenses rose by 24% during the year, largely on account of the inflationary pressure that affected most lines, as well as the strengthening of the Senior Management Team with the key hires of the Chief Financial Officer and the Head of Human Resources.

MicroLoan Zambia also initiated external borrowings during the year, which saw an increase in finance costs. One of the external loans accessed was denominated in US Dollar and represented an unhedged open currency position at the end of the year. The unprecedented depreciation of the Zambian Kwacha against the US Dollar further drove up the forex costs associated with this loan and impacted the bottom line, with MicroLoan Zambia recording an Operational Self Sufficiency of 90%.

During the last quarter of 2020, MicroLoan Zambia initiated a pilot in the Eastern Province with a leading conservation farming organisation to develop a new agricultural loan product and increase our reach to smallholder farmers.

The results of the pilot are expected in the second quarter of 2021, which if successful, would pave the way for a full roll out across other regions. Furthermore, the advancement of this partnership aligns with our strategic goal to introduce a credit scoring loan evaluation system and microinsurance products in the coming years. These will enable MicroLoan to drive essential growth in the agricultural and food sectors while benefitting low-income households and building their resilience against future shocks.

Aside from the external impact of forex, MicroLoan Zambia has recorded favourable outcomes across most key performance indicators during 2020. In 2021, MicroLoan Zambia will address the exposure to foreign currency risks by engaging with existing and new lenders to eliminate our open currency position, potentially through a replacement of the outstanding US Dollar loan with a loan in local currency. This measure, when implemented, will significantly improve the bottom line, and ensure that MicroLoan Zambia records an operational surplus once again in 2021. We will look to further increase efficiency by rationalising our operating model through increased use of mobile money. We will also reduce fixed costs by turning a number of branches into satellites. It is expected that these efforts and strategies will ensure that MicroLoan Zambia is well poised for significant growth in active clients and loan book in 2021 and beyond.



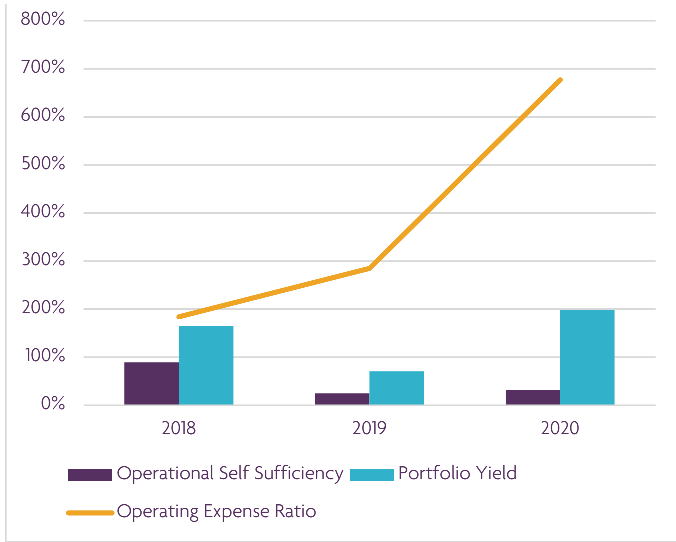
Sovaret Muzunda selling fresh produce at a local market in Zambia.

Operations in Zimbabwe

Total loans made, active clients and outstanding loan book

Repayment rate and loan book

Portfolio Yield, Operating Expense Ratio and Operational Self Sufficiency



	2018	2019	2020
Total loans made	1,593	2,155	1,051
Active clients	980	1,612	102
Loan book (GBP)	79,646	15,466	3,583
Average loan size (GBP)	143	19	12
PAR30	0.00%	0.00%	3.00%
Repayment rate	100%	100%	100%
Operational Self Sufficiency	89%	25%	31%
Portfolio Yield	165%	71%	198%
Operating Expense Ratio	184%	285%	677%

Due to the macroeconomic climate, MicroLoan Zimbabwe is now one of very few microfinance providers operating in the country and we are well positioned for growth.

The Zimbabwean economy prior to COVID-19 was already in recession contracting by 6.0% in 2019. With the onset of the pandemic and continued drought, real GDP contracted by 10% in 2020. Inflation continued to soar, with an average annual inflation rate of 622.8% in 2020, up from 226.9% in the previous year. In June 2020, the Reserve Bank of Zimbabwe introduced measures to help stabilise the parallel market exchange rate and parallel market premium. These measures included the floating of the exchange rate and the introduction of a foreign currency auction, which saw some general price stability across the economy and the official exchange rate settling at 81.79 Zimbabwean Dollars to a US Dollar at the end of the year.

For several months during 2020, the government of Zimbabwe imposed very stringent lockdown restrictions that led to a complete closure of economic activity. In its attempt to curb rising inflation and rapid devaluation of the local currency, the Reserve Bank of Zimbabwe also announced restrictions on the use of EcoCash, a mobile-based payment platform widely used by microfinance providers and clients for financial transactions.

Both measures have had dire consequences for MicroLoan Zimbabwe's operations, hampering our ability to conduct group meetings with clients, disburse loans and follow up on repayments. Consequently, the outstanding loan book shrunk to £3,583 and active clients to 102 at the end of the year. PAR30 crept up to 3.0%, with many of our clients facing economic hardships.

As a solution to the restrictions on disbursements via EcoCash, MicroLoan Zimbabwe identified an avenue to facilitate disbursement of loans to our clients through MyCash Financial Services, a payment service provider registered with the Reserve Bank of Zimbabwe. In November 2020, MicroLoan Zimbabwe conducted a pilot to test disbursements to 15 existing MicroLoan groups. Following the successful roll out of the pilot, we aim to continue to use this channel for loan disbursements in 2021 and beyond.

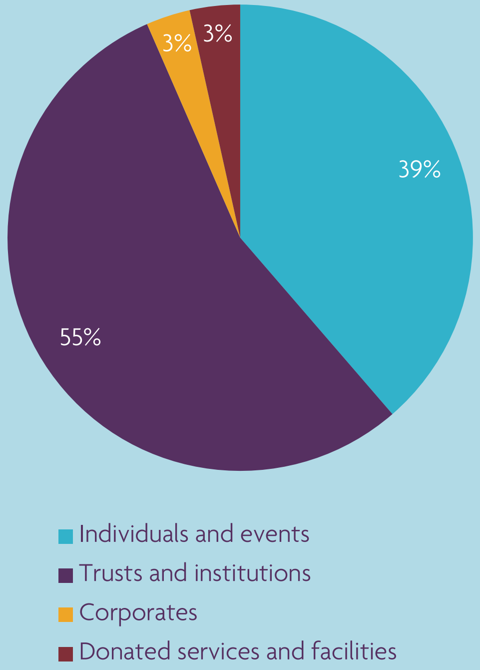
Demand for financial services in poor communities remains high and by the end of 2020, MicroLoan Zimbabwe was one of very few, if not the only, truly social microfinance institutions operating in the country.

Our strategy for 2021 is to work closely with new and existing partners to re-build our portfolio and grow our client base within our existing regions of operations.

Fundraising overview

In 2020 MicroLoan raised £963,432 in voluntary income (2019: £1,047,584). This includes donated resources and gifts in kind to a total value of £33,631 (2019: £157,044). Our supporters include trusts, foundations and corporate partners, as well as individuals who support us through personal donations or through fundraising events, challenges and community engagements. The fundraising climate was challenging in 2020 and we are deeply grateful for the generous gifts from our many donors. It is thanks to your support that we can continue our life-changing work, helping more women and their families to move out of poverty.

Fundraising income 2020



Our top donors in 2020 include WildHearts Group and Foundation, Whole Planet Foundation, Ian & Clare Mattioli Charitable Trust, The Paul Foundation, Halcrow Foundation, Bliss Family Charity, The Oso Foundation, Rita and David Slowe Charitable Trust, Lendwithcare, The MacDaibhidh Charitable Trust, The Language Factory as well as a number of private individuals and organisations that wish to remain anonymous. See to the left a breakdown of voluntary income for 2020. MicroLoan has a dedicated fundraising team in London which manages relationships with donors in the UK and internationally. The UK office liaises with our affiliates in the USA and Australia and the operational teams in sub-Saharan Africa to ensure that our donors are regularly informed about the impact of their support. We are a member of the Fundraising Regulator and adhere to the UK Code of Fundraising Practice.

Registered with FUNDRAISING REGULATOR

Group financial review

The group's financial performance for 2020 is set out in the Consolidated and Charity Statement of Financial Activities, the Balance Sheets and the Consolidated Statement of Cashflows on pages 48 to 53. The group result includes that of MicroLoan Foundation and our subsidiaries in Malawi, Zambia and Zimbabwe.

Results in overview

The Board considers the financial performance during 2020 to be satisfactory in the context of the numerous challenges that the year presented. COVID-19 impacted both charitable and voluntary income, with restrictions on movement and gatherings hampering our ability to lend in Malawi, Zambia and Zimbabwe, as well as to run our normal events programme in the UK. Furthermore, the hyperinflationary environment in Zimbabwe continued throughout 2020 with the value of local currency declining by an additional 500% against the British Pound. In Zambia too, we witnessed a 57% drop in the currency value, whilst in Malawi it fell by a more modest 8%. In combination, all these movements contributed to a significant devaluation of our brought forward reserves in British Pound terms.

Group net income in 2020 was £227,362 compared to £252,792 in 2019. In addition to this, there was also a gain of £25,385 (2019: £nil) relating to the revaluation of land and buildings held in Malawi. Nevertheless, significant offsetting exchange losses of £324,624 (2019: £130,313) on retranslation of brought forward reserves resulted in an overall net decrease in group funds of £71,877 (2019: £122,479 increase).

At the year-end, total group funds amounted to £915,424 (2019: £987,301) of which £67,947 (2019: £18,197) were restricted and £847,477 (2019: £969,104) were unrestricted. Of these, £661,076 (2019: £418,281) related to MicroLoan Foundation as the charitable parent, with £67,947 (2019: £18,197) restricted and £593,129 (2019: £400,084) unrestricted.

Income and expenditure

2020 group income totalled £3,045,207 (2019: £3,234,859), representing a 6% decline on the previous year. The majority of this comprised of interest income in respect of our microloan portfolio which fell just under 5% to £2,076,929 (2019: £2,178,680). Voluntary income generated during the year totalled £963,432 (2019: £1,047,584), a reduction of 8% compared to 2019. Investment income, comprising of bank interest received, fell to £4,846 (2019: £8,595).

Total expenditure fell 6% to £2,817,845 (2019: £2,982,067). In the UK, investment made in our IT infrastructure in 2019 allowed a seamless switch to a homeworking model when lockdown restrictions were imposed, and we took the opportunity to exit our leased office midway through the year and migrate to a flexible hot desking arrangement. This, alongside other cost reduction measures and savings arising from a switch to an online events programme, reduced the charity's UK cost base by approximately £50,000 compared to 2019. Across our operations in Africa, expenditure denominated in local currency increased due to the full year impact of 2019 growth and investment made in additional headcount. Currency depreciation offset this however in British Pound terms.

Use of funds

In total, the UK charity advanced £469,009 to Africa during 2020 to support expansion of our mission and impact. This comprised of £316,229 in the form of equity investment and £143,780 in the form of revenue grants. In addition, our UK fundraising team secured a further £82,991 of grants received directly in Malawi. All of these amounts were supplemented by additional social investment from external lenders.

Although the British Pound value of the year-end loan book declined by £90,236 (4%) to £2,181,259, this should be viewed in the context of exchange rate movements over the course of 2020. These reduced the British Pound value of the brought forward loan book by approximately £408,000 (18%).

The total value of all loans disbursed during 2020 declined by 14% to £6,752,019 (2019: £7,842,772) due to the combination of the significant currency depreciation and COVID-19 restrictions. Despite this, a corresponding 15% reduction in our average loan size to £74 allowed the number of clients we supported in 2020 to grow by 3.5% to 85,173.

Key Financial Performance Indicators

The key financial performance indicators that are monitored by management are principally as set out in the reviews of operations above. In addition, the efficiency of our fundraising function and the proportion of total income that the charity reinvests in fundraising activities are also closely monitored:

Fundraising efficiency ratio

	2018	2019	2020
Donations and legacies received	£986,080	£1,047,584	£963,432
Cost of fundraising function	£359,057	£348,184	£294,703
Ratio	2.7	3.0	3.3

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Fundraising expenditure

	2018	2019	2020
Total expenditure	£2,775,307	£2,982,067	£2,817,845
Expenditure on fundraising	£359,057	£348,184	£294,703
Percentage	12.9%	11.7%	10.5%

Reserves policy and management

In the UK

Reserves are maintained at a level that enables the charity to manage financial risk and ensure the charity can sustain its activities over the long term. As a fundraising charity, we are subject to the effects of short-term volatility in income whereas our cost base is relatively fixed and the demand for funds to support our loan book growth is ongoing.

We use a single reserves measure in respect of our UK operations. This measure mandates that MicroLoan Foundation should hold a minimum level of free reserves to ensure that the charity is able to meet its financial commitments as they fall due, with any excess then available to grow loan book.

'Free reserves' is defined by the Board as unrestricted and undesignated net current assets. It excludes tangible fixed assets (which are not readily convertible to cash), long term borrowings and any funds that have already been committed or advanced to our projects in Africa through grants, investment or lending. Such advances do not represent an available source of funds to meet UK financial commitments.

As explained in more detail elsewhere in this report, the COVID-19 pandemic has made the charity's operating environment significantly more challenging. It is the view of the Board that there will be increased volatility in our income levels and that it will become more difficult to access social investment in the short-term to support and scale our activities in Africa. In this context, the reserves policy was reviewed during 2020 and revised slightly to adopt a more prudent approach.

The Board has agreed that 'free reserves' should exceed a minimum of six months but are not expected to exceed nine months forecast cash outflows, calculated on an annualised basis. At 31 December 2020, the free reserves position was £274,529, equivalent to 7.8 months.

In Africa

As regulated microfinance institutions, our subsidiaries in Malawi, Zambia and Zimbabwe must meet stringent capital adequacy rules mandated by the local Reserve Banks. In addition, the environments that they operate in make these entities more susceptible to macroeconomic shocks caused by natural disasters such as floods, famine or changes in government policy. Accordingly, reserves policy is delegated to local Boards which each include Senior Management representation from MicroLoan Foundation in the UK. Generally, a prudent approach is taken to reserves management and gearing within our microfinance subsidiaries, with all of them operating well within the mandated capital requirements set out by local statute.

Investment policy and objectives

The charity's investment policy is to seek to maximise the number of lives positively impacted whilst managing risk. The Board is very conscious of its responsibility to utilise charitable funds in a highly effective and efficient way and the need to ensure that this same ethos cascades across the wider group and local Boards. All investment decisions are therefore made with these considerations in mind.

Each subsidiary is expected to work towards a position of Operational Self Sufficiency where it is able to independently generate sufficient income to sustain its core operations and, where necessary, utilise its reserves responsibly to manage unexpected, temporary fluctuations in income and costs.

As the parent charitable organisation, MicroLoan Foundation makes targeted advances of funds to our operations in Malawi, Zambia and Zimbabwe to fund sustainable, responsible growth in the loan books and thereby increase the number of clients served.

The impact of COVID-19 on our operations

The COVID-19 pandemic has resulted in severe economic and societal disruption across all our countries of operation.

> **In 2020, we responded swiftly, taking several precautionary measures to minimise financial and operational risk and following all government and medical advice to ensure our staff and beneficiaries were safeguarded.**

In Africa, restrictions on movement and gatherings have a major impact on our high touch operating model, making it more challenging to disburse and collect loans and slowing our efforts to responsibly grow our loan book. Our in-country management teams have been progressively adapting policies and refining our approach to cope with the changing circumstances and specific local requirements. We have been able to continue our lending activities in a safe and effective manner, ensuring an ongoing income stream to fund operational costs.

In the UK, our programme of fundraising events and activities has been significantly impacted by the restrictions put in place and the consensus across the third sector is that the fundraising environment will be extremely challenging in the coming years. We are already starting to see individuals and institutions adjust to a 'new normal' and re-evaluate the funds they can commit to supporting charitable causes. Nevertheless, as at the date of this report, we have been able to maintain income levels in line with our original budget for 2021 and our donor pipeline remains healthy. The charity in the UK has no external debt commitments to service and has continued to rigorously challenge its cost base to ensure it is operating as leanly as possible. It has also built additional reserves coverage to ensure it will be resilient to the effects of short-term fluctuations in income levels.

After having reviewed forward projections and making appropriate enquiries, the trustees have a reasonable expectation that the charity has adequate resources to continue in operational existence for the foreseeable future. Accordingly, these financial statements have been prepared on a going concern basis.

Risk Management

The trustees have assessed the principal risks across the group:

- Fundraising risk
- Sustainability risk
- Liquidity and funding risk
- Credit risk
- Foreign exchange risk
- Operational risk (including fraud)
- Reputational risk

The measures taken by the charity to mitigate these risks are as follows:

Fundraising risk

This is the risk that the level or mix of unrestricted and restricted income and social investment is insufficient to maintain or expand our social mission. Donor funding presently remains a key part of MicroLoan Foundation's income stream, however the Board is very conscious of the shifting fundraising landscape and the changing needs of our microfinance operations as they mature and seek to scale.

In recent years the charity has sought to diversify income streams and explore strategic partnerships, such as that entered into with WildHearts Foundation at the start of 2019. This blended approach alongside attracting additional mission-aligned social investment is anticipated to be the most effective way to maximise the potential and impact that can be delivered through our microfinance operations in Malawi, Zambia and Zimbabwe. Accordingly, the Board is presently exploring ways that this can be achieved over the medium term.

Sustainability risk

This is the risk that the expenses from our charitable activities in respect of microfinance exceed the associated income and therefore reduces our ability to provide services and maintain or grow our impact.

Our strategy is to continue to responsibly increase investment into each country through a combination of donations and social investment so as to reach more beneficiaries whilst at the same time benefitting from the economies of scale associated with growth. The group also continues to critically evaluate the cost base and working practices to identify more efficient ways to operate. Examples of this include our ongoing mobile money project in Malawi and our switch to remote working in the UK. The objective is that all three operations in Africa reach Operational Self Sufficiency because achieving this milestone will provide a robust platform from which to expand our reach and enhance the social impact that our microfinance operations deliver.

Liquidity and funding risk

Gross income streams can be volatile whereas the underlying UK cost base, which is principally staff and associated costs, is relatively stable and recurring.

The Board seeks to maintain a prudent level of free reserve cover to cope with fluctuations in income and thereby ensure running costs can be met and that charitable activities can continue to be delivered without disruption. The partnership between MicroLoan Foundation and WildHearts Foundation is also a key part of the strategy to manage volatility in income streams since it provides cost synergies as well as complimentary income streams within the wider group.

Credit risk

This is the risk of significant levels of default across our microfinance portfolio.

Although we operate in some of the poorest areas of sub-Saharan Africa, our credit risk history shows that our methodology works. Loan repayment rates typically average at 96% and our sector-leading Management Information System allows us to identify problems early and work with clients to resolve them.

Operational risk

The charitable group has more than 200 staff working across five countries and therefore we have the logistical risks associated with operating over large distances, and in rural areas with poor infrastructure and stretched communication networks. This increases the risk of internal failures of controls or systems, including fraud, as well as external disruption.

The evolving COVID-19 pandemic in 2020 proved a specific and stern test of our operational ability to deal with the challenges of a significant external event. In Africa, restrictions on movement impacted our ability to run loan groups, meet with clients and to arrange disbursement and collection of loans.
In the UK, our traditional fundraising events programme was significantly curtailed by lockdown restrictions and these activities had to be completely reimagined for an online world. The trustees are incredibly proud of the determination, resilience and ingenuity displayed by our teams across the Group throughout the year and into 2021. Their incredible efforts alongside past investments made by the Group in developing our infrastructure and operating procedures meant that we were able to maintain our focus on our mission and effectively manage the impact on the charity's income levels and cost base. At all times, the Group followed government and medical advice to safeguard our staff and beneficiaries.

We will continue to monitor and improve our operational framework, including upskilling our teams and local Boards and investing in strengthening our internal audit function. We also review and upgrade our IT infrastructure and computer equipment on an ongoing basis.

Reputational risk

This is the risk of an event or allegation adversely impacting the reputation of the charity and consequently jeopardising its ability to fulfil its charitable objectives.

There are a variety of measures imbedded across our group to ensure that the charity operates to the highest professional standards and to safeguard future activities. Examples include a rigorous interview and assessment process prior to all staff appointments, robust HR procedures and whistleblowing hotlines. The group has a zero-tolerance approach to instances of harassment and bullying, fraud, bribery or corruption. Within our microfinance operations, we have strong client protection and safeguarding policies.

Governance

Nature of governing document

The charity is governed by its Memorandum and Articles of Association (last amended 10 December 2018).

Organisation structure

WildHearts Foundation Limited, a registered Scottish charity (SC037072) and a company limited by guarantee (SC290665), is the sole member of MicroLoan Foundation following a strategic alliance entered into in 2018. MicroLoan Foundation therefore operates as a subsidiary of WildHearts Foundation.

The directors of the UK charitable company are its trustees for the purpose of charity law and throughout this report are collectively referred to as the trustees. The appointment, removal, power and duties of the trustees are set out in the charity's Memorandum and Articles of Association.

The Board of Trustees meets at least quarterly and presently consists of four individuals, all of whom act in a non-executive capacity. The trustees that served during the year and since the year-end were as follows:

- Bernice Dunsmuir
- Michael Jackson
- Colin Milne
- Karen Scholes

Day to day running of the Foundation in the UK is delegated to a Senior Management Team, which comprises the Group Chief Executive Officer, the Chief Financial Officer and the Director of Fundraising.

The operations in Africa each have their own locally appointed Board of Directors that oversee the activities in their country. These Boards all include at least one member of the UK Senior Management Team who serve as the link between the UK parent charity and the African microfinance subsidiaries. Together, the UK and Africa Boards implement the group strategy in a way that is appropriate to local conditions.

> **The operations in Africa each have their own locally appointed Board of Directors that oversee the activities in their country.**

Each local Board has directors with a variety of local and international experience and include both executive and non-executive members.

The organisational structure and Board composition is reviewed on an ongoing basis as part of normal risk management processes.

Recruitment and appointment of trustees

MicroLoan Foundation's Memorandum and Articles of Association permit any person who is willing to act to be appointed as a trustee by an ordinary resolution. There are no provisions that require or permit any external body to appoint a member to the Board. In practice, trustees are appointed based on their backgrounds, professional networks and passion for the group's vision.

Board members are provided with a detailed management information pack on appointment and in advance of each scheduled meeting to ensure that their knowledge of the charity's activities and regulatory environment remains current.

Induction and training of trustees

It is expected that all trustees and other senior personnel, both in the UK and in Africa, undertake appropriate personal and professional development activities relevant to their position. Opportunities for formal training, including seminars and conferences, are offered periodically. The charity is also fortunate to have attracted several experienced professionals from a variety of backgrounds who provide ongoing support, advice and mentoring. This network enables the charity and the trustees to harness the best and most creative minds in their respective disciplines to support our social mission.

Arrangements for setting remuneration of key management personnel

Our microfinance operations are large, complex and highly regulated financial institutions operating in countries with very challenging and often unstable economic and political environments. The Board therefore believes that it is imperative that remuneration levels are set at rates that are competitive and allow the group to attract senior personnel of the right calibre to ensure all areas of activity remain compliant and are delivered in the most efficient and effective way possible. Remuneration levels of key management personnel are benchmarked annually against market rates or if a change in circumstances warrants review (for example, a revision to roles and responsibilities). Key Performance Indicators are closely monitored to assess the value added and progress against operational and strategic priorities. These form part of the performance evaluations which feed into pay reviews.

None of the trustees were remunerated by the charity during 2020.

Statement of Trustees' responsibilities

Public benefit

The trustees are responsible for confirming that the activities of the UK charity are consistent with its charitable objectives as set out in this annual report and financial statement.

Financial statements

The trustees (who are also Directors of MicroLoan Foundation for the purposes of company law) are responsible for preparing the trustees' annual report including the strategic report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Company law requires the trustees to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the charitable company and group, and of the incoming resources and application of resources, including income and expenditure, of the charitable company or group for that period. In preparing these financial statements, the trustees are required to:

- Select suitable accounting policies and apply them consistently.
- Observe the methods and principles in the Charities SORP (FRS 102).
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare financial statements on a going concern basis unless it is inappropriate to assume that the charitable company and the group will continue in operation.

The trustees are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and enable them to ensure that the financial statements comply with the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

They are also responsible for safeguarding the assets of the charitable company and group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The trustees confirm that so far as they are aware:

- There is no relevant audit information of which the charitable company's auditors are unaware.
- They have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

In the interests of transparency and accountability to our donors and supporters we publish the annual report on our website. The trustees are responsible for the maintenance and integrity of the corporate and financial information included on the charitable company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The annual report was approved by the Board on 14 July 2021.

Dr Mick Jackson
Chairman


Photo credit - Peter Caton

Independent auditor's report

Opinion

We have audited the financial statements of Microloan Foundation (the 'parent charitable company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the consolidated statement of financial activities, the group and parent charitable company balance sheets, the consolidated statement of cash flows and the notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- Give a true and fair view of the state of the group's and of the parent charitable company's affairs as at 31 December 2020 and of the group's incoming resources and application of resources, including its income and expenditure, for the year then ended.
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- Have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulation 2006 (as amended).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the trustees' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on Microloan Foundation's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the trustees with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the trustees' annual report, other than the financial statements and our auditor's report thereon. The trustees are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact..

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The information given in the trustees' annual report, for the financial year for which the financial statements are prepared is consistent with the financial statements.
- The trustees' annual report, including the strategic report, has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the trustees' annual report:

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 and Charities Accounts (Scotland) Regulations 2006 (as amended) requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent charitable company, or returns adequate for our audit have not been received from branches not visited by us; or
- The parent charitable company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of trustees' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit; or
- The directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the trustees' annual report and from the requirement to prepare a strategic report.

Responsibilities of trustees

As explained more fully in the statement of trustees' responsibilities set out in the trustees' annual report, the trustees (who are also the directors of the parent charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustees are responsible for assessing the group's and the parent charitable company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustees either intend to liquidate the group or the parent charitable company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

We have been appointed as auditor under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and under the Companies Act 2006 and report in accordance with regulations made under those Acts.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud are set out below.

Capability of the audit in detecting irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We enquired of management and the board of trustees, which included obtaining and reviewing supporting documentation, concerning the group's policies and procedures relating to:

  - Identifying, evaluating, and complying with laws and regulations and whether they were aware of any instances of non-compliance;

  - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud;

  - The internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.

- We inspected the minutes of meetings of those charged with governance.
- We obtained an understanding of the legal and regulatory framework that the group operates in, focusing on those laws and regulations that had a material effect on the financial statements or that had a fundamental effect on the operations of the group from our professional and sector experience.
- We communicated applicable laws and regulations throughout the audit team and remained alert to any indications of non-compliance throughout the audit.
- We reviewed any reports made to regulators.
- We reviewed the financial statement disclosures and tested these to supporting documentation to assess compliance with applicable laws and regulations.
- We performed analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.
- In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments, assessed whether the judgements made in making accounting estimates are indicative of a potential bias and tested significant transactions that are unusual or those outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the charitable company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. Our audit work has been undertaken so that we might state to the charitable company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charitable company and the charitable company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Jonathan Orchard
Senior Statutory Auditor
July 2021

For and on behalf of:
Sayer Vincent LLP, Statutory Auditor
Invicta House,
108-114 Golden Lane,
London, EC1Y 0TL

Sayer Vincent LLP is eligible to act as auditor in terms of section 1212 of the Companies Act 2006

Financial statements

MicroLoan Foundation (MLF)

Consolidated Statement of Financial Activities
(including Consolidated Income and Expenditure Account) for the year ended 31 December 2020

The Statement of Financial Activities includes all recognised gains and losses in both the current and prior year.
All amounts related to continuing operations.

The notes on pages 54 to 80 form part of these financial statements.

	Note	Unrestricted funds 2020 £	Restricted funds 2020 £	Total 2020 £	Unrestricted funds 2019 £ (As restated)	Restricted funds 2019 £	Total 2019 £
Income from:							
Donations and legacies	2	**456,944**	**506,488**	**963,432**	574,569	473,015	1,047,584
Charitable activities							
• MLF Malawi		**1,350,010**	-	**1,350,010**	1,316,816	-	1,316,816
• MLF Zambia		**708,481**	-	**708,481**	828,215	-	828,215
• MLF Zimbabwe		**18,438**	-	**18,438**	33,649	-	33,649
Investment income	3	**4,846**	-	**4,846**	8,595	-	8,595
Total income		**2,538,719**	**506,488**	**3,045,207**	2,761,844	473,015	3,234,859
Expenditure on:							
Raising funds	4	**(281,098)**	**(13,605)**	**(294,703)**	(301,849)	(46,335)	(348,184)
Charitable activities							
• MLF Malawi	4	**(1,333,491)**	**(233,974)**	**(1,567,465)**	(1,268,336)	(202,513)	(1,470,849)
• MLF Zambia	4	**(739,665)**	**(146,204)**	**(885,869)**	(662,231)	(280,633)	(942,864)
• MLF Zimbabwe	4	**(6,853)**	**(62,955)**	**(69,808)**	(119,373)	(100,797)	(220,170)
Total expenditure		**(2,361,107)**	**(456,738)**	**(2,817,845)**	(2,351,789)	(630,278)	(2,982,067)
Net income		**177,612**	**49,750**	**227,362**	410,055	(157,263)	252,792
Other recognised gains / (losses):							
Gain on revalued fixed assets		**25,385**	-	**25,385**	-	-	-
Exchange losses		**(324,624)**	-	**(324,624)**	(130,313)	-	(130,313)
Net movement in funds		**(121,627)**	**49,750**	**(71,877)**	279,742	(157,263)	122,479
Reconciliation of funds:							
Total funds brought forward	18	**969,104**	**18,197**	**987,301**	689,362	175,460	864,822
Total funds carried forward	18	**847,477**	**67,947**	**915,424**	969,104	18,197	987,301

Charity Statement of Financial Activities (including Income and Expenditure Account) for the year ended 31 December 2020

	Note	Unrestricted funds 2020 £	Restricted funds 2020 £	Total 2020 £	Unrestricted funds 2019 £	Restricted funds 2019 £	Total 2019 £
Income from:							
Donations and legacies		**456,944**	**423,497**	**880,441**	574,569	434,809	1,009,378
Investment income		**-**	-	-	-	-	-
Total income		**456,944**	**423,497**	**880,441**	574,569	434,809	1,009,378
Expenditure on:							
Raising funds		**(281,098)**	**(13,605)**	**(294,703)**	(301,849)	(46,335)	(348,184)
Charitable activities		**(202,916)**	**(140,027)**	**(342,943)**	(318,111)	(129,255)	(447,366)
Total expenditure		**(484,014)**	**(153,632)**	**(637,646)**	(619,960)	(175,590)	(795,550)
Net income		**(27,070)**	**269,865**	**242,795**	(45,391)	259,219	213,828
Transfers between funds		**220,115**	**(220,115)**	**-**	365,383	(365,383)	-
Net movement in funds		**193,045**	**49,750**	**242,795**	319,992	(106,164)	213,828
Reconciliation of funds:							
Total funds brought forward		**400,084**	**18,197**	**418,281**	80,092	124,361	204,453
Total funds carried forward		**593,129**	**67,947**	**661,076**	400,084	18,197	418,281

The Statement of Financial Activities includes all recognised gains and losses in both the current and prior year.
All amounts related to continuing operations.

The notes on pages 54 to 80 form part of these financial statements.

© Peter Caton

Balance sheets as at 31 December 2020

Company registration number: 04828558

	Note	The group 2020 £	The group 2019 £	The charity 2020 £	The charity 2019 £
Fixed assets					
Tangible assets	8	**387,955**	455,862	**-**	31,179
Investments	9	**-**	-	**1,401,241**	1,085,012
		387,955	455,862	**1,401,241**	1,116,191
Current assets					
Stock	10	**12,458**	13,299	**-**	-
Debtors	11	**2,468,438**	2,544,504	**74,690**	220,454
Cash at bank and in hand		**523,541**	505,029	**355,341**	255,089
		3,004,437	3,062,832	**430,031**	475,543
Creditors: Amounts falling due within one year	12	**(908,320)**	(996,051)	**(20,196)**	(23,453)
Net current assets / (liabilities)		**2,096,117**	2,066,781	**409,835**	452,090
Total assets less current liabilities		**2,484,072**	2,522,643	**1,811,076**	1,568,281
Creditors: Amounts falling due after one year	13	**(1,554,326)**	(1,529,026)	**(1,150,000)**	(1,150,000)
Provisions for liabilities	14	**(14,322)**	(6,316)	**-**	-
Total net assets		**915,424**	987,301	**661,076**	418,281
Funds of the charity:					
Unrestricted funds	18	**274,529**	969,104	**274,529**	400,084
Designated funds	18	**572,948**	-	**318,600**	-
Restricted funds	18	**67,947**	18,197	**67,947**	18,197
Total funds		**915,424**	987,301	**661,076**	418,281

The financial statements were approved by the Board and authorised for issue on 14 July 2021 and signed on their behalf by:

Mick Jackson
Trustee

The notes on pages 54 to 80 form part of these financial statements.

Consolidated Statement of Cash Flows as at 31 December 2020

	The group 2020 £	2020 £	2019 £	2019 £
Cash flows from operating activities				
Net income per Statement of Financial Activities	**227,362**		252,793	
Depreciation charges	**123,921**		126,615	
Investment income receivable	**(4,846)**		(8,595)	
Interest on borrowings	**96,200**		63,764	
Gain on disposal of tangible fixed assets	**(1,338)**		-	
(Increase) / decrease in stock	**(188)**		3,069	
Increase in debtors	**(177,678)**		(610,547)	
(Decrease) / increase in creditors	**(158,168)**		309,046	
Increase in deferred tax provision	**8,066**		1,469	
Net cash flows from operating activities		**113,331**		137,614
Cash flows from investing activities				
Interest receivable and similar income	**4,846**		8,595	
Purchase of tangible fixed assets	**(88,371)**		(106,172)	
Proceeds from sale of tangible fixed assets	**1,552**		-	
Net cash flows from investing activities		**(81,973)**		(97,577)
Cash flows from financing activities				
New loans obtained during the period	**891,517**		1,571,583	
Loans repaid during the period	**(757,976)**		(1,250,225)	
Interest paid on borrowings	**(96,200)**		(63,764)	
Net cash flows from financing activities		**37,341**		257,594
Net increase in cash and cash equivalents		**68,699**		(297,631)
Cash and cash equivalents at 1 January 2020		**505,029**		229,237
Exchange loss on cash and cash equivalents		**(50,187)**		(21,839)
Cash and cash equivalents at 31 December 2020		**523,541**		**505,029**

All of the cash flows are derived from continuing operations during the current and prior year.

The notes on pages 54 to 80 form part of these financial statements.

1 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of preparation and statement of compliance

MicroLoan Foundation is a private company limited by guarantee (incorporated in England under the Companies Act) and a charity registered with the Charity Commission for England & Wales and the Office of the Scottish Charity Regulator. The charitable company's registered office address is 1-2 Paris Garden, London, SE1 8ND.

The financial statements have been prepared in accordance with Accounting and Reporting by Charities: Statement of Recommended Practice applicable to charities preparing their accounts in accordance with the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) (effective 1 January 2015) - (Charities SORP FRS 102), the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the Companies Act 2006.

MicroLoan Foundation meets the definition of a public benefit entity under FRS 102. Assets and liabilities are initially recognised at historical cost or transaction value unless otherwise stated in the relevant accounting policy notes.

These financial statements consolidate the results of the charitable company and its wholly-owned subsidiaries on a line by line basis. The subsidiaries are MicroLoan Foundation Malawi (Registration Number 12509), MicroLoan Foundation Zambia (Registration Number 70587), and, in Zimbabwe, MicroLoan Trust Zimbabwe (Registration Number MA0000738/2016) and MicroLoan Foundation (Private) Limited (Registration Number 851/2016). All are incorporated locally in their respective country of operation.

Transactions and balances between the charitable company and its subsidiaries have been eliminated from the consolidated financial statements. Balances between the companies are disclosed in the notes to the charitable company's balance sheet.

The presentational currency used in these financial statements is Pound Sterling. Amounts have been rounded to the nearest Pound.

Going concern

The financial statements have been prepared on a going concern basis.

As part of their assessment as to whether the use of the going concern basis is appropriate, the trustees assess whether there are any material uncertainties related to events or conditions that may cast significant doubt on the ability of the Charity to continue as a going concern. The trustees make this asseement in respect of a period of at least one year from the date of approval of the financial statements..

Key sources of estimation uncertainty

Estimation uncertainty exists in respect of the recoverable amount of the charity's microfinance loan portfolio. In determining whether impairment is required, the trustees consider factors such as the contractual terms of the underlying loan agreements, historic rates of loan default in the territory and applicable local macroeconomic factors that could impact the ability to recover amounts advanced. The carrying value of the loan portfolio at the year-end was £2,181,259 (2019: £2,271,495).

Summary of disclosure exemptions

The charity has taken advantage of the exemption conferred by Section 33.1A of FRS 102 not to separately disclose transactions between members of the charitable group headed by WildHearts Foundation.

Income

Income is recognised when the charity has entitlement to the income, it is probable that the income will be received and the amount can be measured with sufficient reliability.

Donations and legacies

Income from donations and legacies is recognised on an accruals basis at the point at which the requirements of entitlement, probability and reliability of measurement are fully satisfied.

Where the donor specifies that the donation must be used in future accounting periods or imposes other conditions which must be fulfilled before the charity becomes entitiled to use such income, the income is deferred and not recognised until the pre-conditions have been met.

Grants receivable

Grant income is also recognised on an accruals basis at the point at which the requirements of entitlement, probability and reliability of measurement are fully satisfied.

Where the grant agreement contains performance or other pre-conditions which must be met before the charity becomes entitled to the funding, the grant income is deferred and released to income in the reporting period in which the conditions limiting recognition are met.

Donated resources and services

The activities of MicroLoan Foundation are supported by resources and services provided on a pro bono or discounted basis. In accordance with the Charities SORP (FRS 102), an amount is recognised within the Statement of Financial Activities as income when received, with a corresponding expense, where the benefit of these services is reasonably quantifiable and measurable.

Each year, the trustees undertake a comprehensive exercise in order to calculate on a consistent and systematic basis the value of in kind support received in the form of donated services and facilities. This value is determined by calculating the gross open market cost of undertaking each activity and then deducting amounts directly incurred by the charity. For the purposes of this calculation, no allowance has been made for irrecoverable VAT that could potentially have been incurred in respect of donated amounts in the open market. The trustees do not consider it practical to accurately determine the latter figure due to uncertainty over when VAT would or would not be applied.

Income from charitable activities

Income from charitable activities comprises of interest charged in respect of the microloans that we provide to our beneficiaries in order to make our lending activities sustainable. It is recognised on an accruals basis net of provision for bad debt.

Other trading activities

Income generated from fundraising events is recognised at the point of receipt.

Investment income

Investment income is included on an accruals basis and is stated gross of any taxation recoverable.

Expenditure

All expenditure is recognised once there is a legal or constructive obligation to that expenditure, it is probable that settlement is required and the amount can be measured reliably. All costs are allocated to the applicable expenditure heading that aggregate similar costs to that category. Where costs cannot be directly attributed to particular headings, they have been allocated on a basis consistent with the use of the resources.

Raising funds

Costs of raising funds represent amounts incurred in undertaking fundraising events and in attracting other voluntary income.

Charitable activities

Charitable expenditure comprises those costs incurred by the charity in the delivery of its activities and services for its beneficiaries. It includes both costs that can be allocated directly to such activities and those costs of an indirect nature that are necessary to support them.

Grant expenditure

Grants and donations made are included in the Statement of Financial Activities at the point there is sufficient evidence that a contractual or constructive obligation exists. In practice, this is usually a legal agreement or formal written offer issued by the charity to the recipient. In circumstances where the charity makes a grant award that contains performance conditions, expenditure is recognised in the period in which each performance milestone is met. Where there are other conditions associated with the grant, expenditure is recognised to the extent that the future payment is probable.

Support costs

Support costs include central functions and have been allocated to activity cost categories on a basis consistent with the use of resources, as shown in Note 4.

Governance costs

Governance costs are those costs which are directly attributable to the governance arrangements of the charity and its strategic management.

Irrecoverable VAT

Irrecoverable VAT is charged against the category of resources expended for which it was incurred.

Taxation

The charity is considered to pass the tests set out in Paragraph 1 Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the charity is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. Trading subsidiaries are subject to corporation tax in the countries that they operate in. Tax is recognised in the Statement of Financial Activities.

Notes to the Financial Statements for the year ended 31 December 2020

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits of a trading subsidiary; and
- any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

Tangible fixed assets

Tangible fixed assets are initially capitalised at cost. Depreciation costs are allocated to activities on the basis of the use of the related assets in those activities. Assets are reviewed for impairment if circumstances indicate their carrying value may exceed their net realisable value and value in use.

Where fixed assets have been revalued, any excess between the revalued amount and the historic cost of the asset will be included as a revaluation reserve within charitable funds.

Depreciation is provided at rates calculated to write down the cost of each asset to its estimated residual value on a straight line basis over its expected useful life. The depreciation rates in use are as follows:

Buildings	2-8%
Office equipment	10-25%
Computer equipment	20-25%
Motor Vehicles	20%
Website costs	33%

Investments

Programme related investments, which includes investments in the Charity's subsidiaries, are made in furtherance of the Charity's objectives and any investment return is secondary to the charitable purpose supported by the investment. Such investments are included at their cost less provision for impairment except for listed investments which are included at fair value (bid price). Any loss or impairment arising from such investments is charged as part of charitable activities within the Statement of Financial Activities.

Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis and includes transport and handling costs. Net realisable value is the price at which stocks can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow moving and defective stocks. Donated items of stock, held for distribution or resale, are recognised at fair value which is the amount the charity would have been willing to pay for the items on the open market.

Trade and other debtors

Trade and other debtors are recognised at the settlement amount due after any trade discount offered. Prepayments are valued at the amount prepaid net of any trade discounts due.

Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if the charity does not have an unconditional right, at the end of the reporting period, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade creditors are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings that are interest free or at a rate below prevailing market rates are treated as concessionary loans. Such loans are initially recorded at the amount received, with the carrying value subsequently adjusted to reflect repayments and any accrued interest.

Interest-bearing borrowings are initially recorded at fair value, net of transaction costs. Such borrowings are subsequently carried at amortised cost, with the difference between the proceeds (net of transaction costs) and the amount due on redemption being recognised as a charge to the Statement of Financial Activities over the period of the relevant borrowing. The interest expense is recognised on the basis of the effective interest method

Borrowings are classified as current liabilities unless the Charity has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement so accrued at the balance sheet date.

Pension and other post retirement obligations

Contributions to defined contribution pension schemes are charged to the Statement of Financial Activities in the period in which they become payable.

Foreign exchange

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date unless there is a matching forward currency contract in place. In such circumstances, the contracted rate of exchange is used.

Exchange differences are recognised in the Statement of Financial Activities in the period in which they arise.

The Charity's overseas subsidiaries have different functional currencies from that of their parent. On consolidation, assets and liabilities of these subsidiaries are translated using the applicable exchange rate as at the balance sheet date. Transactions included within the Statement of Financial Activities are translated using the average exchange rate across the period. Foreign currency gains or losses arising in respect of the translation of overseas subsidiaries are reflected in the Statement of Financial Activities as other operating gains or losses.

Fund accounting

Reserves which can be used at the discretion of the trustees are classified as unrestricted funds. Designated funds, which are also unrestricted, represent amounts ringfenced or committed by the charity for specific charitable activities.

Restricted funds are to be used for specific purposes as laid down, either implicitly or explicitly, by the donor. Expenditure which meets the criteria is allocated to the appropriate fund, together with a fair allocation of overhead support cost.

Financial instruments

Classification

Financial assets and financial liabilities are recognised when the charity becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Charity after deducting all of its liabilities.

Recognition and measurement

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through the Statement of Financial Activities. These are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets and liabilities are only offset in the statement of financial position when, and only when, there exists a legally enforceable right to set off the recognised amounts and the Charity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Financial assets are derecognised when, and only when:

(a) the contractual rights to the cash flows from the financial asset expire or are settled

(b) the Charity transfers to another party substantially all the risks and rewards of ownership of the financial asset, or

(c) the Charity, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party.

Financial liabilities are derecognised only when the contractual obligation is discharged, cancelled or expires.

Debt instruments

Debt instruments which meet the following conditions are subsequently measured at amortised cost using the effective interest method:

(a) The contractual return to the holder is (i) a fixed amount; (ii) a positive fixed rate or a positive variable rate; or (iii) a combination of a positive or a negative fixed rate and a positive variable rate.

(b) The contract may provide for repayments of the principal or the return to the holder (but not both) to be linked to a single relevant observable index of general price inflation of the currency in which the debt instrument is denominated, provided such links are not leveraged.

(c) The contract may provide for a determinable variation of the return to the holder during the life of the instrument, provided that (i) the new rate satisfies condition (a) and the variation is not contingent on future events other than (1) a change of a contractual variable rate; (2) to protect the holder against credit deterioration of the issuer; (3) changes in levies applied by a central bank or arising from changes in relevant taxation or law; or (ii) the new rate is a market rate of interest and satisfies condition (a).

(d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods.

(e) Contractual provisions that permit the issuer to prepay a debt instrument or permit the holder to put it back to the issuer before maturity are not contingent on future events, other than to protect the holder against the credit deterioration of the issuer or a change in control of the issuer, or to protect the holder or issuer against changes in levies applied by a central bank or arising from changes in relevant taxation or law.

(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (c).

Debt instruments that are classified as payable or receivable within one year on initial recognition and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received, net of impairment.

With the exception of concessionary loans and some hedging instruments, other debt instruments not meeting these conditions are measured at fair value through the Statement of Financial Activities.

Commitments to make and receive loans which meet the conditions mentioned above are measured at cost (which may be nil) less impairment.

Derivative financial instruments

From time to time, the charity uses derivative financial instruments to reduce exposure to foreign exchange risk. The charity does not hold or issue derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the Statement of Financial Activities immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the Statement of Financial Activities depends on the nature of the hedge relationship.

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

Hedge accounting

The Charity designates certain derivatives as hedging instruments in fair value hedges.

At the inception of the hedge relationship, the entity documents the economic relationship between the hedging instrument and the hedged item, along with its risk management objectives and clear identification of the risk in the hedged item that is being hedged by the hedging instrument. Furthermore, at the inception of the hedge the charity determines and documents causes for hedge ineffectiveness.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the Statement of Financial Activities immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line related to the hedged item.

Hedge accounting is discontinued when the charity revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the Statement of Financial activities from that date.

Notes to the Financial Statements for the year ended 31 December 2020

2 Income from donations and legacies

	Unrestricted funds 2020 £	Restricted funds 2020 £	Total 2020 £	Unrestricted funds 2019 £	Restricted funds 2019 £	Total 2019 £
Individuals and events	**298,427**	**73,962**	**372,389**	273,805	97,627	371,432
Trusts and institutions	**105,442**	**422,426**	**527,868**	115,556	373,448	489,004
Corporates	**19,444**	**10,100**	**29,544**	28,164	1,940	30,104
Donated services and facilities	**33,631**	-	**33,631**	157,044	-	157,044
	456,944	**506,488**	**963,432**	574,569	473,015	1,047,584

3 Investment income

	Unrestricted funds 2020 £	Restricted funds 2020 £	Total 2020 £	Unrestricted funds 2019 £	Restricted funds 2019 £	Total 2019 £
Interest receivable	**4,846**	-	**4,846**	8,595	-	8,595

4 Expenditure analysis

	Charitable activities								
	MLF Malawi 2020 £	MLF Zambia 2020 £	MLF Zimbabwe 2020 £	Subtotal 2020 £	Cost of raising funds 2020 £	Governance costs 2020 £	Support costs 2020 £	Total 2020 £	Total 2019 £
Staff costs	748,503	415,048	26,917	1,190,468	203,717	-	12,324	**1,406,509**	1,288,192
Travel and subsistence	111,783	72,487	12,967	197,237	131	99	50	**197,517**	244,682
Premises costs	84,683	33,654	3,045	121,382	27,294	-	-	**148,676**	164,074
Legal and professional fees	29,445	58,136	8,029	95,610	-	11,400	876	**107,886**	184,385
Interest costs	55,987	40,213	-	96,200	-	-	-	**96,200**	77,085
Depreciation	81,791	41,647	483	123,921	-	-	-	**123,921**	126,615
Exchange (gains) / losses	31,555	96,935	2,948	131,438	-	-	933	**132,371**	144,763
Loan provisions and write-off	169,225	28,282	485	197,992	-	-	-	**197,992**	80,224
IT and telecommunications	40,462	10,281	10,914	61,657	7,215	-	(3)	**68,869**	69,107
Other costs	204,671	81,909	3,965	290,545	13,035	-	693	**304,273**	445,896
	1,558,105	878,592	69,753	2,506,450	251,392	11,499	14,873	**2,784,214**	2,825,023
In kind support	498	387	3	888	7,802	6,061	18,880	**33,631**	157,044
Support costs	-	-	-	-	33,753	-	(33,753)	**-**	-
Governance costs	8,862	6,890	52	15,804	1,756	(17,560)	-	**-**	-
Total expenditure	**1,567,465**	**885,869**	**69,808**	**2,523,142**	**294,703**	**-**	**-**	**2,817,845**	2,982,067
2019 expenditure analysis	1,470,849	942,864	220,170	2,633,883	348,184	-	-	-	2,982,067

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4 Expenditure analysis (continued)

	Charitable activities							
	MLF Malawi 2019 £	**MLF Zambia 2019 £**	**MLF Zimbabwe 2019 £**	**Subtotal 2019 £**	**Cost of raising funds 2019 £**	**Governance costs 2019 £**	**Support costs 2020 £**	**Total 2019 £**
Staff costs	645,044	385,753	46,079	1,076,876	195,148	-	16,168	**1,288,192**
Travel and subsistence	156,383	68,076	18,321	242,780	1,386	173	343	**244,682**
Premises costs	86,721	40,753	3,162	130,636	32,844	-	594	**164,074**
Legal and professional fees	27,350	87,935	53,841	169,126	-	11,400	3,859	**184,385**
Interest costs	61,877	13,321	-	75,198	-	-	1,887	**77,085**
Depreciation	81,110	44,053	1,452	126,615	-	-	-	**126,615**
Exchange (gains) / losses	3,836	60,898	76,135	140,869	-	-	3,894	**144,763**
Loan provisions and write-off	36,004	44,019	201	80,224	-	-	-	**80,224**
IT and telecommunications	37,655	12,535	9,880	60,070	8,122	49	866	**69,107**
Other costs	269,723	146,950	7,412	424,085	19,331	1,145	1,335	**445,896**
	1,405,703	904,293	216,483	2,526,479	256,831	12,767	28,946	**2,825,023**
In kind support	54,950	32,534	3,110	90,594	42,112	5,911	18,427	**157,044**
Support costs	-	-	-	-	47,373	-	(47,373)	**-**
Governance costs	10,196	6,037	577	16,810	1,868	(18,678)	-	**-**
Total expenditure	**1,470,849**	**942,864**	**220,170**	**2,633,883**	**348,184**	**-**	**-**	**2,982,067**

The above prior year cost analysis has been restated to disaggregate certain cost categories that were previously included under 'other' so as to enhance understanding of the cost base and also to correct a misallocation of prior year costs between MLF Malawi and MLF Zambia. The impact of this restatement is that prior year costs allocated to Malawi have been reduced by £95,603 and prior year costs allocated to Zambia have increased by £95,603. There has been no change to total prior year costs allocated to charitable activities or prior year total costs.

5 Staff costs

	2020 £	2019 £
The aggregate payroll costs were as follows:		
Wages and salaries	**1,235,212**	1,116,957
Social security costs	**32,126**	29,165
Pension costs	**77,453**	70,674
	1,344,791	1,216,796

The number of employees receiving emoluments of more than £60,000 was as follows:

	2020 £.	2019 £.
£80,000 - £89,999	2	1
£70,000 - £79,999	1	1
£60,000 - £69,999	-	-
	3	2

Pension contributions made on behalf of these employees totalled £6,068 (2019: £5,350).

The trustees consider key management personnel during 2020 to comprise the Board of Trustees, the Group's Chief Executive Officer, the Chief Executive Officers of the African subsidiaries and the UK Chief Financial Officer. Emoluments totalling £322,743 (2019: £289,760) were paid to these individuals inclusive of Employer's National Insurance and pension contributions. None of the trustees were remunerated in the current year.

The average number of persons employed by the charity during the year was as follows:

	2020 No.	2019 No.
Malawi	**110**	99
Zambia	**82**	71
Zimbabwe	**15**	15
Raising funds	**6**	6
Governance and administration	**3**	3
	216	194

Notes to the Financial Statements for the year ended 31 December 2020

6 Trustee remuneration and expenses

No trustees, nor any persons connected with them, received any remuneration from the charity during the current or prior year. No expenses were reimbursed to trustees during the current or prior year.

7 Net income/ (expenditure) for the year

	2020 £	2019 £
This is stated after charging:		
Depreciation	**123,921**	126,615
Auditor's remuneration – audit	**11,400**	11,400
Operating lease expenses – property	**88,973**	99,547

8 Tangible Fixed Assets

	The group					
	Buildings £	Office equipment £	Computer equipment £	Motor vehicles £	Website costs £	Total £
Cost						
At 1 January 2020	99,726	166,315	229,367	442,127	22,645	**960,180**
Forex adjustment	(7,663)	(32,705)	(8,552)	(75,910)	-	**(124,830)**
Additions	-	16,422	11,024	60,925	-	**88,371**
Disposals	-	(667)	(520)	(4,531)	-	**(5,718)**
Revaluations	36,264	-	-	-	-	**36,264**
At 31 December 2020	128,327	149,365	231,319	422,611	22,645	**954,267**
Depreciation						
At 1 January 2020	(14,307)	(67,996)	(149,772)	(249,598)	(22,645)	**(504,318)**
Forex adjustment	1,100	11,927	4,832	38,564	-	**56,423**
Charge for the year	(1,783)	(18,109)	(47,431)	(56,598)	-	**(123,921)**
On disposals	-	667	520	4,317	-	**5,504**
Revaluations	-	-	-	-	-	**-**
At 31 December 2020	(14,990)	(73,511)	(191,851)	(263,315)	(22,645)	**(566,312)**
Net book value						
At 31 December 2020	113,337	75,854	39,468	159,296	-	**387,955**
At 31 December 2019	85,419	98,319	79,595	192,529	-	**455,862**

	The charity		
	Computer equipment £	Website costs £	Total £
Cost			
At 1 January 2020	118,066	22,645	**140,711**
Additions	-	-	**-**
Disposals	-	-	**-**
At 31 December 2020	118,066	22,645	**140,711**
Depreciation			
At 1 January 2020	(86,887)	(22,645)	**(109,532)**
Charge for the year	(31,179)	-	**(31,179)**
On disposals	-	-	**-**
At 31 December 2020	(118,066)	(22,645)	**(140,711)**
Net book value			
At 31 December 2020	-	-	**-**
At 31 December 2019	31,179	-	**31,179**

9 Investments

	The charity
	Investments in subsidiaries £
Cost	
At 1 January 2020	1,142,372
Additions	316,229
At 31 December 2020	1,458,601
Provision	
At 1 January 2020	(57,360)
Charge for the year	-
At 31 December 2020	(57,360)
Net book value	
At 31 December 2020	1,401,241
At 31 December 2019	1,085,012

Additions to investments represent new capital injected into the three wholly owned subsidiaries through a combination of cash advances and conversion of intercompany debt. This was done as part of the strategy to fund their expansion.

A summary of the results and the aggregate of share capital and reserves of the subsidiaries, converted into British Pound, is shown below.

	Income £	Expenditure £	Result for the year £	Aggregate of share capital and reserves £
MLF Malawi	1,505,775	(1,490,398)	15,377	1,180,399
MLF Zambia	720,196	(794,530)	(74,334)	459,393
MLF Zimbabwe	62,762	(64,293)	(1,531)	1,206
	2,288,733	(2,349,221)	(60,488)	1,640,998

The activities of the above have been consolidated and therefore are included in the Group result. A description of their activities is included in the annual report.

10 Stock

	The group		The charity	
	2020 £	2019 £	2020 £	2019 £
Consumables held	**12,458**	13,299	-	-

11 Debtors

	The group		The charity	
	2020 £	2019 £	2020 £	2019 £
Amounts due from group undertakings	-	-	**67,359**	206,725
Microcredit loans	**2,181,259**	2,271,495	-	-
Other debtors and prepayments	**287,179**	273,009	**7,331**	13,729
	2,468,438	2,544,504	**74,690**	220,454

12 Creditors: amounts falling due within one year

	The group		The charity	
	2020 £	2019 £	2020 £	2019 £
Trade creditors	**8,074**	22,200	**1,107**	5,167
Taxation and social security	**27,960**	36,584	**4,096**	3,897
Other creditors and accruals	**102,663**	275,885	**14,993**	14,389
Loans	**769,623**	661,382	-	-
	908,320	996,051	**20,196**	23,453

Further information in respect of loans outstanding is provided at note 13.

13 Creditors: amounts falling due after one year

	The group		The charity	
	2020 £	2019 £	2020 £	2019 £
Loan repayments due:				
In 1 - 2 years	**262,897**	379,026	**-**	-
In 2 - 5 years	**1,291,429**	1,150,000	**1,150,000**	1,150,000
	1,554,326	1,529,026	**1,150,000**	1,150,000

Loans represent amounts borrowed by various MLF entities to fund activities. Details of the loan providers, the entity the loan is with, the currency in which the loan is denominated and the applicable interest rate are set out below:

Loan provider	*Outstanding £*	*Borrower*	*Currency*	*Interest rate*
WildHearts Foundation	1,150,000	UK	GBP	Nil
KIVA Microfunds	182,345	Malawi	USD	Nil
Grameen Credit Agricole Microfinance Foundation	41,825	Malawi	MWK	20.0%
Grameen Credit Agricole Microfinance Foundation	237,643	Malawi	MWK	18.0%
Grameen Credit Agricole Microfinance Foundation	211,559	Zambia	ZMW	32.2%
FDH	112,122	Malawi	MWK	18.0%
Lendwithcare	126,163	Malawi	USD	Nil
Lendwithcare	70,050	Zambia	ZMW	Nil
Paul Foundation	192,242	Zambia	USD	3.0%
	2,323,949			

14 Provisions for liabilities

	The group		The charity	
	2020 £	2019 £	2020 £	2019 £
Deferred Tax				
Amounts payable to the Malawi Revenue Authorities	**14,322**	-	-	-
Amounts payable to the Zambian Revenue Authorities	**-**	6,316	-	-
	14,322	6,316	-	-

At 31 December 2020, the group also had unrecognised deferred tax assets of £Nil (2019: £31,474) in respect of Malawi, £16,077 (2019: £nil) in respect of Zambia, and £43 (2019: £21,485) in respect of Zimbabwe.

15 Pension and other schemes

The charity makes contributions to various defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the charity to the schemes and amounted to £79,085 (2019: £70,674).

16 Operating lease commitments

The total of future minimum lease payments under non-cancellable operating leases is as follows:

	The group		The charity	
	2020 £	2019 £	2020 £	2019 £
In less than one year	**22,190**	20,726	**-**	20,726
In one to five years	**8,826**	-	**-**	-
More than five years	**-**	-	**-**	-
	31,016	20,726	**-**	20,726

17 Analysis of group net assets between funds

	Unrestricted 2020 £	Restricted 2020 £	Total 2020 £	Unrestricted 2019 £	Restricted 2019 £	Total 2019 £
Tangible fixed assets	**387,955**	-	**387,955**	455,862	-	455,862
Net current assets	**2,028,170**	**67,947**	**2,096,117**	2,048,584	18,197	2,066,781
Long term liabilities	**(1,554,326)**	-	**(1,554,326)**	(1,529,026)	-	(1,529,026)
Deferred tax liability	**(14,322)**	-	**(14,322)**	(6,316)	-	(6,316)
	847,477	**67,947**	**915,424**	969,104	18,197	987,301

18 Funds

	Balance at 1 January 2020 £	Income £	Expenditure £	Other recognised gains/ (losses) £	Transfers £	Balance at 31 December 2020 £
Unrestricted funds						
General fund	969,104	2,538,719	(2,361,107)	(299,239)	(572,948)	**274,529**
Designated funds:: Africa Investment	-	-	-	-	572,948	**572,948**
	969,104	**2,538,719**	**(2,361,107)**	**(299,239)**	**-**	**847,477**
Restricted funds						
Malawi	11,299	259,575	(233,974)	-	-	**36,900**
Zambia	3,293	148,951	(146,204)	-	-	**6,040**
Zimbabwe	-	67,212	(62,955)	-	-	**4,257**
Africa general		20,750				**20,750**
UK infrastructure	3,605	10,000	(13,605)	-	-	**-**
	18,197	**506,488**	**(456,738)**	**-**	**-**	**67,947**
Total funds	**987,301**	**3,045,207**	**(2,817,845)**	**(299,239)**	**-**	**915,424**

	Balance at 1 January 2019 £	Income £	Expenditure £	Other recognised gains/ (losses) £	Transfers £	Balance at 31 December 2019 £
Unrestricted funds						
General fund	689,362	2,761,844	(2,351,789)	(130,313)	-	**969,104**
Restricted funds						
Malawi	-	213,810	(202,511)	-	-	**11,299**
Zambia	93,330	190,596	(280,633)	-	-	**3,293**
Zimbabwe	32,189	68,609	(100,798)	-	-	**-**
UK infrastructure	49,941	-	(46,336)	-	-	**3,605**
	175,460	**473,015**	**(630,278)**	**-**	**-**	**18,197**
Total funds	**864,822**	**3,234,859**	**(2,982,067)**	**(130,313)**	**-**	**987,301**

The designated 'Africa Investment' fund reflects the book value of assets that have been committed or already advanced to our projects in Africa through either grants, equity or intergroup loans. It is calculated net of any long term borrowings that have been used to finance this investment. This fund is now shown separately from the General fund because it does not represent liquid resources that are available to meet UK financial commitments as they fall due. The fund balance includes a total of £105,917 in respect of a revaluation reserve created in respect of land and buildings owned in Malawi.

Restricted funds represent the total of individual fund balances received for activities within the charity's countries of operation, as indicated by the fund name. The 'Africa general' fund comprises of amounts where the donors have stipulated that the funds should be applied directly to our projects within Africa but have not specified a particular country.

The trustees do not consider there to be any individually material amounts within each aggregated fund balance that would require separate disclosure.

19 Financial Instruments

	2020 £	2019 £
Categorisation of financial instruments		
Financial assets measured at fair value through income and expenditure	-	-
Financial assets that are debt instruments measured at amortised costs	2,991,979	3,049,533
	2,991,979	**3,049,533**
Financial liabilities measured at amortised cost	110,737	298,085
Loan commitments measured at cost less impairment	2,323,949	2,190,408
	2,434,686	**2,488,493**

Financial assets measured at fair value
There are no financial assets measured at fair value.

Financial assets that are debt instruments measured at amortised cost
This comprises of microcredit loans, trade debtors, other debtors, cash and cash equivalents (as applicable).

Financial liabilities measured at historic cost
This comprises of trade creditors, other creditors and accruals.

Loan commitments measured at cost less impairment
This comprises of loans

	Income £	Expense £	Net gains £	Net losses £
Items of income, expense, gains or losses				
2020	-	-		
Financial assets measured at fair value through income and expenditure	-	-	-	-
Financial assets that are debt instruments measured at amortised cost	2,081,775		-	-
	2,081,775	**-**	**-**	**-**
2019				
Financial assets measured at fair value through income and expenditure	-	-	-	-
Financial assets that are debt instruments measured at amortised cost	2,187,275	-	-	-
	2,187,275	**-**	**-**	**-**

The total interest income for financial assets not measured at fair value through income and expenditure is £2,081,775 (2019: £2,187,275).

Impairment
Microcredit loans
The amount of the impairment loss during the year is £197,992 (2019: £80,150). Impairment loss is included in expenditure on charitable activities. The amount of reversal of impairment recognised in the current year and prior period, which is also included in expenditure on charitable activities, is £nil. The overall net impairment loss during the year is £197,992 (2019: £80,150).

Fair Value Hedges
Currency forwards - contracts to buy
The group is exposed to foreign currency risk when it borrows in currencies other than the functional currency. The Charity's policy is to hedge this risk wherever it is practical and affordable using forward foreign currency contracts.

Interest rate swaps
From time to time, the group may also enter into interest rate swaps in respect of foreign currency borrowings in order to reduce exposure to foreign currency risk in respect of scheduled interest payments.

There were no financial instruments designated as hedging instruments at the end of either the current or prior financial year and therefore their fair value was £nil (31 December 2019: £nil).

The amount of the change in fair value of hedged items recognised in income and expenditure for the year is £nil (2019: £nil).

20 Analysis of cash and cash equivalents and of net debt

	At 1 January 2020 £	Cash flows £	Other non-cash changes £	At 31 December 2020 £
Cash at bank and in hand	505,029	68,699	(50,187)	523,541
Total cash and cash equivalents	**505,029**	**68,699**	**(50,187)**	**523,541**
Loans falling due within one year	(661,382)	(757,976)	649,735	(769,623)
Loans falling due after more than one year	(1,529,026)	891,517	(916,817)	(1,554,326)
Total	**(1,685,379)**	**202,240**	**(317,269)**	**(1,800,408)**

21 Charity status

The charity is a company limited by guarantee and consequently does not have share capital. The member is liable to contribute an amount not exceeding £1 towards the assets of the charity in the event of liquidation..

22 Ultimate controlling party

The charity's ultimate parent undertaking and controlling party is WildHearts Foundation Limited, a registered Scottish charity (SC037072) and a company limited by guarantee (SC290665). Copies of its consolidated financial statements are available from Companies House.

MicroLoan Foundation's companies and advisors

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