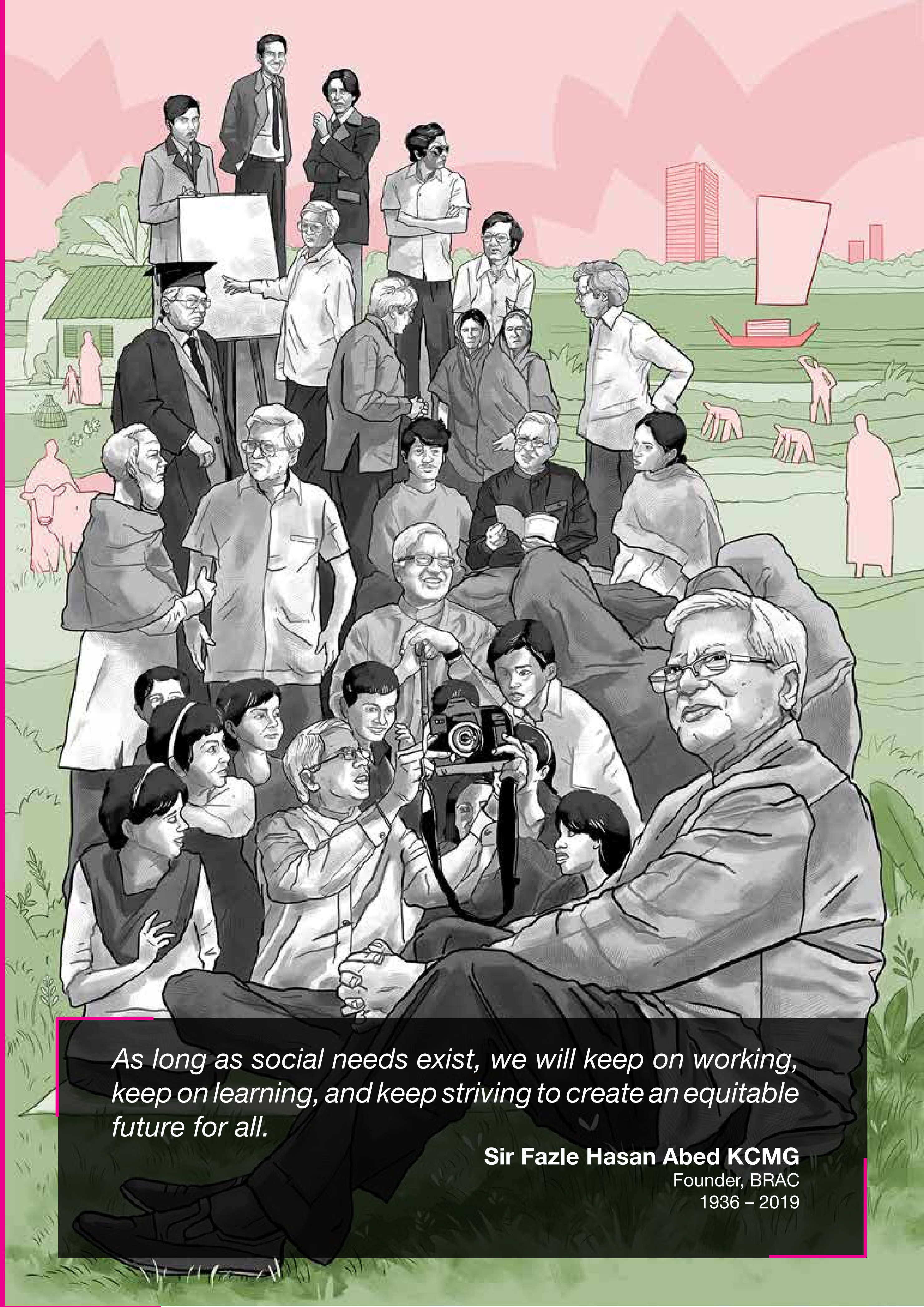
ANNUAL REPORT 2020

BRAC TANZANIA FINANCE LIMITED



As long as social needs exist, we will keep on working, keep on learning, and keep striving to create an equitable future for all.

Sir Fazle Hasan Abed KCMG
Founder, BRAC
1936 – 2019

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LETTER FROM THE **BOARD CHAIRPERSON**

RESILIENCE IN TIMES OF CRISIS

The year 2020 was an unprecedented time for all of us due to the profound impact caused by the COVID-19 pandemic. As I reflect upon the year, I first and foremost remember the billions of people around the world who have been severely affected by the deadly virus. Millions of lives were lost. Millions more around the world lost their jobs, sometimes their only form of livelihood. And like any catastrophe, natural or human-made, the severity of the pandemic was more acutely felt by people living in poverty and marginalised conditions. It is heartbreaking to see that for the first time in 20 years, global poverty is likely to increase as a result of the COVID-19 pandemic.

Though the pandemic unfolded at different speeds and intensities in the six countries where BRAC International operates its microfinance entities, we have strived to not only look out for our own health and that of our families, collectively as the BRAC family, but also to assure our clients that we remain committed to stand beside them during this difficult time. BRAC's mission to empower people and communities in situations of poverty, illiteracy, disease and social injustice was put to the test once again, and was exhibited through the actions of every member of BRAC's staff.

It is in challenging times like these that we remember the vision of our founder Sir Fazle Hasan Abed. The year 2020 also marked the first death anniversary of Abed bhai, as we lovingly addressed him. Abed bhai was a pioneer of financial services and social enterprises as crucial tools to address poverty and social injustice. His ideology of 'not to lose sight of people who need us the most' is at the heart of BRAC's DNA, and it is the compass that guides us through these times more than ever before.

BRAC International Microfinance's initial response to COVID-19 aimed to enable our clients to withstand the shock of the pandemic, through providing immediate relief by offering payment holidays. We rolled-out rescheduling and refinancing mechanisms targeting economic recovery and enhancing the inherent resilience of our clients. After a year of the crisis, we remain steadfast in our focus to bring more people under the umbrella of financial inclusion and improve their financial resilience to combat future shocks.

DR MUHAMMAD MUSA
Board Chairperson
BRAC Tanzania Finance Limited

Executive Director
BRAC International

> *Although the world will remember 2020 as the year of the pandemic, let us also remember it as the year of resilience and empathy. Abed bhai always believed that given the right resources, people living in poverty can change their own destinies. Through the collective effort of our partners, investors, host governments, donors and peers, we can create an equitable world where everyone has the opportunity to realise their potential.*

In partnership with BRAC's social development programmes in Tanzania, BRAC Tanzania Finance Limited (BTFL) played a vital role in creating awareness amongst our clients and the wider communities about the spread of the virus. We engaged in relief activities for those living in vulnerable conditions. We took special measures to keep our staff safe in the workplace and issued urgent health guidelines following public health directives. We retained all our staff and continued to pay their salaries even as we voluntarily suspended our operations for 6 weeks. We remained on the ground and adapted our strategy as the situation evolved by keeping constant communication with our staff and clients.

Despite the required adjustment to our plan for 2020, BTFL has remained undeterred in its mission to provide financial services to people living in poverty, particularly women and populations living in rural and hard-to-reach areas. In 2020, we completed the second impact survey, a regular exercise to measure our social impact and develop strategies to improve services and reach more people living in poverty. The findings have reinforced the important role that BTFL plays in fulfilling a critical gap by providing access to finance to underserved communities. Clients reported greater levels of financial resilience and stability, with a remarkable 94% of clients saying that their ability to save has improved and 92% of clients spent more on better meals after engaging with BRAC.

The results demonstrate that financial services, when delivered in a responsible way, can strengthen the resilience of people living in poverty. That is why microfinance continues to be an important element of BRAC's holistic approach to development ever since we provided our first loan in Bangladesh in 1974. Moving ahead in 2021, BRAC International Microfinance will resume implementation of its Growth for Impact plan, advancing financial inclusion and creating positive impact in the lives of women we serve.

Although the world will remember 2020 as the year of the pandemic, let us also remember it as the year of resilience and empathy. Abed bhai always believed that given the right resources, people living in poverty can change their own destinies. Through the collective effort of our partners, investors, host governments, donors and peers, we can create an equitable world where everyone has the opportunity to realise their potential.

MESSAGE FROM THE **CHIEF EXECUTIVE OFFICER**

On behalf of the Board and Management, I am delighted to present the Annual Report and Audited Financial Statements for BRAC Tanzania Finance Limited and BRAC Zanzibar Finance Limited (referred to as BRAC Tanzania) for the year of 2020. Globally, 2020 was a challenging year due to the outbreak of the COVID-19 pandemic and its profound impact on economies and people's livelihoods. Tanzania, with less restrictions on movements and business closures, still saw a decline in various sectors due to the necessary health and safety protocols that were established to curb the spread of the virus.

NKOSILATHI MOYO

Chief Executive Officer
BRAC Tanzania Finance Limited

Performance Overview

BRAC Tanzania was not spared from the adverse impact of the pandemic. We experienced a decline in total Interest income by 10% from 2019 due to the temporary suspension of operations for six weeks to ensure the safety of our staff and clients.

The number of borrowers decreased by 0.34% from 2019 while the amount of loans disbursed also decreased by 11%. Loans to customers (gross) increased by 3% from TZS 102,018 million to TZS 104,741 million in 2020. The operating expenses remained stable and experienced a slight decrease of 1% from 2019.

Strategic Initiatives

Despite the challenges, we continued with our plans to ensure access to responsible and inclusive finance to our target customers. With the ultimate goal of becoming a deposit-taking institution, BRAC Tanzania submitted an application to the Bank of Tanzania for a Tier 2 licence in 2020.

We focused on improving customer experience by establishing a client complaint mechanism and developed a digital strategy to guide us to cater to the varied needs of different client segments by leveraging digital technology. We also worked towards strengthening support services such as risk management, audit, procurement and finance, which has brought a positive impact in the company's financial performance in 2020.

Outlook

As we continue to fight against the pandemic we are also looking forward to expanding and deepening financial inclusion by reaching more unbanked people, especially women living in poverty in hard-to-reach areas of the country, through a range of financial services.

We are prioritising digital transformation and aim to pilot a mobile money repayment service to customers and implement a new Core Banking System in 2021. Additionally, we plan to enhance our talent management initiatives by putting in place measures to attract, develop and retain talent.

Acknowledgement

I would like to sincerely thank our staff for their commitment and perseverance in this difficult period and for ensuring that we continued to serve and support our clients. I would also like to take this opportunity to thank our partners, shareholders and Board of Directors for their unwavering support during such a challenging year. Finally, I would like to thank our clients, whose resilience in the face of adversity continues to inspire and motivate us to do more.

Kukua Pamoja!

BRAC INTERNATIONAL

Stichting BRAC International was formed in 2009 as a non-profit foundation in the Netherlands. It governs all entities outside Bangladesh with an objective to engage in charitable and social welfare activities in any country of the world.

BRAC INTERNATIONAL HOLDINGS B.V.

BRAC International Holdings B.V. (BIHBV) was set up in 2010 as a private limited liability company and is a wholly-owned subsidiary of Stichting BRAC International. BIHBV is a socially responsible for-profit organisation engaging people in sustainable economic and income-generating activities. The core focus of BIHBV is to provide microfinance services to people living in poverty to build financial resilience, contribute to women's economic empowerment and improve the quality of life in the communities it serves.

BRAC INTERNATIONAL SAFEGUARDING ACHIEVEMENTS 2020

Safeguarding practices were initiated in BRAC from the very inception of the organisation. However, many of the practices were not formalised until 2019 when the organisation produced the overarching safeguarding policy and the five sub-set policies, namely:

- Child and Adolescent Protection policy
- Sexual Harassment Elimination policy
- Prevention of Workplace Bullying and Violence policy
- Adults with Special Needs policy
- Whistleblowing policy.

In 2020, all these policies were adapted in the BRAC International (BI) countries considering the country context and law by review of the Country Management Team and vetting by a legal counsellor. The policies are now implemented in all the BI Country Offices, the Africa Regional Office in Kenya, and the Dhaka Office in Bangladesh. **All staff members have received training and orientation on safeguarding and the five sub-set policies, along with guidelines on the reporting and response mechanism of the organisation.**

All BI offices now have a committee, known as the Human Resource Compliance Committee (HRCC), in place to review and address the complaints received in an appropriate manner. With awareness raising in all countries on safeguarding, whistleblowing and the reporting mechanism, the number of complaints lodged in 2020 spiked to a number of sixty-nine from only five in 2019.

STAFF TRAINING ON SAFEGUARDING IS AN ONGOING PROCESS. IT IS INCLUDED IN THE INDUCTION OF ANY NEW STAFF JOINING THE ORGANISATION. A NUMBER OF INITIATIVES WERE TAKEN TO MAINSTREAM SAFEGUARDING WITH OTHER KEY SYSTEMS OF THE ORGANISATION

An online e-course was developed in 2020 when classroom training could not take place due to the COVID-19 pandemic.

A safeguarding checklist was developed for programme design, safeguarding indicators were developed to include in the Audit Charter.

Monitoring Mechanism and risk management framework, and a checklist was developed to assess safeguarding practices in different BI Countries.

Some of the BI countries have started safeguarding awareness building for their programme participants and informed them of the contact details to report any incident violating the safeguarding policy. The safeguarding clause is included in partnership agreements and partners are also oriented on safeguarding and sub-set policies, procedures, and the reporting mechanism.

Towards the end of 2020, BI reviewed the Sexual Harassment Elimination policy to incorporate the key elements of Protection of Sexual Exploitation and Abuse (PSEA). The revised policy was reviewed and vetted by UNICEF. The BI countries have also conducted a mapping exercise to locate service providers to support victims/survivors of safeguarding incidents.

Overall, a good attempt has been made to integrate safeguarding in various systems and processes within the organisation to contribute to building a safeguarding culture. However, a lot remains to be done and much more effort needs to be given in awareness building, incident reporting, case management, risk assessments, and capacity building. There are Safeguarding Focal Points in all the offices of BI who are working relentlessly to advocate and support safeguarding initiatives and ensure the safeguarding standards are met adequately.

BRAC INTERNATIONAL MICROFINANCE

Following decades of experience and insight in delivering financial services to populations living in poverty in Bangladesh, BRAC first expanded its microfinance operations internationally in 2002 and now operates in six countries in Asia and Africa, serving more than **650,000 clients, 96% of whom are women.**

Our mission is to provide a range of financial services responsibly to people at the bottom of the pyramid. We particularly focus on women living in poverty in rural and hard-to-reach areas, to create self employment opportunities, build financial resilience, and harness women's entrepreneurial spirit by empowering them economically.

We offer inclusive, accessible, and convenient loan and savings products, tailored to the needs of the local community. Our core credit products include group-based microloans provided exclusively to women, and small enterprise loans for entrepreneurs seeking to grow their businesses. We are also exploring innovative solutions to fulfill the unique financial needs of rural small-holder farmers and the youth population.

In all our endeavours, we adhere to the industry's Universal Standards for Social Performance Management and the Client Protection Principles, **placing clients' well-being at the center of everything we do to achieve our mission.** We are committed to enhance our clients' financial awareness through initiatives such as pre-disbursement orientations and financial literacy training. We regularly measure our social performance and desired client-level outcomes to improve our services and achieve long-term impact.

We are embracing financial technology by digitising field operations and adopting alternative delivery channels to increase operational efficiency and offer greater convenience to our clients. **The client value proposition is at the core of our digital transformation efforts, with a particular emphasis on reducing the gap in women's digital financial inclusion.**

BRAC believes that sustainable, large-scale change must address and deliver both economic and social progress. Since we started microfinance activities in Bangladesh in 1974, microfinance has been an integral part of BRAC's holistic approach to development, equipping people with the tools to invest in themselves, their families, and their communities.

BRAC INTERNATIONAL HOLDINGS B.V.
SUPERVISORY BOARD

MARILOU VAN GOLSTEIN BROUWERS

Chair

Marilou van Golstein Brouwers is a former chair of the Management Board and founder of Triodos Investment Management B.V., a subsidiary of Triodos Bank.

Ms Brouwers is an international entrepreneurial impact investment banker, with more than 30 years of experience in values-driven business and banking, with immense expertise on impact investing.

She started working for Triodos Bank in 1990 and was involved in the founding of Triodos Investment Management, of which she became the managing director in 2003. She was the chair of the Management Board from January 2015 to December 2018.

Ms Brouwers is currently active in a variety of roles. Within Triodos Bank, she is a member of several boards and involved in the start-up of the Triodos Regenerative Money Centre. She is also a member of the Board of Directors of the Global Impact Investing Network and the Special Working Group on impact economy by the Global Steering Group for Impact Investment. She is chair of the Supervisory Board of B Lab Europe and the Supervisory Board of Qredits, The Netherlands, one of the Women Entrepreneurs Finance Initiative Leadership Champions.

Ms Brouwers has served on the board of directors of banks in Uganda, Kenya, Tanzania, Russia, Afghanistan and Pakistan. She was a member of the Group of Advisors for the United Nations Year of Microcredit in 2004 and 2005, of the Executive Committee of CCAP (2003-2008), the Board of Trustees of Women's World Banking (2003-2012), the Advisory Committee of the Mastercard Foundation Fund for Rural Prosperity (2014-2017) and the Advisory Council on International Affairs Committee for Development Cooperation in The Netherlands. She was chair of SBI Limited (2011-2013), the Steering Committee of the Principles for Responsible Investment / Principles for Investors in Inclusive Finance (2011-2013) and the Advisory Board of Women in Financial Services in The Netherlands (2011-2016). She was also treasurer of the Max Havelaar Foundation (2008-2015).

Ms Brouwers studied business and economics at Erasmus University in Rotterdam.

DR MUHAMMAD MUSA

Director

Dr Muhammad Musa is the Executive Director of BRAC International. He comes with an extensive background in leading humanitarian, social development, and public health organisations at national, international, and cross-cultural settings.

Previously, Dr Musa served as the Executive Director of BRAC Bangladesh, where he successfully upheld BRAC's mission to eliminate poverty and inequality. Under his leadership, BRAC launched the Humanitarian Crisis Management Programme in Cox's Bazaar, Bangladesh, in August 2017, which has given BRAC a strong foundation to stand beside people in crisis anywhere in the world.

Prior to joining BRAC, Dr Musa worked with CARE International for 32 years. Twenty of those years were spent working in Ethiopia, Uganda, South Sudan, Tanzania, Thailand, India, and Bangladesh. He also worked as the Asia Regional Director for CARE International for five years. Dr Musa has been successful in bringing convergence of philanthropic approaches and entrepreneurial methodologies to create sustainable development programming that achieves impact on poverty at large scale.

Dr Musa has a proven track record in strategic leadership, governing board management, and successfully chairing a financial institution and an information technology company in Bangladesh for four years. His expertise lies in external relationship management, brand-building, communications, and fundraising for development projects.

Being adept at people management and conflict resolution, Dr Musa has established a reputation for leading complex organisational change processes in multicultural settings. He is known for his unique ability to attract and develop young professionals for humanitarian and social development leadership roles. He is also an internationally recognised senior management trainer.

Dr Musa holds a Master's degree in Public Health from the Johns Hopkins University, USA, and a post-graduate diploma in Maternal and Child Nutrition from the Netherlands. He completed his Bachelor of Medicine and Bachelor of Surgery (MBBS) at Chittagong Medical College, Bangladesh.

PARVEEN MAHMUD FCA

Director

Parveen Mahmud, in her varied professional career has worked with social innovations, entrepreneurship, and sustainable development. Ms Mahmud started her career with BRAC, and has worked with international NGOs and development agencies. She was the deputy managing director of PKSF, Bangladesh's apex funding organisation for Microfinance Institutes. She is the founding managing director of Grameen Telecom Trust.

She was a partner in ACNABIN & Co, Chartered Accountants. She is the first female president of the Institute of Chartered Accountants of Bangladesh (ICAB), as well as the first female board member of the South Asian Federation of Accountants (SAFA), the apex accounting professional body of SAARC. She is the chairperson of CA Female Forum - Women in Leadership Committee, ICAB and is the vice chairperson of the Women in Leadership Committee of SAFA.

Ms Mahmud sits on numerous boards, including Stichting BRAC International, Apex Footwear Ltd, Grameenphone Ltd, Linde Bangladesh

Ltd, Manusher Jonnyo Foundation, Transparency International Bangladesh, and Centre for Policy Dialogue. She is the chairperson of UCEP Bangladesh, Shasha Foundation, and was chairperson of MIDAS, Shasha Denims Ltd, and Acid Survivors' Foundation. Ms Mahmud is also a member of the International Chamber of Commerce, Bangladesh. She was a member of the National Advisory Panel for SME Development of Bangladesh, founding board member of SME Foundation, and Convenor, SME Women's Forum.

Ms Mahmud is the recipient of Ananynna Top Ten Women - 2018 Award, Women at Work - 2017 Award from Bangladesh Association of Software and Information Services, and Women of Inspiration Awards 2017 from the Bangladesh Organisation for Learning & Development. She received the Begum Rokeya Shining Personality Award 2006 for women's empowerment from Narikantha Foundation.

GREGORY CHEN

Director

Gregory Chen has worked on financial inclusion for 25 years, with most of his work spanning across South Asia. His work focuses on hands-on advisory and implementation with microfinance institutions and, for the past decade, with newer players in digital finance. This has included work with digital players like bKash, Wave Money and also development organisations including the Aga Khan Development Network, BRAC, and Dvara. His work has included deep technical engagements with more than a dozen financial sector regulators. He has also worked as a corporate banker at Bank of America and with the financial services consulting firm Enclude.

Mr Chen is a member of CGAP's management team and oversees CGAP's policy Engagement. He focuses on helping policy makers adapt to the rapid change in the world of financial services brought on by technology, and particularly to ensure that financial systems can responsibly reach the disadvantaged.

Mr Chen is a regular speaker on microfinance and digital finance at the Boulder Institute for Microfinance, BRAC University, Johns Hopkins, Tufts University, Yale University, and American University, among others. He has a master's degree in international development from Harvard Kennedy School and a bachelor's degree from Wesleyan University.

BRAC INTERNATIONAL
MICROFINANCE MANAGEMENT

SHAMERAN ABED

Managing Director
BRAC International Holdings B.V.
Senior Director
Microfinance & Ultra Poor Graduation
BRAC and BRAC International

Shameran Abed is Senior Director of BRAC's Microfinance and Ultra-Poor Graduation programmes. BRAC's microfinance programme serves more than 8 million clients in seven countries in Asia and Africa, with total assets exceeding USD 3.5 billion. BRAC's ground-breaking Ultra-Poor Graduation program has helped more than 2 million households pull themselves out of the direst forms of poverty and social deprivation, inspiring BRAC's Ultra-Poor Graduation Initiative to scale the Graduation approach and help 21 million more people lift themselves from extreme poverty. Abed chairs the board of bKash, BRAC Bank's mobile financial services subsidiary and one of the world's largest mobile money providers, and serves on the boards of several institutions including BRAC Bank, BRAC Uganda Bank, and the Global Alliance for Banking on Values (GABV). He is also the chairman of the Microfinance Network and is a member of the Partnership for Responsible Financial Inclusion (PRFI) and the World Economic Forum Financial Inclusion Steering Committee. Abed is a lawyer by training, having been called to the Bar by the Honourable Society of Lincoln's Inn in the UK.

HANS ESKES

Director
BRAC International Holdings B.V.

Hans Eskes is a retired audit partner from one of the largest international active audit firms. Presently he holds roles as advisor and as board member in various international companies.

He worked in The Netherlands, Spain and China for clients located throughout Europe, Americas, Africa, and Asia.

During this career his client portfolio became a reflection of most industries and activities that form an important part of society. Within his portfolio he was not only responsible for companies listed on the stock exchanges in London, Frankfurt and Amsterdam, but also for clients active in the financial sector, education, medical institutions and cultural foundations.

Eskes holds a master degree of the Dutch Institute of Chartered Auditors, trainings in the different accounting frameworks and the INSEAD leadership development programs.

BRIDGET DOUGHERTY

Director
Operations
BRAC International Holdings B.V.

Bridget Dougherty is the Director of Operations, BRAC International Holdings B.V. Dougherty is responsible for strengthening and supporting the maturing of their Financial Institutions in line with their Growth for Impact strategy, including digital transformation and impact measurement. Dougherty has fifteen years of experience in consulting, project management, process improvement, and systems implementation, working the last ten years in private sector development and financial inclusion.

Prior to joining BRAC, Dougherty was the Project Manager for the Partnership for Responsible Financial Inclusion at the Center for Financial Inclusion at Accion, and has held several other positions including Program Manager for Truelift, and as Executive Operations Manager at an NGO in Vietnam that worked to promote economic development in sectors that had strong market inclusion for the poor and positive global growth prospects. Dougherty began her career at Accenture, where she project managed and deployed large-scale system implementations for Fortune 100 and 500 corporations. She holds a BA in Economics and Spanish from the University of Illinois at Urbana-Champaign.

SYED ABDUL MUNTAKIM

Ag. Director
BRAC International Holdings B.V.

Director
Finance, BRAC International

Mr Muntakim is a Chartered Management Accountant with over 18 years of experience in the FMCG commercial and corporate financial management.

Prior to joining BRAC, he was a Commercial Finance Controller in the Global Operations function of British American Tobacco (BAT) plc. His previous roles include Senior Commercial Audit Manager, Regional Finance Manager, Europe Region and Management Accountant in BAT London, UK. He also worked as the Corporate Analysis Manager and Leaf Finance Manager for BAT in Bangladesh.

Mr Muntakim is a member (ACMA) of the Chartered Institute of Management Accountants (CIMA), UK and Chartered Global Management Accountant (CGMA) of the Association of International Certified Public Accountants, a joint accounting association of AICPA, USA, and CIMA in the UK.

BRAC TANZANIA FINANCE LIMITED
GOVERNANCE AND MANAGEMENT

BOARD OF DIRECTORS - BRAC TANZANIA FINANCE LIMITED

Dr. Muhammad Musa	Chairperson
Shameran Abed	Director
Johannes Maria Antonius Eskes	Director
Syed Abdul Muntakim	Director
Bahati I. Geuzye	Director
Dr. Evelyn Richard	Director
Nkosilathi Moyo	Chief Executive Officer & Ex-officio

BOARD OF DIRECTORS - BRAC ZANZIBAR FINANCE LIMITED

Dr. Muhammad Musa	Chairperson
Shameran Abed	Director
Johannes Maria Antonius Eskes	Director
Syed Abdul Muntakim	Director
Nkosilathi Moyo	Chief Executive Officer & Ex-officio

COUNTRY MANAGEMENT TEAM

Nkosilathi Moyo	Chief Executive Officer
Syed Humayun Kabir	Programme Manager, Microfinance
Akmal Hossain	Programme Manager, Small Enterprise Programme
Thabit Ndilahomba	Head of Finance
Carolyne Mwanri	Head of Human Resources and Development
Julieth Abia	Head of Internal Audit
Nassor Mnambila	Head of Administration, Procurement and Logistics
Amadeus Mushi	Company Secretary and Legal Manager
Emma Mbaga	Communications Manager
Esha Namusanga	Risk and Compliance Manager

OUR PARTNERS

BANK OF AFRICA
GROUPE BANK OF AFRICA

FMO
Entrepreneurial Development Bank

GLOBAL PARTNERSHIPS

Soluti Finance
East Africa

Triodos Microfinance Fund

WHOLE PLANET
FOUNDATION

PROGRAMME OVERVIEW

COUNTRY SITUATION

The Tanzanian economy is one of the strongest in East Africa. The country has made progress in including a larger share of the population in formal financial services, mostly through mobile money accounts. The National Financial Inclusion Framework set by the government in 2014 targets concrete developments in the lives of all Tanzanians by supporting improved access to formal financial services.

Yet, only 21% of the adult population has an account with a formal financial institution. Financial inclusion is even lower for women and for people living in poverty. Tanzanian adults face a multitude of challenges to accessing critical financial services, including high costs, low levels of financial literacy, and inadequate banking services, especially for women

OUR APPROACH

BRAC Tanzania Finance Limited (BTFL) was launched in 2006. Over the years, we have grown to be the largest microfinance institution in Tanzania in terms of branch network, active borrowers, and loan outstanding. Our mission is to provide financial services responsibly to people at the bottom of the pyramid. We particularly focus on women living in poverty in rural and hard-to-reach areas to create self-employment opportunities, build financial resilience, and promote women's entrepreneurial spirit by empowering them economically.

Our core products include a group-based microloan provided exclusively to women, and small enterprise loans for entrepreneurs seeking to expand their businesses. We also provide loans for rural smallholder farmers to invest in agricultural activities.

In all our endeavours, we adhere to the Universal Standards for Social Performance Management and the Client Protection Principles, placing clients' well-being at the center of everything we do to achieve our mission.

SNAPSHOT RESPONSE TO COVID-19

The COVID-19 pandemic has had a profound impact in the lives of our clients. BTFL took a three-stage approach to respond to the crisis.

In the relief phase, we collaborated with BRAC's social development programmes to raise public awareness on COVID-19. All staff received training on COVID-19 prevention and response and protective gear to ensure their safety from the virus. We distributed over 200,000 communication materials and reached more than 4 million people across the country with awareness messages about COVID-19 across the 23 regions. We conducted rapid assessments to understand the impact of the pandemic on clients' livelihoods and to plan our activities to support them better.

BTFL also arranged psychosocial support to maintain the physical and mental well-being of staff and established handwashing stations in the most vulnerable communities. We offered payment holidays to clients, suspended operations for six weeks, and continued to pay staff salaries with the goal of being ready once in-country operations resume.

In the recovery phase, the focus was on restoring people's livelihoods and economic situation that existed immediately prior to the onset of the crisis. We provided loan rescheduling options and refinanced existing clients to enhance their financial resilience. As at December 2020, 221 loans have been rescheduled and 2 loans have been refinanced, totalling USD 267,919.

In the rebuild phase, we will focus on improving people's economic and social situations at the individual and community levels by deepening financial inclusion through branch expansion, and by developing new products so that clients are in a stronger position going forward.

MOVING FORWARD

Alongside its mission and five-year strategic plan, BTFL will continue to strengthen ongoing initiatives relating to product development, digitisation of field operations, and strengthening of its management structure to ensure the organisation has the leadership capacity to sustain its strong growth and achieve its impact goals.

We plan to conduct market assessments to develop a customised agriculture finance product for coffee farmers, and design a new product targeting youth in Tanzania. We are developing a digital strategy to guide us to cater to the varied needs of different clients' segments and improve operational efficiency by leveraging digital technology. Driven by the aspiration to enable more flexibility and convenience for clients, we plan to pilot loan repayments through mobile money in selected branches in 2021. We also plan to enhance clients' financial awareness through pre-disbursement orientations and providing financial literacy

SOCIAL PERFORMANCE RESULTS

We started to measure our social performance and desired client-level outcomes from 2019 using Lean Data℠ methodology on five social outcome focus areas of BRAC International Microfinance: quality of life, financial resilience, women's economic empowerment, self-employment and livelihood opportunities, and household welfare. This regular annual exercise complements our Social Performance Management and Client Protection initiatives, and enables us to set targets and define strategies to reach more people living in poverty to achieve long-term impact.

The second impact survey was completed in 2020 using Lean Data℠ methodology in partnership with 60 Decibels. All respondents were women.

HIGHLIGHTS

FROM BTFL'S 2020 IMPACT SURVEY

96% of clients said their quality of life had improved after engaging with BRAC

97% of clients earned more after engaging with BRAC

88% of clients could not find a good alternative to BRAC

94% of clients saved more after engaging with BRAC

98% of clients planned their finances better after engaging with BRAC

92% of clients reported improved quality of meals after engaging with BRAC

BRANCH LOCATIONS

OPERATIONAL HIGHLIGHTS

64% outreach to people living in poverty

36% outreach to people living in rural areas

97% of clients are women

202,770 borrowers

150 branches located in **83** districts in Tanzania mainland and Zanzibar

USD **89.8** million disbursed in loans in 2020

*As at December 2020

SELINA'S MISSION

Selina Karoli Fissoo has been a client of BRAC for the last ten years. Over this period, her husband passed away and she faced numerous challenges that led her to close her shop temporarily. But that did not deter Selina's mission to give her children a better life.

In 2011, Selina was instrumental in gathering women from her neighbourhood in Arusha to form a microfinance group so they could get basic financial literacy training and receive loans from BRAC. With her first loan of TZS 150,000 (USD 70), she opened a small kiosk to sell grocery items near her home.

"We were struggling to make ends meet before I started my business", said Selina. "Through my small shop we were able to slowly increase our income", she added. But when the situation was getting better, Selina's husband passed away leaving her as the main breadwinner for the family.

"It was a very difficult time for me", recalled Selina. "I had to close my shop for a while and I thought I would not be able to get back to my feet again".

But Selina persevered and managed to bring her business back to life. She applied for a bigger loan each time she completed her loan cycle and invested part of her funds to expand her business. With dedication and hard work, she was able to turn the small kiosk into a big retail store and also built a few rooms in her compound for rent.

Today, Selina is a very successful businesswoman. Alongside her shop and house rents, she also earns decent profits from poultry farming and selling milk to her neighbours and nearby restaurants. Her current loan with BRAC is over TZS 2.5 million (USD 1200).

"I am a fighter and I work hard. I am a single mother who has managed to ensure my children are educated. I have managed to provide for my family and give them a better life," said a confident Selina.

> *I am a fighter and I work hard. I am a single mother who has managed to ensure my children are educated. I have managed to provide for my family and give them a better life*

BRAC INTERNATIONAL PROGRAMMES

Our **Education programme** focuses on raising awareness on gender and child rights and developing a child-friendly learning atmosphere. Our programme complements the mainstream schooling system by supporting government primary and secondary schools to improve quality and strengthen capacity. We also provide training with support from local vocational and technical institutes.

Our **Early Childhood Development programme** is an investment towards breaking intergenerational cycles of poverty and facilitating economic growth. We provide early learning opportunities through our Play Labs to 3 to 6 year olds, with a low cost and play-based early learning model. Our Play Labs are safe play spaces, providing cost effective local learning materials to children in marginalised communities.

The **Agriculture, Food Security and Livelihood programme** focuses on four strategic directions - a) Strengthen pro-poor market systems, b) Make agriculture systems more resilient to climate change, c) Improve food and nutrition security, and d) Empower women and youth across the value chain.

Through our **Health programme** we partner with respective governments to reduce child mortality, improve maternal and child health, and combat diseases. We work at the community and facility level to strengthen the capacity of female community health volunteers, health workers, and doctors so that they can provide educational, preventive, and curative health services.

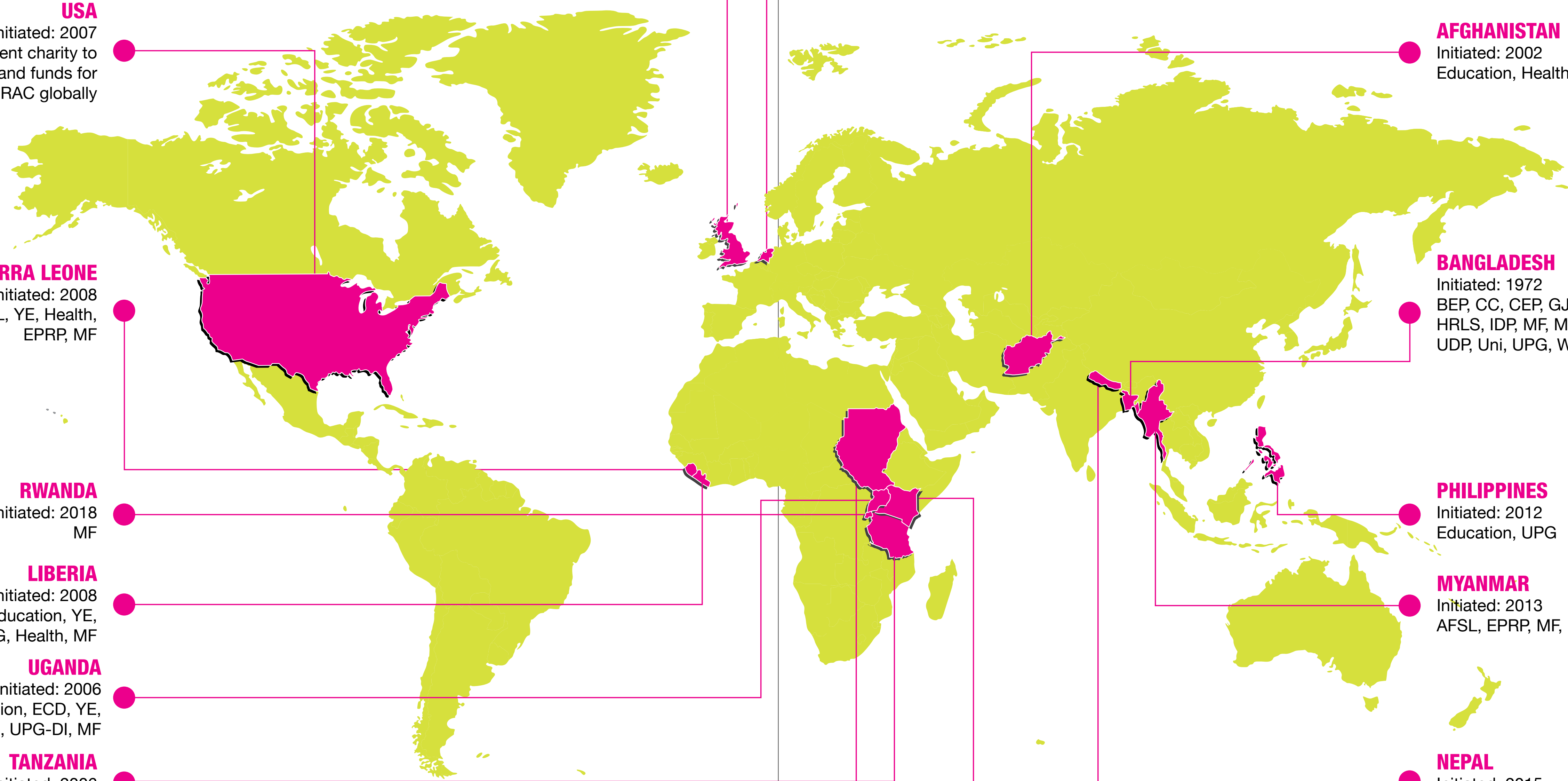
Through our **Youth Empowerment programme** we provide life-saving and life-transforming services to adolescent girls to prevent unintended pregnancies, improve their awareness on harmful practices, and empower them financially. We create safe spaces by establishing clubhouses for girls aged 10-21, especially those who are vulnerable, dropped out of school, and at the risk of early marriage and pregnancy.

The **Ultra-Poor Graduation** approach is a comprehensive, time-bound, integrated and sequenced set of interventions that aim to enable extreme and ultra-poor households to achieve key milestones towards sustainable livelihoods and socio-economic resilience, in order to progress along a pathway out of extreme poverty.

Through our **Emergency Preparedness and Response programme** we build local emergency preparedness and response capacities in communities, schools, and local governments. Using a participatory and inclusive approach, our interventions in urban, rural, and refugee settings prioritise the equitable participation of all groups, particularly women and youth, to ensure that they are able to mitigate risks, save lives, protect livelihoods, and build back better from disasters and crises.

Through our **Microfinance programme**, we provide a range of financial services responsibly to people at the bottom of the pyramid. We particularly focus on women living in poverty in rural and hard to reach areas, to create self-employment opportunities, build financial resilience, and harness women's entrepreneurial spirit by empowering them economically.

BRAC ACROSS THE WORLD



UK
Initiated: 2006
An independent charity to raise profile and funds for BRAC globally

USA
Initiated: 2007
An independent charity to raise profile and funds for BRAC globally

SIERRA LEONE
Initiated: 2008
AFSL, YE, Health, EPRP, MF

RWANDA
Initiated: 2018
MF

LIBERIA
Initiated: 2008
AFSL, Education, YE, UPG, Health, MF

UGANDA
Initiated: 2006
AFSL, Education, ECD, YE, EPRP, Health, UPG-DI, MF

TANZANIA
Initiated: 2006
ECD, YE, WESOLVE, MF

SOUTH SUDAN
Initiated: 2007
AFSL

NETHERLANDS
Initiated: 2009
Stichting BRAC International registered as a foundation

AFGHANISTAN
Initiated: 2002
Education, Health, CCAP, CDP

BANGLADESH
Initiated: 1972
BEP, CC, CEP, GJD, HNPP, HRLS, IDP, MF, MG, SDP, SE, UDP, Uni, UPG, WASH, HCMP

PHILIPPINES
Initiated: 2012
Education, UPG

MYANMAR
Initiated: 2013
AFSL, EPRP, MF, FI

NEPAL
Initiated: 2015
YE, SDP, Health, AFSL

KENYA
Initiated: 2019
Africa Regional Office

AFSL: Agriculture, Food Security and Livelihood
BEP: BRAC Education Programme
CC: Climate Change
CCAP: Citizens' Charters Afghanistan Project
CEP: Community Empowerment Programme
CDP: Community Development Programme
ECD: Early Childhood Development
EPRP: Emergency Preparedness and Response Programme
FI: Financial Inclusion
GJD: Gender Justice and Diversity
HNPP: Health, Nutrition and Population Programme
HRLS: Human Resources and Legal Aid Services
HCMP: Humanitarian Crisis Management Programme
IDP: Integrated Development Programme
MG: Migration
MF: Microfinance
SE: Social Enterprises
SDP: Skills Development Programme
UDP: Urban Development Programme
Uni: University
WASH: Water, Sanitation and Hygiene
UPG: Ultra Poor Graduation
UPG-DI: Ultra Poor Graduation-Disability Inclusive
WE SOLVE: Women Entrepreneurship through Solar Value chain for Economic Development
YE: Youth Empowerment

FINANCIAL STATEMENTS

OPERATIONAL AND FINANCIAL HIGHLIGHTS OF **BRAC TANZANIA FINANCE LIMITED**

NET INCOME

BRAC in Tanzania completed a profitable year in 2020 by registering pretax profit of USD 5,745,404 compared to USD 11,119,998 in 2019. This is mainly attrributed by decreased interest income by 10% from 2020 due to temporary suspension of business by 6 weeks triggered by pendamic, following guidance given by the government with regards to social distancing and avoiding unnecessary gathering.

OPERATING EXPENSES

Total operating expenses for the year were USD 13,238,105 as against USD 13,220,724 in 2019.

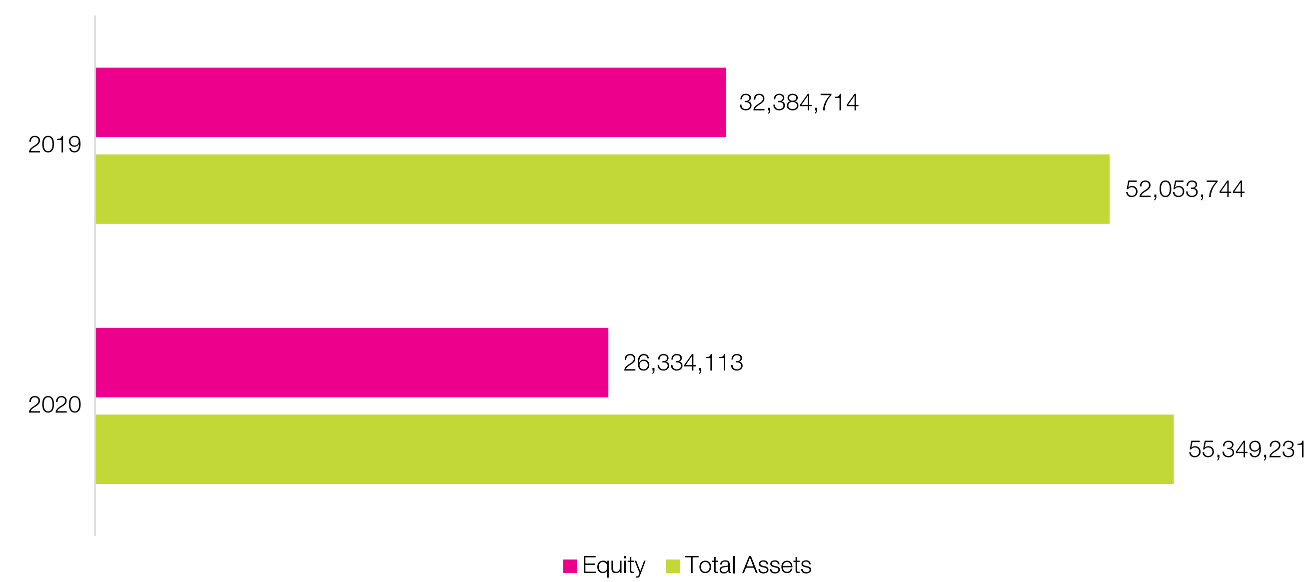
PROVISIONS FOR IMPAIRMENT LOSSES

Total reserve as against impairment in 2020 was USD 2,724,204 as against USD 2,095,407 in 2019 . This year amount charged for impairment on loans was USD 1,099,651 as against USD 591,261 in 2019. Portfolio at Risk (PAR>30 days) has gone up to 3.81 in 2020 as against 1.92 in 2019 due to Covid 19 impact.

FINANCIAL POSITION

In 2020, total assets grew up by 6% to USD 55,349,231. Loans Outstanding to customers increased by 2% and is now 85% of total assets. Security deposits increased by 2% and In 2020 net Equity decreased by 19% to USD 26,334,113 from USD 32,384,714. The decrease of net equity is due to dividend declared in 2020.

TOTAL ASSETS VS EQUITY

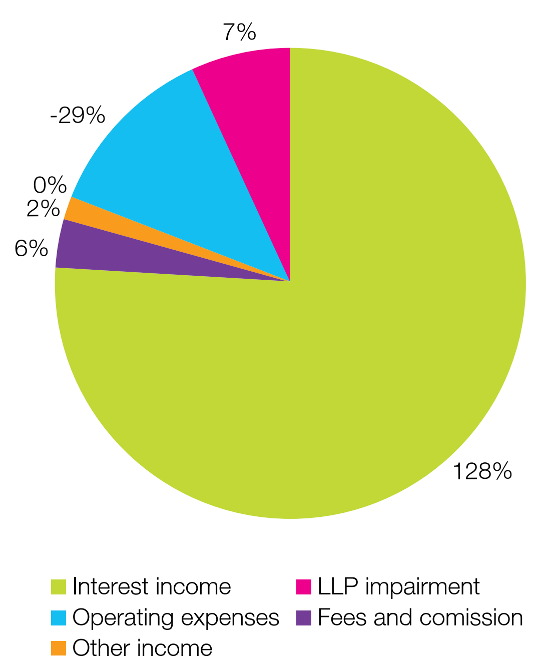


VALUE ADDED STATEMENTS

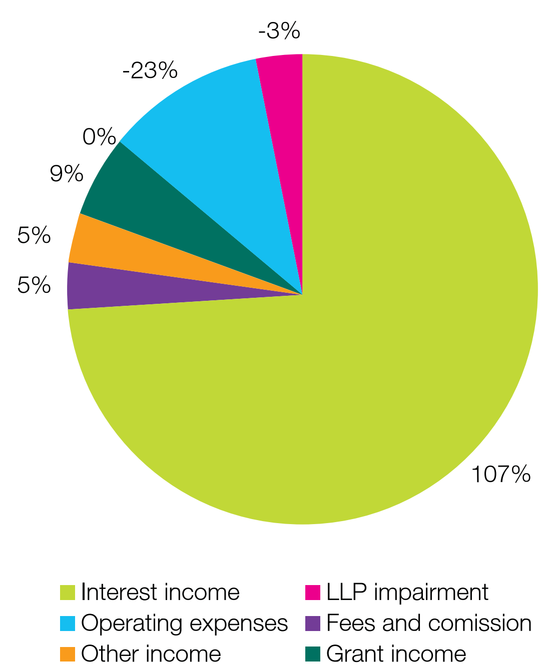
A value added statement provides a detailed account of total value addition and the distribution of value created by the organization. BRAC in Tanzania contributes positively to overall economic development by empowering the poor people (especially females) through micro-credit, employees through the payment of salaries and allowances and by assisting the local regulatory authorities through paying taxes and of course keeping in mind of organization's growth.

Value Added	2020		2019	
	Amount (USD)	%	Amount (USD)	%
Interest income	20,141,624	128%	22,385,567	107%
Fees and commission income	876,047	6%	960,889	5%
Other income	272,225	2%	1,023,697	5%
Grant income	-	0%	1,844,043	9%
Foreign exchange (losses)/gains	(6,754)	0%	55,172	0%
Operating expenses	(4,501,914)	-29%	(4,778,116)	-23%
LLP impairment	(1,099,651)	-7%	(591,261)	-3%
Total value added	**15,681,577**	**100%**	**20,899,991**	**100%**

2020

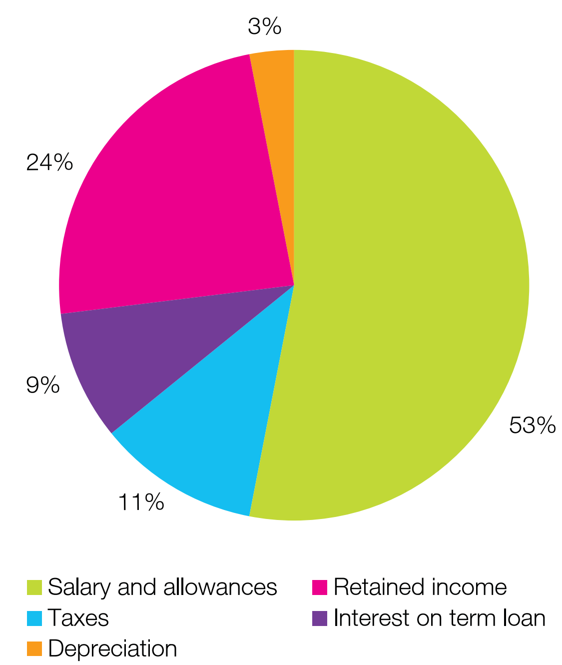


2019

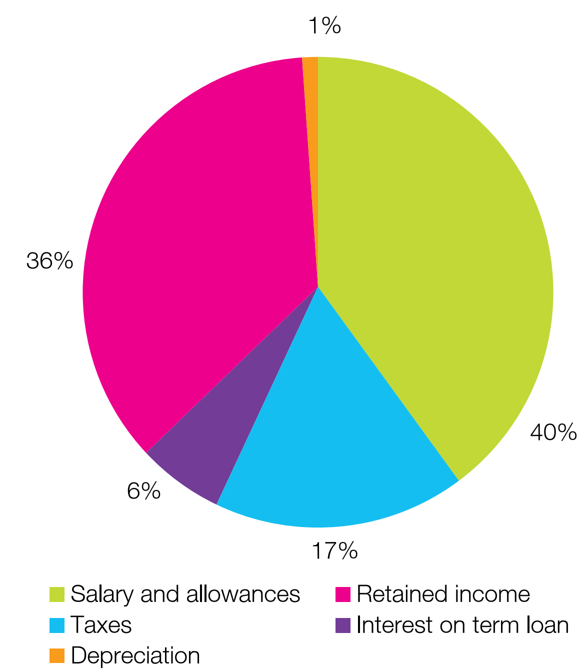


Distribution of Value Addition	2020		2019	
	Amount (USD)	%	Amount (USD)	%
Employees				
Salary and allowances	8,212,133	52%	8,240,013	39%
Local Authorities				
Taxes	1,754,837	11%	3,580,464	17%
Creditors				
Interest on Term Loan	1,387,822	9%	1,337,385	6%
Growth				
Retained income	3,802,727	24%	7,539,534	36%
Depreciation	524,058	3%	202,595	1%
Total value distirbuted	**15,681,577**	**100%**	**20,899,991**	**100%**

2020



2019



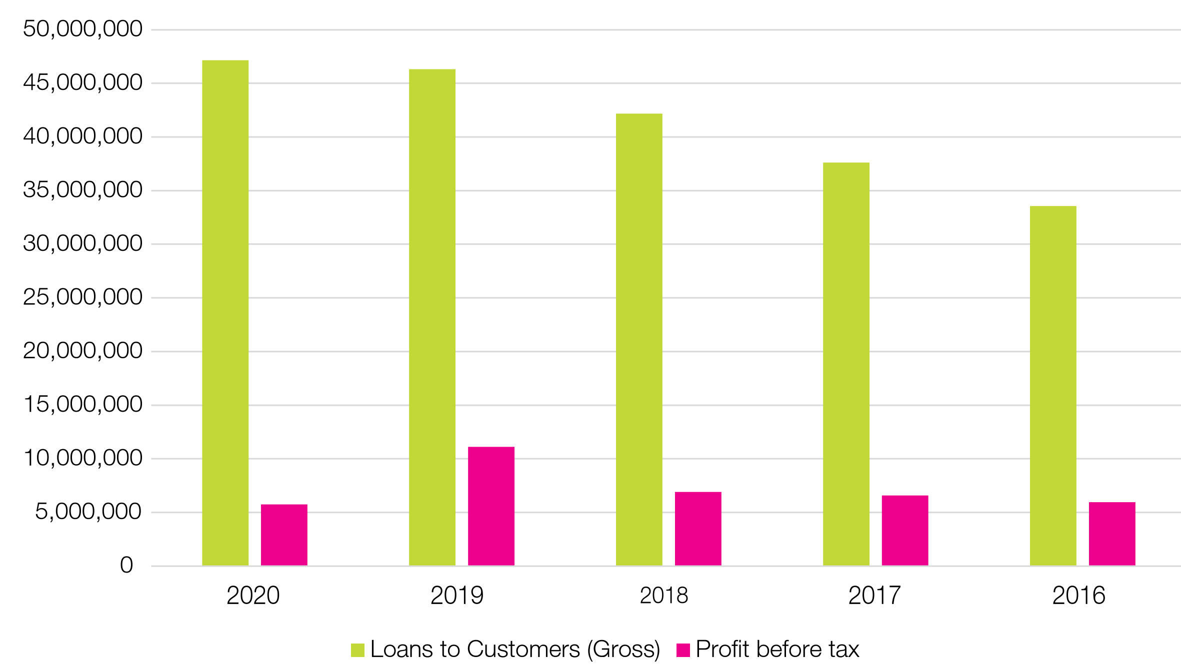
CONTRIBUTION TO GOVERNMENT EXCHEQUER

PARTICULAR	2020 USD	2019 USD
Corporate Income tax	1,754,837	3,580,464
Withholding tax	3,797,716	954,363
Social Insurance	219,567	190,279
Total	**4,729,881**	**3,446,648**

FIVE YEAR PERFORMANCE REVIEW

CURRENCY	2019 USD	2018 USD	2017 USD	2016 USD	2015 USD
Income Statement					
Operating Income	19,895,320	24,931,983	19,951,405	18,335,697	16,759,526
Profit before tax	5,745,404	11,119,998	6,900,841	6,571,041	5,947,524
Financial Position					
Total Asset	55,349,231	52,053,744	46,139,797	41,949,044	37,699,222
Net Equity	26,334,113	32,384,714	25,497,217	18,974,137	14,617,662
Loans to Customers (Gross)	47,161,899	46,325,441	42,166,466	37,619,595	33,550,516
Cash at Bank	4,074,298	2,347,579	1,698,137	2,641,190	2,116,361
Returns and ratio					
Return on Asset	11%	23%	16%	17%	12%
Operational Self Sufficiency (OSS)	126%	139%	129%	129%	131%
Operational Statistics					
Total borrowers	203,031	204,103	197,172	183,103	162,398
Cost per Loan	57.08	50.77	47.06	45.00	36.10
PAR>30 days (%)	3.81%	1.92%	2.69	3.56	3

OPERATING INCOME VS PROFIT BEFORE TAX



BRAC TANZANIA FINANCE LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

GENERAL INFORMATION

Name	Position	Nationality	Status
Dr Muhammad Musa	Chairperson	Bangladeshi	Active
Mr. Shameran Abed	Member	Bangladeshi	Active
Mr. Johannes Maria Antonius Eskes	Member	Dutch	Active
Syed Abdul Muntakim	Member	British	Active
Mr. Fordson Kafweku	Member	Zambian	Resigned, 31 October 2020
Dr. Evelyn Richard	Member	Tanzanian	Active
Ms. Bahati I. Geuzye	Member	Tanzanian	Active

Administrator

Mr Nkosilathi Moyo — Chief Executive Officer (CEO)

Company Secretary

Mr. Amadeus Michael

Principal place of business

Plot 17, Natai Plaza,
Light Industrial Road
P. O. Box 105213
Dar es Salaam, Tanzania

Registered office

Plot 17, Natai Plaza,
Light Industrial Road
P. O. Box 105213
Dar es Salaam, Tanzania

Auditor

KPMG
The Luminary
Plot No.574, Haile Selassie Road
Msasani Peninsula Area
P O Box 1160
Dar-es Salaam, Tanzania

Bankers

NBC Limited
Sokoine Drive & Azikiwe Street
P.O. Box 1863
Dar es Salaam, Tanzania

NMB Plc.
NMB House
Azikiwe/Jamhuri Street
P.O. Box 9213
Dar es Salaam, Tanzania

Bank of Africa (Tanzania) Limited
NDC Development House,
Ohio Street/Kivukoni Front
P.O. Box 3054
Dar es Salaam, Tanzania

Standard Chartered Bank
International House Property Branch (IHP)
2nd floor, Shabaan Robert Street, Garden Avenue
Dar Es Salaam, Tanzania

CRDB Bank Plc.
P.O. Box 268
Dar es Salaam, Tanzania

The directors of BRAC Tanzania Finance Limited have pleasure in submitting their report and the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of BRAC Tanzania Finance Limited ("the Company") as at that date in accordance with Companies Act, 2002.

1. REGISTRATION

BRAC Tanzania Finance Limited was incorporated as a company limited by guarantee on 9 September 2008 and subsequently converted to a company limited by shares on 2 October 2019 and assigned registration number 67364. Refer Note 23 for more details on number of shares and shareholders.

2. VISION

A world, free from all forms of exploitation and discrimination where everyone has the opportunity to realise their potential.

3. MISSION

The Company's mission is to empower people and communities in situations of poverty, illiteracy, disease and social injustice. Our interventions aim to achieve large scale, positive changes through economic and social program that enable men and women to realize their potential.

4. OUR VALUES

Innovation- the Company has been an innovator in the creation of opportunities for the poor to lift themselves out of poverty. We value creativity in programme design and strive to display global leadership in ground-breaking development initiatives.

Integrity- the Company values transparency and accountability in all our professional work, with clear policies and procedures, while displaying the utmost level of honesty in our financial dealings. The Company holds these to be the most essential elements of our work ethic.

Inclusiveness- the Company is committed to engaging, supporting and recognising the value of all members of society, regardless of race, religion, gender, nationality, ethnicity, age, physical or mental ability, socioeconomic status and geography.

Effectiveness- the Company values efficiency and excellence in all our work, constantly challenging ourselves to perform better, to meet and exceed programme targets, and to improve and deepen the impact of our interventions.

5. PRINCIPAL ACTIVITIES

The principal activity of the Company is the provision of microfinance activities to improve the livelihood of poor people in over 109 districts through 150 branch offices in Tanzania.

6. FINANCIAL PERFORMANCE

The Company's performance during the year ended 31 December 2020 is as follows:

- Total Interest income decreased by 10% from TZS 49,431 million in 2019 to TZS 44,628 million in 2020 due to temporary suspension of business from 21 April – 31 May 2020 triggered by Pandemic COVID-19 following guidance given by the Prime Minister on 14 April 2020 with regards to social distancing and avoiding unnecessary gathering.
- Loans to customers (Gross) increased by 3% from TZS 102,018 million to TZS 104,741 million in 2020.
- Operating expenses remained stable and thus experienced slight decrease of 1% from TZS 29,293 million in 2019 to TZS 29,146 million in 2020.
- Impairment charge increased from TZS 1,290 million in 2019 to TZS 2,394 million as a result of COVID-19 impact.

6. FINANCIAL PERFORMANCE (CONTINUED)

- Finance costs have increased by 4% from TZS 2,960 in 2019 to 3,078 million in 2020 mainly attributed by rolling over the matured loan facility and adoption of lease accounting as per IFRS 16.
- During the year, the Company had a profit after tax of TZS 8,539 million (2019: TZS 16,659 million) a decrease of 49% from prior year. The statement of financial position as at 31 December 2020 is set out on page 44.

7. RESULTS FROM OPERATIONS

The result for the Company's operations for the year ended 31 December 2020 is set out on page 43.

8. COMPOSITION OF DIRECTORS

The directors, who served during the year and up to the date of this report unless as otherwise stated, are set out on page 33.

9. DIRECTORS' BENEFITS AND DIVIDEND TO SHAREHOLDERS

No director has received or become entitled to receive any benefits during the financial year (2019: NIL).

During the year the company declared dividend of TZS 21,989 million being cumulative retained earnings (2019: TZS 16,667 Million). Mandatory taxes have been to TRA already remitted and as at 31 December 2020 TZS 16,578million (2019: NIL) was outstanding to shareholders.

10. CORPORATE GOVERNANCE

The directors are committed to the principles of good corporate governance and recognize the need to conduct the business in accordance with generally accepted best practice. In so doing the directors therefore confirm that:

- The Board of Directors met 4 times during the year (once per quarter);
- They retain full and effective control over the Company;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance; and
- They bring skills and experience from their own spheres of business to complement the professional experience and skills of the management team.

The Board continued to carry out its role of formulating policies and strategies of the Company, reviewing the business plan, ensuring that the accounting system is maintained in accordance with acceptable standards, the books of the Company are kept properly, and that accounts are checked by the authorised auditor, as well as recruitment and development of key personnel.

11. RISK MANAGEMENT

The board accepts the final responsibility for the risk management and internal control system of the Company. The management ensures that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviours towards all stakeholders. The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

12. MANAGEMENT STRUCTURE

The Company is under the supervision of the Board of Directors and the day-to-day management is entrusted to the Chief Executive Officer who is assisted by the heads of divisions, departments and units. The organisation structure of the Company comprises of the following divisions:

- Micro finance program;
- Social Enterprise Program (SEP);
- Agrifinance
- Accounts & finance;
- Internal audit;
- Monitoring;
- Information Technology (IT) and Management Information System (MIS);
- Human resources (Recruitment, Staff benefits, Training and Development);
- Procurement, logistics and transportation.

13. RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 27 to the financial statements.

14. FUTURE DEVELOPMENT PLANS

In 2021 the Company has the following plans

- Growing with impact where the company will open 5 new branches and improve branch and Credit officers productivity.
- Being responsive to clients and strengthening customer complaints handling mechanism.
- Carrying a market research for the Coffee project and explore new Youth Finance and Agrifinance products.
- Implementing digital platform by piloting mobile repayment processes and implementing a new Core Banking System.
- Improving talent management by putting in place measures to attract, develop and retain talent pool.

15. KEY HIGHLIGHTS IN 2020

The following are the Company's key achievements for the year:

- The company managed to submit an application to Bank of Tanzania (BOT) requesting to operate as a Microfinance service provider, Tier 2.
- Improved customer handling mechanism by developing Client Complaint desk operated by Customer Service Officer.
- In adapting digital platform, the company conducted digital readiness assessment which helped in developing the digital strategy.
- Performed pilot testing on mobile repayment platform in collaboration with FMO funders.
- The number of borrowers has decreased by 0.34% (2019: Increased by 0.4%) and the amount disbursed has decreased by 11% from TZS 220 billion in 2019 to TZS 197 billion in 2020.
- Strengthening of supporting services such as risk management, audit, procurement and finance which has brought positive impact in the financial performance during the year despite the challenges of caused by COVID-19.
- Continued building capacity of our local staff at all levels and prepare them to take senior positions. This has moved hand in hand with succession plan strategy of the company in alignment with the Bank of Tanzania (BOT) requirements where programs to equip area and regional managers have been implemented. The programs include Area Manager Trainee (AMTI) and Regional Manager Trainee (RMTI) programmes
- Development of business relationship with other stakeholders which has resulted into brand awareness within the Country.
- Management has resolved to merge Youth loan products (ELA MF and ADP MF) with normal group loans. This aims to streamline the operational and efficiency in decision making.

16. SOLVENCY

The Board of directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of directors has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

17. EMPLOYEES' WELFARE

Management/employee relationship

There was continued good relationship between employees and management for the year. There were no unresolved complaints received by management from the employees during the year.

The Company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties.

Training

Training and development of staff capacity is one of the key priorities of the Company. During the year all the Branch Accountants received hands-on training on their day to day responsibilities. Selected staffs from other programs received training as prescheduled. The Company will continue to train, re-train and develop its staff in order to improve service delivery and innovation. The training agenda forms the main component of the change management in the transformation agenda and alignment with Bank of Tanzania (BOT).

During the year 2020, the Company spent a sum of TZS 231 million for staff training in order to improve employees' technical skills and hence effectiveness (2019: TZS 352 million). The amount is lower by 34% compared to prior year due to prolonged period of the pandemic which resulted into suspension of physical trainings which were later substituted by online avenues such as Zoom, Skype and Google meet platforms.

Medical assistance

The Company provides health Insurance where it contributes 3% of basic salary and staff contributes 3% as insurance premium. Insurance services are provided by National Health Insurance Fund (NHIF), a Government entities covering the whole country with many hospitals, clinics and pharmacy everywhere.

Persons with disabilities

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the policy of the Company that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Workmen's Compensation

BRAC Tanzania Finance Limited contributes 1% of gross salaries of all employees to Worker's Compensation Fund regulated by the Government to cover all employees' injury or permanent disability which might occur in the working environment. During the year the Company contributed TZS 156 million (2019: TZS 154 million).

Retirement benefits

All eligible employees are members of the National Social Security Fund (NSSF) which are approved pension funds. The Company's contribution to the Pension Funds is limited to 10% of the employee`s gross salary.

NSSF is defined contribution schemes with BRAC Tanzania Finance Limited having no legal or constructive obligation to pay further top-up contributions.

BRAC TANZANIA FINANCE LIMITED

DIRECTOR'S REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2020

18. GENDER PARITY

The Company had 1,576 employees in 2020 out of them 225 males and 1,351 females. In 2019 total employees were 1,475 with 282 males and 1,193 females.

19. AUDITOR

The Company's auditor, KPMG has expressed their willingness to continue in office and are eligible for re-appointment. A resolution to reappoint KPMG as auditor's will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

....

Director

Date: 04 May 2021

BRAC TANZANIA FINANCE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2020

The Company's directors are responsible for the preparation of the financial statements that give a true and fair view of BRAC Tanzania Finance Limited comprising the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The auditor is responsible for reporting on whether the annual financial statements give true and fair view in accordance with the applicable financial reporting framework.

The directors have made an assessment of the ability of the Company to continue as a going concern and have no reason to believe that the business will not be a going concern at least for the next twelve months from the date of approval of these financial statements.

Approval of financial statements

The financial statements of BRAC Tanzania Finance Limited, as identified in the first paragraph, were approved and authorised for issue by the board of directors on 04 May 2021 and signed by:

Director

BRAC TANZANIA FINANCE LIMITED

DECLARATION OF HEAD OF FINANCE

FOR THE YEAR ENDED 31 DECEMBER 2020

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance/Accounting responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors/Governing Body/Management to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I ....THABIT NDILAHOMBA....being the Head of Finance of BRAC Tanzania Finance Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2020, have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements of BRAC Tanzania Finance Limited comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by: ....

Position: Head of Finance

NBAA Membership No.: ACPA 02477

Date: 04 May 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRAC TANZANIA FINANCE LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of BRAC Tanzania Finance Limited ("the Company") set out on pages 43 to 79, which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BRAC Tanzania Finance Limited as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2002.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Company in accordance with International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)*, together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania and, we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter relating to supplementary information

We draw attention to the fact that the supplementary information presented in United States Dollar (USD) do not form part of the audited financial statements. We have not audited this supplementary information and, accordingly, we do not express an opinion on this supplementary information.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the document titled BRAC Tanzania Finance Limited Report and Financial Statements for the year ended 31 December 2020, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. 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.

Responsibilities of Directors for the financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002, and for such internal control as directors 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, directors are responsible for assessing the 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 directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial Statements

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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors 'use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2002 we report to you, based on our audit that:

- in our opinion, proper accounting records have been kept by BRAC Tanzania Finance Limited;
- the individual accounts are in agreement with the accounting records of the company; and
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit and
- information specified by the law regarding Directors' emoluments and other transactions with the Company is disclosed.

KPMG
Certified Public Accountants (T)

Signed by: CPA Vincent Onjala (TACPA 2722)
Dar es Salaam

Date: 04 May 2021

BRAC TANZANIA FINANCE LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 TZS '000	Memo* 2020 USD	2019 TZS '000	Memo* 2019 USD
Income					
Interest income	6	44,628,019	19,248,313	49,431,418	21,436,001
Interest expense	7	(3,077,846)	(1,327,490)	(2,959,654)	(1,283,458)
Net interest income		**41,550,173**	**17,920,823**	**46,471,764**	**20,152,543**
Fee and commission income	8	1,928,961	831,972	2,102,067	911,564
Other income	9	615,507	265,471	2,487,872	1,078,869
Grant income utilised	26	-	-	4,041,000	1,752,385
Total operating income		**44,094,641**	**19,018,266**	**55,102,703**	**23,895,361**
Impairment charge on loans to customers	16(b)	(2,393,939)	(1,032,520)	(1,289,777)	(559,314)
Operating Income after Impairment Charges		**41,700,702**	**17,985,746**	**53,812,926**	**23,336,047**
Staff costs and other benefits	10	(18,368,768)	(7,922,553)	(18,322,842)	(7,945,725)
Occupancy expenses	11	(111,700)	(48,177)	(833,102)	(361,276)
Operating expenses	12	(9,496,417)	(4,095,389)	(9,677,926)	(4,196,845)
Depreciation of property and equipment	18	(1,055,164)	(455,566)	(416,071)	(180,430)
Amortisation	19	(113,854)	(49,106)	(43,057)	(18,672)
Total operating expenses		**(29,145,903)**	**(12,570,791)**	**(29,292,998)**	**(12,702,948)**
Profit before taxation		**12,554,799**	**5,414,955**	**24,519,928**	**10,633,099**
Tax expense	13(a)	(4,015,369)	(1,731,851)	(7,861,173)	(3,409,008)
Profit for the year		**8,539,430**	**3,683,104**	**16,658,755**	***7,224,091***
Other comprehensive income					
Foreign currency translation gain/(loss)		-	-	-	-
Total comprehensive income for the year		**8,539,430**	**3,683,104**	**16,658,755**	**7,224,091**

Notes and related statements forming part of the financial statements appear on pages 47 to 79.

Report of the auditor's is on page 41 to 42.

*Supplementary information presented in United States Dollar.

BRAC TANZANIA FINANCE LIMITED

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 TZS '000	Memo* 2020 USD	2019 TZS '000	Memo* 2019 USD
ASSETS					
Cash and bank balances	14	9,210,070	3,967,293	5,265,407	2,294,295
Fixed deposits	15	9,138,302	3,936,378	9,327,198	4,064,139
Loans to customers	16 (a)	98,673,085	42,504,021	97,330,189	42,409,668
Related party receivables	17 (b)	1,237,708	533,150	256,941	111,956
Other assets	17 (a)	421,295	174,076	435,466	189,746
Property and equipment	18	2,706,466	1,165,827	936,722	408,158
Intangible assets	19	22,110	9,524	106,484	46,398
Tax receivable	13(b)	206,587	88,989	-	-
Deferred tax asset	20	1,868,314	804,787	1,442,519	628,549
Total assets		**123,483,937**	**53,184,045**	**115,100,926**	**50,152,909**
LIABILITIES AND EQUITY					
Long term liabilities					
Long term portion of term loans	25	10,754,235	4,758,658	15,426,722	6,721,883
Total long-term liabilities		**10,754,235**	**4,758,658**	**15,426,722**	**6,721,883**
Current liabilities					
Other liabilities	21	2,687,639	1,157,717	796,631	347,114
Related party payables	22	948,672	408,646	1,182,188	515,115
Corporate tax payable	13(b)	-	-	2,203,153	959,981
Loan security fund	24	20,562,209	8,857,294	19,933,319	8,685,542
Current portion of term loans	25	13,241,499	5,577,648	3,506,537	1,527,903
Dividend payable	29	16,577,964	7,141,057	-	-
Deferred revenue grants	26	109,571	47,199	-	-
Total current liabilities		**54,127,554**	**23,189,561**	**27,621,828**	**12,035,655**
Total liabilities		**64,881,789**	**27,948,219**	**43,048,550**	**18,757,538**
Equity					
Capitalised donated equity		-	-	13,076,058	5,688,953
Ordinary share capital	23	15,000,000	6,535,948	15,000,000	6,535,948
Retained earnings		43,602,148	19,005,312	43,976,318	19,101,449
Translation reserve		-	(305,434)	-	69,021
Total equity		**58,602,148**	**25,235,826**	**72,052,376**	**31,395,371**
Total equity and liabilities		**123,483,937**	**53,184,045**	**115,100,926**	**50,152,909**

The financial statements on pages 43 to 79 were approved for issue by the Board of Directors on 04 May 2021 and signed on its behalf by;

Director

Chief Executive Officer

Notes and related statements forming part of the financial statements appear on pages 47 to 79.

Report of the auditor's is on page 41 to 42.

*Supplementary information presented in United States Dollar.

BRAC TANZANIA FINANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Donated Equity* TZS'000	Ordinary Share Capital TZS'000	Retained Earnings TZS'000	Total Capital Fund TZS'000	Total Capital Fund USD*
Balance at 1 January 2019	**13,076,058**	-	**43,984,229**	**57,060,287**	**24,825,011**
Profit for the year	-	-	16,658,755	**16,658,755**	**7,224,091**
Ordinary shares allotment	-	15,000,000	(15,000,000)	-	**-**
Transfer from reserve on dividend payment (WHT)	-	-	(1,666,666)	**(1,666,666)**	**(722,752)**
Foreign currency translation loss	-	-	-	-	**69,021**
Balance as at 31 December 2019	**13,076,058**	**15,000,000**	**43,976,318**	**72,052,376**	**31,395,371**
Balance at 1 January 2020	**13,076,058**	**15,000,000**	**43,976,318**	**72,052,376**	**31,395,371**
Profit for the year	-	-	8,539,430	8,539,430	**3,683,104**
Transfer of capitalised donated equity to retained earnings	(13,076,058)*	-	13,076,058	-	**-**
Transfer to Dividend payable	-	-	(21,989,658)**	(21,989,658)	**(9,537,215)**
Foreign currency translation loss	-	-	-	-	**(305,434)**
Balance as at 31 December 2020	**-**	**15,000,000**	**43,602,148**	**58,602,148**	**25,235,826**

(*) During the year management transferred prior year capitalised donated equity of TZS 13,076 million to retained earnings following the transformation of the company from ownership by guarantee to ownership by shares.

(**) The board resolved to declare dividend amounting to TZS 21,989 million from cumulative retained earnings. Significant balance is yet to be paid subsequently. The details are included in Note 29 of this financial statement.

Notes and related statements forming part of the financial statements appear on pages 47 to 79.

* Supplementary information presented in United States Dollar.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 TZS '000	Memo* 2020 USD	2019 TZS '000	Memo* 2019 USD
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		12,554,799	5,414,955	24,519,928	10,633,099
Adjustment for non-cash items					
Depreciation charge and amortisation	18&19	1,169,018	504,672	459,128	199,102
Amortisation of capital grants	26	-	-	(4,041,000)	(1,752,385)
Interest on borrowings and lease liability	25 & 28 (d)	3,302,414	1,317,045	2,959,654	1,283,458
Impairment charge on loans to customers	16 (b)	2,393,939	1,032,520	1,289,777	559,314
		19,420,170	**8,269,192**	**25,187,487**	**10,922,588**
Changes in:					
- Other assets		(966,597)	(416,898)	73,562	31,900
- Deposits		188,896	81,472	(2,436,712)	(1,056,683)
- Other liabilities		257,716	1,184	(2,526,831)	(1,095,764)
- Loans to customers		(3,736,835)	(1,513,424)	(10,949,798)	(4,744,244)
Cash flow from operating activities		**15,163,348**	**6,421,526**	**9,347,708**	**4,057,797**
Tax paid	13 (b)	(6,850,904)	(2,951,068)	(7,061,841)	(3,077,055)
Interest paid on borrowings	25	(2,893,152)	(1,247,834)	(3,133,290)	(1,358,755)
Interest paid on lease liabilities	28	(224,568)	(96,857)	(15,018)	(6,513)
Net cash (used in)/generated from operating activities		**5,194,724**	**2,125,767**	**(862,441)**	**(384,526)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, equipment and Intangible assets	18 &19	(485,264)	(209,297)	(246,170)	(107,264)
Proceeds from disposal of assets		-	-	5,567	2,414
Net cash used in investing activities		**(485,264)**	**(209,297)**	**(240,603)**	**(104,850)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Share Capital		-	-	15,000,000	6,535,948
Dividend paid during the year	29	(5,411,695)	(2,334,094)	(16,666,666)	(7,227,522)
Term loans acquired during the year	25	8,117,885	3,702,570	7,433,095	3,223,372
Repayment of the term loans - principal	25	(3,240,104)	(1,477,813)	(4,894,964)	(2,122,708)
Payment of lease liability - principal	28	(969,343)	(417,550)	(254,967)	(110,566)
Loan security funds received during the year	24	5,818,889	2,509,721	7,166,014	3,122,446
Loan security funds paid during the year	24	(5,189,999)	(2,238,478)	(5,194,228)	(2,263,281)
Grant received during the year		109,571	47,257	-	-
Net cash (used)/ generated from financing activities		**(764,797)**	**(208,387)**	**2,588,284**	**1,157,689**
Net increase/(Decrease) in cash and cash equivalents		**3,944,663**	**1,708,083**	**1,485,240**	**668,313**
Cash and cash equivalents at the beginning of the year		5,265,407	2,294,295	3,780,167	1,644,623
Foreign exchange translation reserve		-	(35,085)	-	(18,641)
Cash and cash equivalents at the end of the year	14	**9,210,070**	**3,967,293**	**5,265,407**	**2,294,295**

Notes and related statements forming part of the financial statements appear on pages 47 to 79.
Report of the auditor's is on page 41 to 42.

*Supplementary information presented in United States Dollar.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. REPORTING ENTITY

BRAC Tanzania Finance Limited was incorporated as a company limited by guarantee on 9 September 2008 and subsequently converted to a company limited by shares on 2 October 2019 and assigned registration number 67364. The Company is situated at Plot 17, Natai Plaza, and Coca cola Road, Dar es Salaam, Tanzania. Refer note 23 for more details on number of shares and shareholders.

2. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Companies Act, 2002.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the financial instruments at fair value through profit or loss which are measured at fair value.

(c) Functional and presentation currency

The financial statements are presented in thousands of Tanzanian Shillings (TZS'000), which is the Company's functional currency.

Memorandum figures

The memorandum column representing the results in United States Dollars (USD) are for presentation purposes only, and do not form part of the audited financial statements. The exchange rates used to translate the TZS figures to USD memorandum were as follows:

- Assets and liabilities were translated at the closing rate at 31 December 2020 of TZS 2,321.5 (2019: TZS 2,295) to USD 1 except for additions to property and equipment which were translated at an average rate for the period of TZS 2,318.54 (2019:TZS 2,305.88) to USD 1;
- Income and expenses were translated using an average exchange rate for the period of TZS 2,318.54 (2019: TZS 2,305.88) to USD 1;
- Equity is not translated; and
- All resulting exchange differences are being recognised in other comprehensive income.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Notes 5.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which is recognised directly in equity.

(b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. The recognition ceases when a loan is transferred to Non-Interest Bearing Loan (NIBL) as described in Note 4(a) thereafter interest income is recognised only when it is received.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in profit or loss is resulting from Interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

(c) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Grants

i. Deferred grants

All grants received are initially recognised as deferred revenue grants at fair value and recorded as liabilities.

The portion of the grants that are utilised to purchase property and fixed assets are transferred as deferred income in liabilities and subsequently released to income to match the depreciation for the period and amortisation of the fixed assets as charged to Profit or Loss.

Grants utilised to reimburse program related expenditure are recognized as grant income for the period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Grants (Continued)

i. Deferred grants (Continued)

Donor grants received in kind, through the provision of gifts and/or services, are recorded at fair value (excluding situations where the Company may receive emergency supplies for onward distribution in the event of a disaster which are not recorded as grants).

Grant income classified as temporarily restricted or unrestricted depending upon the existence of donor imposed restrictions. For completed or phased out projects and programs, any unutilised amounts are dealt with in accordance with consequent donor and management agreements.

For ongoing projects and programs, any expenditures yet to be funded but for which funding has been agreed at the end of the reporting period is recognized as revenue grant receivable.

ii. Grant income

Grant income is recognised on a cash basis to the extent that the Company fulfils the conditions of the grant. This income is transferred from the deferred grant received from donors and recognized as income in the profit or loss. A substantial portion of the Company's donor grants are for funding of not-for-profit projects and programs, and for these grants, income recognised is matched to the extent of actual expenditures incurred on projects and programs for the period. For donor grants restricted to funding procurement of fixed assets, the grant income is recognised as the amount equivalent to depreciation expenses charged on the fixed assets.

(e) Interest from deposits with banks

Interest income on the Company's deposits with banks is earned on an accrual basis at the agreed interest rate with the respective financial institutions.

(f) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expenses are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(g) Financial assets and liabilities

(i) Recognition

The Company initially recognises loans and advances, deposits, debt securities issued and liabilities when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets and liabilities (Continued)

(i) Recognition (Continued)

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

– it is held within a business model whose objective is to hold assets to collect contractual cash flows; and

– its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets and liabilities (Continued)

(ii) Classification (Continued)

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

(iii) De-recognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Company writes off certain loans when they are determined to be uncollectible (see Note 4a).

(iv) Off setting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the BRAC Tanzania Finance Limited's trading activities.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets and liabilities (Continued)

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Company considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances (Small enterprise program) are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

BRAC TANZANIA FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets and liabilities (Continued)

(vii) Identification and measurement of impairment (Continued)

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(viii) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(ix Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that Company does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(h) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Property and equipment (Continued)

(iii) Depreciation (Continued)

The estimated useful lives are as stated:

Furniture & fixtures	10%
Equipment	25%
Vehicles	20%
Bicycles	20%
Motor cycles	20%
Right of use assets	Lease term

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

(i) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Intangible assets

Software acquired by the Company is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software asset is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Amortisation is recognised in profit or loss on straight-line basis over the estimated useful life of the software, from the date that is available for use. The estimated useful life of software is five years (20% per year).

(k) Security deposits from customers and term loans

The company classifies capital instruments, i.e., security deposits and term loans as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Security deposits from customers and term loans from lenders are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method, except where the company chooses to carry the liabilities at fair value through profit or loss. BRAC Tanzania Finance Limited utilises the term loans as source of funding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash benefits if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(n) Classes of financial instruments

The Company classifies the financial instruments into classes that reflects nature of information and take into account the characteristics of those financial instruments:

Items on the statement of financial position	Class
Cash and cash equivalents	Amortised cost
Other assets	Amortised cost

(o) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Leases (Continued)

However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on a rate, initially measured using the rate as at the commencement date; and
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties or early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in rate. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases for some office premises. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) New standards, amendments and interpretations

i) New standards, amendments and interpretations effective and adopted during the year

The Company has adopted the following new standards and amendments during the year ended 31 December 2020, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2020. The nature and effects of the changes are as explained here in.

New standards or amendments	Effective for annual period beginning or after
IFRS 3 Definition of a Business	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020

- IFRS 3 Definition of a Business

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

- Optional concentration test

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

- Substantive process

If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

The adoption of this standard did not have an impact on the financial statements of the Company.

- Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) New standards, amendments and interpretations (Continued)

i) New standards, amendments and interpretations effective and adopted during the year (Continued)

- *Amendments to References to the Conceptual Framework in IFRS Standards (Continued)*

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes did not affect the amounts and disclosures of the Company's financial statements.

- IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Company is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new and amended standards in preparing these financial statements.

The following new and amended standards are not expected to have a significant impact on the Company's financial statements.

New standards or amendments	Effective for annual period beginning or after
Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments IAS 1)	1 January 2022
IFRS 17 Insurance contracts	1 January 2023
Amendments to IFRS 17	1 January 2023

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

4. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

BRAC Tanzania Finance Limited has exposure to the following risks from its use of financial instruments:

(a) Credit risk;

(b) Liquidity risk;

(c) Market risks; and

(d) Operational risk

This note presents information about the Company's exposure to each of the above risks, its objectives, policies and processes for measuring and managing the risks, and its management of capital.

(a) Credit risk

Credit risk is the risk of financial loss to Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loans and advances to customers.

Management of credit risk

For risk management reporting purposes, the Company measures, monitors and manages proactively all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Company does not have any significant exposure to any individual customer or counterparty.

The model that the Company uses to mitigate this risk is arrangement with the respective members of the group. The group members monitor the behaviour of their fellow members who show signs of default on weekly basis during their weekly loan repayment and inform the Company immediately so that appropriate follow up is made.

As set out above, the main activity of the Company is the provision of unsecured loans to group members. The Board of Directors has delegated responsibility for the oversight of credit risk to the Chief Executive Officer who works with the assistance of Program manager and the Monitoring department. However, this must be viewed in light of the overall framework of the exclusive use of "group guaranteed" loan repayment mechanism.

Impaired loans

Impaired loans are loans for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans

Loans were contractual interest or principal payments are past due but the Company believes that impairment is not appropriate on the basis of the stage of collection of amounts owed to the Company.

Allowances for impairment

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for company's of homogeneous assets in respect of losses that have been incurred but have not been identified.

4. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

(a) Credit risk (Continued)

Management of credit risk (Continued)

The table below provides details of exposure to credit risk

Loans to customers

	2020 TZS'000	2019 TZS'000
Standard	97,315,846	98,809,706
Watch List	1,960,509	1,200,705
Substandard	1,627,148	318,195
Doubtful	555,263	125,553
Loss	3,282,351	1,563,658
Gross loans to customers	**104,741,117**	**102,017,817**
Allowance for impairment	(6,068,032)	(4,687,628)
Net loans	**98,673,085**	**97,330,189**

Write-off policy

Loans within the maturity period are considered as “Current Loans”. Loans which remain outstanding after the expiry of their maturity period are considered as ‘Late loans”. Late loans which remain unpaid after one year of being classified as “Late” are considered as “Non-Interest bearing loans’ (NIBL) and is referred to the Board for write-off. Apart from that, any loans can be written off subject to the approval of the board where the board assesses that it is not realisable due to death, dislocation of the borrower or any other natural or humanitarian disaster that affects the livelihood of the borrowers. Subsequent recoveries are credited as income in the statement of profit or loss and other comprehensive income.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Residual contractual maturities of financial liabilities.

31 December 2020	**Carrying amount TZS'000**	**Contractual cash flows TZS'000**	**Within 1 year TZS'000**	**1 to 2 Years TZS'000**	**2 to 5 years TZS'000**
Loan security fund					
Term loans	20,562,209	20,562,209	20,562,209	-	-
Lease liabilities*	23,995,734	23,995,734	13,241,499	3,320,903	7,433,332
Other liabilities	1,739,783	1,739,783	-	-	1,871,084
Dividend payable	958,230	958,230	958,230		
Related Party Payables	16,577,964	16,577,964	8,288,982	8,288,982	-
	948,673	948,673	948,673		
Total	**64,782,593**	**64,782,593**	**43,999,593**	**11,609,885**	**9,304,416**

4. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

(b) Liquidity risk (Continued)

(*) Lease liabilities refers to liabilities related to right of use assets presented as part of other liabilities on the statement of financial position.

31 December 2019	**Carrying amount TZS'000**	**Contractual cash flows TZS'000**	**Within 1 year TZS'000**	**1 to 2 Years TZS'000**	**2 to 5 years TZS'000**
Loan security fund	19,933,318	19,933,318	19,933,318	-	-
Term loans	18,933,259	18,933,259	3,506,537	14,715,934	710,788
Lease liabilities*	85,033	155,120	51,707	103,413	-
Other liabilities	673,686	673,686	673,686	-	-
Related Party Payables	1,182,188	1,182,188	1,182,188	-	-
Total	**40,807,484**	**40,877,571**	**25,347,436**	**14,819,347**	**710,788**

The previous table shows the undiscounted cash flows on the Company's financial liabilities and on the basis of their earliest possible contractual maturity.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc. will affect Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(d) Currency risk

The Company is exposed to currency risk on payments that are denominated in a currency other than the respective functional currency of Company, the Tanzanian Shilling (TZS). The currencies in which these transactions primarily are denominated in US Dollars (USD). The Company's strategy for managing its foreign currency exposure is through transacting mainly using its functional currency.
The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

As a result of COVID 19 pandemic, there were no significant foreign currency exposures at the reporting date.

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2020. Assets and liabilities are categorised by currency. (Equivalent Amounts in TZS'000)

31 December 2020	**2020 TZS'000**	**2019 TZS'000**
Financial Assets		
Cash and bank balance	131,038	431,285
Total assets	**131,038**	**431,285**
Financial liabilities		
Related party payables	948,672	1,182,188
Deferred grants	109,571	-
Total liabilities	**1,058,243**	**1,182,188**
Net on balance sheet position	**(927,205)**	**(750,903)**

4. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

(d) Currency risk (Continued)

* Out of the total loans outstanding, TZS 15.3 billion (2019: TZS 15.7 billion) relates to term loans that are USD based loans hedged and recorded in local currency at the inception phase and that is why not included in the currency risk table. Interest computation is based on local currency and will be settled at the same agreed rate. The only exposure is on the interest payment as remittance has to be done in USD.

Analysis of the Company's sensitivity to changes in market interest and exchange rate

Sensitivity analysis

The rate of exchange as at 31 December 2020 is USD 1 = 2,321.5 (2019: TZS 2,295) strengthening of USD against TZS by 5% means that the rate of exchange will move to USD 1 = TZS 2,434.47 (2018: TZS 2,409)

If the exchange rate changes by 5% the Company is likely to experience foreign exchange loss of TZS 12 (2019: TZS 14 million.

(e) Interest rate risk

The Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates and the fair value interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates.

The table below shows interest exposure on assets and liabilities as at 31 December 2020. Amounts in TZS ('000)

31 December 2020	Up to 1 month TZS'000	From 1 to 12 months TZS'000	From 1 years to 2 years TZS'000	From 2 years and above TZS'000	Total TZS'000	Non-interest bearing TZS'000
ASSETS						
Cash and bank balances	9,210,070	-	-	-	9,210,070	9,210,070
Fixed deposits	-	9,138,302	-	-	9,138,302	-
Loans to customers	-	98,673,085	-	-	98,673,085	-
Other assets	-	1,659,004	-	-	1,659,004	1,659,004
Total assets	**9,210,070**	**109,470,391**	-	-	**118,680,461**	**10,869,074**
LIABILITIES						
Other liabilities	958,230	-	-	-	958,230	-
Lease liabilities	-	1,739,783	-	-	1,739,783	-
Loan security fund	-	20,562,209	-	-	20,562,209	20,562,209
Dividend payable	-	8,288,982	8,288,982	-	16,577,964	16,577,964
Term loans	-	13,241,499	3,320,903	7,433,332	23,995,734	-
Related party liabilities	-	948,673	-	-	948,673	948,673
Total liabilities	**958,230**	**44,781,146**	**11,609,885**	**7,433,332**	**64,782,593**	**38,088,846**
Net assets/(liabilities)	**8,251,840**	**64,689,245**	**(11,609,885)**	**(7,433,332)**	**53,897,868**	**(27,219,772)**

4. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (CONTINUED)

(e) Interest rate risk (Continued)

31 December 2019	Up to 1 month TZS'000	From 1 to 12 months TZS'000	From 1 years to 2 years TZS'000	From 2 years and above TZS'000	Total TZS'000	Non-interest bearing TZS'000
ASSETS						
Cash and bank balances	5,265,407	-	-	-	5,265,407	5,265,407
Fixed deposits	-	9,327,198	-	-	9,327,198	-
Loans to customers	-	97,330,189	-	-	97,330,189	-
Other assets	-	681,945	-	-	681,945	681,945
Total assets	**5,265,407**	**107,339,332**	-	-	**112,604,739**	**5,947,352**
LIABILITIES						
Other liabilities	673,686	-	-	-	673,686	673,686
Loan security fund	-	85,033	-	-	85,033	-
Term loans	-	19,933,318	-	-	19,933,318	19,933,318
Deferred revenue grants	-	3,506,537	14,715,934	710,788	18,933,259	225,086
Related party payables	-	1,182,188	-	-	1,182,188	1,182,188
Total liabilities	**673,686**	**24,707,076**	**14,715,934**	**710,788**	**40,807,484**	**22,014,278**
Net assets/(liabilities)	**4,591,721**	**82,632,256**	**(14,715,934)**	**(710,788)**	**71,797,255**	**(16,066,926)**

Sensitivity analysis

The average market lending rate for the year ended 31 December 2020 is 16.23% (2019: 17%). If the interest rate rise by 5% the Company performance would be impacted by TZS 149m (2019: TZS 147m)

(f) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations and are faced by all business entities.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- training and professional development;
- development of contingency plans; and
- compliance with regulatory and other legal requirements.

(g) Operational risk

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the management of the business unit to which they relate and Chief Executive Officer (CEO).

5. USE OF ESTIMATES AND JUDGEMENTS

Management discussed the development, selection and disclosure of the Company's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see Note 4).

Key sources of estimation uncertainty

(i) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 4 (g) (vii).

The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financials where each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors.

In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumption and parameters used in determining collective allowances.

In arriving the credit losses for the year ended 31 December 2020, the following assumptions were used:

- The entity has not considered securities in Small Enterprises Programme (SEP) product hence LDG is not adjusted with security.
- The entity used 5 years historical data (2015-2019) to compute loss rates.
- Management assumes that forward looking information will not have a significant effect on the Expected Credit Loss (ECL) due to the short term nature of loans.

Impact of COVID- 19

The coronavirus pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour.

Impact on the use of estimates, judgements and assumptions

The pandemic has had a significant impact on the risks that the Company is exposed to, in particular credit risk, and has forced the Company to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial statements. There remains a risk that future performance and actual results may differ from the judgements and assumptions used.

As the outbreak continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact. Management considered the model outputs following appropriate assessment of credit risk.

Further detail on the application of judgements and estimates is included in the note below.

Covid-19 customer payment relief

The Company implemented a payment relief programme across segments between April and May 2020 for eligible customers, allowing customers requiring short-term financial relief, to reduce or defer their weekly and monthly instalments to assist with cash flow needs. The payment relief programmes provides relief for periods of, in general up to 6 weeks as informed by management actions.

The Company's existing credit policies continued to apply to customers not meeting the payment relief eligibility criteria.

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (Continued)

(ii) Fair values of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable this category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised. The carrying amounts are an approximate of the fair values because the financial instruments are short term or re-price in the short run.

5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Key sources of estimation uncertainty (Continued)

(ii) Fair values of financial instruments (Continued)

	Carrying value TZS'000	Fair values TZS'000
31 December 2020		
ASSETS		
Cash and bank balances	9,210,070	9,210,070
Fixed deposits	9,138,302	9,138,302
Loans to customers	98,673,085	98,673,085
Other assets	1,659,004	1,659,004
Total assets	**118,680,461**	**118,680,461**
LIABILITIES		
Other liabilities	947,856	947,856
Lease liabilities	1,739,783	1,739,783
Loan security fund	20,562,209	20,562,209
Related party payables	948,673	948,673
Term loans	23,995,734	23,995,734
Total liabilities	**48,194,255**	**48,194,255**
31 December 2019		
ASSETS		
Cash and bank balances	5,265,407	5,265,407
Fixed deposits	9,327,198	9,327,198
Loans to customers	97,330,189	97,330,189
Other assets	681,945	681,945
Total assets	**112,604,739**	**112,604,739**
LIABILITIES		
Other liabilities	673,686	673,686
Loan security fund	85,033	85,033
Related party payables	19,933,318	19,933,318
Term loans	1,182,188	1,182,188
Deferred revenue grants	18,933,259	18,933,259
Total liabilities	**40,807,484**	**40,807,484**

The financial assets are classified as loans and receivables measured at amortised cost. Financial liabilities are measured at amortised cost.

Critical estimates are made by the Directors in determining the useful lives of property and equipment, leased premises refurbishment and intangible assets as well as their residual values.

(iii) Taxes

The Company is subjected to several taxes and levies by the government and quasi-government regulatory bodies. As a rule of thumb, the Company recognises liabilities for the anticipated tax/levies payable with utmost care and diligence. However, judgement is usually required in the interpretation and applicability of those taxes /levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

6. INTEREST INCOME

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Micro finance	36,042,851	15,545,483	39,681,090	17,207,758
Small enterprise program	5,535,440	2,387,466	6,225,998	2,699,912
Adolescent development program	503,127	217,001	663,446	287,704
Empowerment and livelihood for adolescent program	114,846	49,534	238,684	103,506
Agriculture	2,427,178	1,046,855	2,597,982	1,126,618
We Solve	4,491	1,937	3,449	1,496
Pembejeo	86	37	19,330	8,382
Job Holder Loan	-	-	1,439	625
	44,628,019	**19,248,313**	**49,431,418**	**21,436,001**

7. INTEREST EXPENSE

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Interest expense on loans from				
- Bank of Africa	42,472	18,318	152,924	66,316
- Responsibility	371,008	160,018	214,364	92,959
- Global Partnership Social Investment Fund	947,881	408,826	927,647	402,275
- Stromme Microfinance (E.A) Ltd	327,781	141,374	362,750	157,307
- Triodos Investment Management	623,439	268,891	615,434	266,884
- FMO	637,668	275,030	606,504	263,011
	23,6			
- CRDB Bank Plc.	71	10,210	-	-
- Interest cost covered by BRAC Zanzibar	(129,299)	(55,768)	(124,362)	(53,934)
- Fund management fees	8,657	3,734	189,375	82,127
Interest expense on lease liabilities	224,568	96,857	15,018	6,513
	3,077,846	**1,327,490**	**2,959,654**	**1,283,458**

8. FEE AND COMMISSION INCOME

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Loan appraisal fee	1,898,891	819,003	2,065,837	895,853
Loan application fee	30,070	12,969	36,230	15,711
	1,928,961	**831,972**	**2,102,067**	**911,564**

9. OTHER INCOME

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Gain due to early repayment of loans	672	290	160	69
Interest income from bank deposit	498,328	214,932	521,613	226,198
Sale from passbooks	47,744	20,592	56,557	24,526
Administrative fees	74,357	32,070	62,237	26,989
Release on FDR impairment	10,065	4,341	1,720,080	745,915
Foreign exchange (gain)/ loss	(15,659)	(6,754)	127,225	55,172
	615,507	**265,471**	**2,487,872**	**1,078,869**

10. STAFF COSTS AND OTHER BENEFITS

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Salaries and benefits	17,588,598	7,586,061	17,595,289	7,630,221
Bonus	780,170	336,492	727,553	315,504
	18,368,768	**7,922,553**	**18,322,842**	**7,945,725**

11. OCCUPANCY EXPENSES

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Rent	-	-	739,030	320,482
Utilities	111,700	48,177	94,072	40,794
	111,700	**48,177**	**833,102**	**361,276**

12. OPERATING EXPENSES

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Travelling and transportation costs	2,922,337	1,260,420	2,791,501	1,210,538
Training, workshop and seminars costs	231,023	99,642	351,952	152,624
Maintenance and general expenses	545,860	235,433	1,089,970	472,667
Cash write off	29,981	12,931	13,912	6,033
Members death benefit expenses	8,100	3,494	15,255	6,615
Office Vehicle running expenses	75,958	32,761	75,983	32,950
Audit and other legal fees	165,528	71,393	402,243	174,433
Head office logistics and management expenses	1,887,664	813,123	1,932,626	838,086
Stationery expenses	399,795	172,434	478,778	207,623
Staff medical Insurance	509,076	219,567	438,784	190,279
Software Maintenance	549,492	236,999	330,712	143,414
Business licence fees	230,504	99,418	245,679	106,539
Bank Charges	176,860	76,281	200,593	86,987
Other expenses	1,764,239	761,493	1,309,938	568,057
	9,496,417	**4,095,389**	**9,677,926**	**4,196,845**

13. TAXATION

(a) Tax expense

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Current income tax charge	4,441,164	1,915,499	7,327,337	3,177,510
Deferred tax (credit) /charge for the year (Note 20)	(425,795)	(183,648)	533,836	231,498
	4,015,369	**1,731,851**	**7,861,173**	**3,409,008**
Effective rate of income tax	**32%**		**32.5%**	
Tax rate reconciliation	**%**		**%**	
Standard rate of income tax	30		30	
Effect of prior year deferred tax under-provisions	0.0		0.9	
Tax effect of penalties and interests	0.0		0.7	
Tax effect of non-deductible expenses	2.0		0.9	
Computed effective rate of tax	**32**		**32.5**	

(b) Tax (receivable) / payable

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Balance at 1 January	2,203,153	959,981	2,006,704	873,049
Charge during the year	4,441,164	1,913,058	7,327,337	3,177,510
Withholding tax utilised during the year	-	-	(69,047)	(30,116)
Tax paid	(6,850,904)	(2,951,068)	(7,061,841)	(3,077,055)
Foreign exchange translation reserve	-	(10,960)	-	16,593
Balance at 31 December	**(206,587)**	**(88,989)**	**2,203,153**	**959,981**

14. CASH AND BANK BALANCES

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Cash in hand	44,987	19,379	154,910	67,499
Cash at bank	9,165,083	3,947,914	5,110,497	2,226,796
	9,210,070	**3,967,293**	**5,265,407**	**2,294,295**

15. FIXED DEPOSITS

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Principal	8,561,123	3,687,755	8,900,324	3,878,137
Interest receivable	577,179	248,623	426,874	186,002
Total fixed deposits	**9,138,302**	**3,936,378**	**9,327,198**	**4,064,139**

BRAC TANZANIA FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

16. LOANS TO CUSTOMERS

(a) Net loans to customers

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Loans to customers (gross)	104,741,117	45,117,862	102,017,817	44,452,207
Provision for impairment on loans to customers [Note-16(b)]	(6,068,032)	(2,613,841)	(4,687,628)	(2,042,539)
Balance at 31 December	**98,673,085**	**42,504,021**	**97,330,189**	**42,409,668**

(b) Impairment charge on loans to customer

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Balance as at 1 January	4,687,628	2,042,540	5,394,265	2,346,863
Charge for the year	2,393,939	1,032,520	1,289,777	559,314
Write offs	(1,013,535)	(436,586)	(1,996,414)	(869,898)
Foreign exchange translation difference	-	(24,632)	-	6,260
Balance at 31 December	**6,068,032**	**2,613,841**	**(4,687,628)**	**(2,042,539)**

(c) Gross loans to customers

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Micro finance	79,485,396	34,238,809	77,569,121	33,799,181
Small enterprise program	16,440,376	7,081,790	16,244,080	7,078,030
We Solve (Danida)	15,131	6,518	12,812	5,583
Empowerment and livelihood for adolescent program	1,607,280	692,345	1,399,622	609,857
Agriculture	7,192,324	3,098,137	6,780,381	2,954,414
Pembejeo	610	263	7,978	3,476
Job Holder Loan	-	-	3,823	1,666
Balance as at 31 December	**104,741,117**	**45,117,862**	**102,017,817**	**44,452,207**

17. OTHER RECEIVABLES BALANCES

(a) Other assets

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Advances and prepayments	54,657	16,134	215,813	94,036
Stock of consumables	286,557	123,446	206,399	89,934
Employee Receivables	-	-	2,792	1,217
Advance withholding tax on FDR interest	-	-	10,462	4,559
VAT receivable	29,138	12,552	-	-
Fund Management Fees	50,943	21,944	-	-
	421,295	**174,076**	**435,466**	**189,746**

(b) Related party receivables

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
BRAC (Zanzibar) - Interest receivable on term loan	300,177	129,303	170,877	74,456
BRAC Maendeleo Tanzania	507,113	218,442	-	-
BRAC Zanzibar Finance Limited	430,418	185,405	86,064	37,500
	1,237,708	**533,150**	**256,941**	**111,956**

BRAC TANZANIA FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

18. PROPERTY AND EQUIPMENT

	Furniture	Equipment	Motor Vehicles	Leasehold Improvement	Right of Use Assets (ROU)	Total	Memo Total USD
COST							
At 1 January 2019	1,153,482	677,299	448,302	-	-	2,279,083	991,553
Additions	71,423	95,640	-	-	340,000	507,063	220,943
Transfers of assets from Maendeleo	2,185	3,691	-	-	-	5,876	2,561
Reclassification	(10,734)	28,027	(17,293)	-	-	-	-
Assets not recorded in the fixed asset register in previous years	-	5,622	-	-		5,622	2,450
Disposal	(3,454)	(3,368)	(56,715)	-		(63,537)	(27,684)
Foreign Exchange Translation reserve	-	-	-	-	-	-	1,511
As at 31 December 2019	**1,212,902**	**806,911**	**374,294**	-	**340,000**	**2,734,107**	**1,191,334**
At 1 January 2020	**1,212,902**	**806,911**	**374,294**	-	**340,000**	**2,734,107**	**1,191,334**
Additions	35,324	157,209	161,874	101,377	2,369,126	2,824,910	1,218,400
Reclassification	42,867	(42,867)	-	-	-	-	-
Disposal	-	(6,567)	(6,531)	-	-	(13,098)	(5,650)
Foreign Exchange Translation reserve	-	-	-	-	-	-	12,438
As at 31 December 2020	**1,291,093**	**914,686**	**529,637**	**101,377**	**2,709,126**	**5,545,919**	**2,416,522**

18. PROPERTY AND EQUIPMENT (CONTINUED)

	Furniture	Equipment	Motor Vehicles	Leasehold Improvement	ROU asset (Leasehold buildings)	Total	Memo Total USD
DEPRECIATION							
At 1 January 2019	615,877	484,513	333,272	-	-	1,433,662	623,739
Charge for the year	117,622	110,309	52,374	-	135,766	416,071	180,430
Reclassification	(8,994)	12,866	(3,872)	-	-	-	-
Accumulated depreciation on assets not recorded in the fixed asset register in previous years	-	5,622	-	-	-	5,622	2,450
Disposal	(2,213)	(2,543)	(53,214)	-	-	(57,970)	(25,258)
Foreign Exchange Translation reserve	-	-	-	-	-	-	1,815
At 31 December 2019	**722,292**	**610,767**	**328,560**	**-**	**135,766**	**1,797,385**	**783,176**
At 1 January 2020	**722,292**	**610,767**	**328,560**	-	**135,766**	**1,797,385**	**783,176**
Charge for the year	103,871	93,620	34,011	-	823,662	1,055,164	455,566
Disposal	-	(6,567)	(6,529)	-	-	(13,096)	(5,650)
Reclassification impact	42,867	(42,867)	-	-	-	-	-
Foreign Exchange Translation reserve	-	-	-	-	-	-	17,603
At 31 December 2020	**869,030**	**654,953**	**356,042**	**-**	**959,428**	**2,839,453**	**1,250,695**
NET BOOK VALUE							
At 31 December 2019	**490,610**	**196,144**	**45,734**	**-**	**204,234**	**936,722**	**408,158**
At 31 December 2020	**422,063**	**259,732**	**173,595**	**101,377**	**1,749,698**	**2,706,466**	**1,165,827**

19. INTANGIBLE ASSETS

	Software TZS'000	Memo Total USD
Cost		
At 1 January 2019	**597,228**	**259,834**
Additions	73,231	31,908
Foreign Exchange Translation reserve	-	397
At 31 December 2019	**670,459**	**292,139**
At 1 January 2020	**670,459**	**292,139**
Additions	29,480	12,715
Foreign Exchange Translation reserve	-	3,351
At 31 December 2020	**699,939**	**308,205**
Accumulated amortization		
At 1 January 2019	**520,918**	**226,634**
Charge for the year	43,057	18,672
Foreign Exchange Translation reserve	-	435
At 31 December 2019	**563,975**	**245,741**
At 1 January 2020	**563,975**	**245,741**
Charge for the year	113,854	49,106
Foreign Exchange Translation reserve	-	3,834
At 31 December 2020	**677,829**	**298,681**
Net book value (NBV)		
At 31 December 2019	**106,484**	**46,398**
At 31 December 2020	**22,110**	**9,524**

20. DEFERRED TAX ASSET

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
The movement in the deferred tax asset during the year is as follows:				
At 1 January	**1,442,519**	**628,549**	**1,976,355**	**859,846**
Credit for the year- Note 13 (a)	425,795	183,648	(533,836)	(231,498)
Foreign exchange translation difference	-	(7,400)	-	201
At 31 December	**1,868,314**	**804,787**	**1,442,519**	**628,549**
Deferred tax arises from temporary differences on the following items:				
Capital allowances	32,834	14,144	41,483	18,076
Impairment provision – general	1,820,410	784,152	1,406,289	612,762
Depreciation of right of use assets	15,070	6,491	(5,253)	(2,289)
	1,868,314	**804,787**	**1,442,519**	**628,549**

21. OTHER LIABILITIES

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Lease liability	1,739,783	749,422	85,032	37,051
Accrued expenses	871,603	375,448	505,288	220,166
SDL payable	-	-	217	95
Provision for audit fees	74,402	32,050	59,380	25,874
NSSF payable	1,851	797	146,714	63,928
	2,687,639	**1,157,717**	**796,631**	**347,114**

22. RELATED PARTY PAYABLES

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Payable to BRAC Bangladesh	9,829	4,234	38,902	16,951
Payable to BRAC IT Service (BITS)	-	-	215,158	93,752
Payable to BRAC International Holdings B.V	938,843	404,412	928,128	404,412
	948,672	**408,646**	**1,182,188**	**515,115**

23. ORDINARY SHARE CAPITAL

During the year 2019 the company issued 10,000,000 and allotted 5,000,000 to four shareholders. Each ordinary share has per value TZS 3,000. In 2020, two shareholders (BRAC Foundation and BRAC Bangladesh) disposed their stake holding to BRAC International Holding BV. Below is the outstanding balance on ordinary share capital.

	Ownership 2020	Ownership 2019	No	TZS '000	Memo USD
BRAC Bangladesh	-	25%			
BRAC Foundation	-	24.99%			
BRAC International Holding BV	99.99%	50%	4,999,999	14,999,997	6,535,947
Shameran	0.01%	0.01%	1	3	1
			5,000,000	**15,000,000**	**6,535,948**

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

24. LOAN SECURITY FUND

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Balance as at 1 January	19,933,319	8,685,542	17,961,533	7,814,459
Collections during the year	5,818,889	2,509,721	7,166,014	3,122,446
Withdrawals during the year	(5,189,999)	(2,238,478)	(5,194,228)	(2,263,281)
Foreign exchange translation reserve	-	(99,491)	-	11,918
Balance as at 31 December	**20,562,209**	**8,857,294**	**19,933,319**	**8,685,542**

25. TERM LOANS

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Long term portion of term loans	10,754,235	4,758,658	15,426,722	6,721,883
Current portion of term loans	13,241,499	5,577,648	3,506,537	1,527,903
	23,995,734	**10,336,306**	**18,933,259**	**8,249,786**
The movement of term loans is as follows				
Opening balance	**18,933,259**	**8,249,786**	**16,583,782**	**7,215,046**
New loans received during the year	8,117,885	3,702,570	7,433,095	3,223,372
Interest accrued during the year	3,077,846	1,327,492	2,944,636	1,276,945
Interest paid during the year	(2,893,152)	(1,247,834)	(3,133,290)	(1,358,755)
Principal repaid during the year	(3,240,104)	(1,477,813)	(4,894,964)	(2,122,708)
Foreign exchange translation loss	-	(217,895)	-	(5,886)
	23,995,734	**10,336,306**	**18,933,259**	**8,249,786**
Long term portion of term loan				
Whole Planet Foundation	112,754	50,000	338,263	147,391
ResponsAbility Investments AG	402,500	175,000	1,161,500	506,100
Stromme Microfinance (E.A) Limited	2,933,333	1,261,538	500,000	217,865
Global Partnerships Social Investment Fund LLC	1,493,886	668,551	5,595,079	2,437,943
Triodos Microfinance Fund	266,310	163,037	3,916,325	1,706,460
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	1,045,452	502,130	3,915,555	1,706,124
CRDB Bank PLC	4,500,000	1,938,402	-	-
	10,754,235	**4,758,658**	**15,426,722**	**6,721,883**
Current portion of term loans				
Whole Planet Foundation	225,510	100,000	-	-
Bank of Africa (T)	-	-	1,623,222	707,286
ResponsAbility Investments AG	1,138,500	495,000	744,382	324,349
BRAC (Bangladesh)	-	-	225,086	98,077
Soluti Finance (E.A) Limited	666,667	289,184	842,693	367,186
Stromme Microfinance (E.A) Limited	500,000	217,391	-	-
Global Partnerships Social Investment Fund 6.0, LLC	4,101,193	1,783,127	30,077	13,105
Triodos Microfinance Fund	3,650,015	1,586,963	20,987	9,145
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	2,870,102	1,247,870	20,090	8,755
Interest accrued	89,512	38,558	-	-
Foreign translation reserve	-	(180,445)	-	-
	13,241,499	**5,577,648**	**3,506,537**	**1,527,903**

25. TERM LOANS (Continued)

Stromme Microfinance (E.A) Limited

BRAC Tanzania Finance Limited secured a loan from Stromme Microfinance (E.A) Limited in June 2018 for the period of 48 months. The company changed name to Soluti Finance East Africa in 2020. The loan amounted to TZS 3.5 billion as term loan. The loan is quoted at the rate of 18% fixed with no expected increase until maturity. The loan was obtained to finance issue of micro finance.

Global Partnerships Social Investment Fund 6.0, LLC

BRAC Tanzania Finance Limited secured a loan from Global Partnerships Social Investment Fund 6.0, LLC in June 2018 for the period of 48 months. The loan amounted to USD 2.5 million as term loan. The loan is quoted at the rate of 16.07% in Tanzanian shilling for the first drawdown of USD 1.25 million and 13.75% for the second drawdown of USD 1.25million. The loan was obtained to finance issue of micro finance in June 2020 the instalment due was deferred for extra 6 months.

Triodos Microfinance Fund

BRAC Tanzania Finance Limited secured a loan from Triodos Microfinance Fund in June 2018 for the period of 48 months. The loan amounted to USD 1.75 million as term loan. The loan is quoted at the rate of 14.10% in Tanzanian shilling for the first drawdown of USD 875,000 and 14.16% for the second drawdown of USD 875,000. The loan was obtained to finance issue of micro finance and in June 2020 the instalment due was deferred for extra 6 months.

Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)

BRAC Tanzania Finance Limited secured a loan from FMO in June 2018 for the period of 48 months. The loan amounted to USD 1.75 million as term loan. The loan is quoted at the rate of 14.10% in Tanzanian shilling for the first drawdown of USD 875,000 and 14.16% for the second drawdown of USD 875,000. The loan was obtained to finance issue of micro finance and in June 2020 the instalment due was deferred for extra 6 months.

Whole Planet Foundation (WPF)

BRAC Tanzania Finance Limited secured a free interest loan from Whole Planet Foundation (WPF) in July 2018 for the period of 36 months. The loan amount is USD 150,000 payable in three equal instalments (USD 50,000 each) after grace period of 24 months. The loan is interest free as WPF used to be partner in microfinance and on 2018 he decided to issues as loan after realising that BRAC Tanzania is financially stable and self-sustaining. The first repayment will be on 31 July 2021, second on 31 October and last one on 31 January 2022.

ResponsAbility Investments AG

BRAC Tanzania Finance Limited secured a loan of USD 2 million from ResponsAbility Investments AG in July 2019 for the period of 36 months after drawdown at 7.1% per annum. The principal amount TZS 1 million with respective interest were fully repaid in December 2022 instead of June 2022 due to deferment of one instalment that was due in June 2020 to ensure the organisation does not strive in the COVID-19 situation.

Bank of Africa (BOA) Tanzania

During the year BRAC Tanzania Finance Limited secured an overdraft facility of TZS 2,000 million and a trade line of TZS 1,500 million making a total facility being TZS 3,500 million. The facility was active from April 2020 subject to annual renewal on merit basis. The interest rate is 17% per annum.

CRDB Bank PLC

During the year BRAC Tanzania Finance Limited secured a term loan of TZS 4,500 million from CRDB Bank PLC for working capital. The loan is for two years effective from 16 December 2020. The interest rate is 12% per annum.

BRAC TANZANIA FINANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020

26. DEFERRED REVENUE GRANTS

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Donor funds received in advance				
Opening balance	-	-	**5,174,483**	**2,251,243**
Inter-company settlement	-	-	(1,133,483)	(493,892)
Grants received during the year*	109,571	47,199	-	-
Grants income utilised during the year	-	-	(4,041,000)	(1,752,385)
Foreign currency translation difference	-	-	-	(4,966)
Balance at 31 December	**109,571**	**47,199**	-	-

*During the year 2020, the company received emergency grant to fight against COVID-19 spread from Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)

27. RELATED PARTY TRANSACTIONS

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
(a) Due to related parties				
BRAC Bangladesh (loan payable)	-	-	225,088	98,077
BRAC Bangladesh (Expatriate staff and travelling cost)	9,829	4,234	215,158	93,751
BRAC International Holdings B.V	938,843	404,412	928,126	404,412
BRAC IT services (BITS)	-	-	38,902	16,951
	948,672	**408,646**	**1,407,274**	**613,191**
(b) Due from related parties				
BRAC (Zanzibar)-Interest receivable on term loan	300,177	129,303	170,877	74,456
BRAC Maendeleo Tanzania	507,113	218,442	-	-
BRAC Zanzibar Finance Limited	430,418	185,405	86,064	37,500
	1,237,708	**533,150**	**256,941**	**111,956**
Head Office logistics and management expenses	1,887,664	813,123	1,932,626	838,131
Expatriate staff and travelling cost	275,829	118,967	290,675	126,656
(c) Expenses incurred by Brac Tanzania Finance Limited on behalf of others				
BRAC Zanzibar interest on HO funds (Borrowed funds)	129,299	55,768	124,361	53,933

28. LEASES

Leases as lessee (IFRS 16)
See accounting policy in Note 4 (p).

The Company leases a number of branch and office premises. The leases typically run for a period of 1 to 3 years, with an option to renew the lease after that date.

Information about leases for which the company is a lessee is presented below

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
(a) Right-of-Use (ROU) asset (leased office premises)				
Balance at 1 January	2,709,126	1,166,972	340,000	148,148
Depreciation charge for the year	(959,428)	(413,279)	(135,766)	(58,875)
Balance at 31 December	**1,749,698**	**753,693**	**204,234**	**89,273**
(b) Lease liability (leased office premises)				
Non-cancellable operating lease commitments				
Less than one year	-	-	1,256,076	547,309
Between one and five years	1,739,783	749,422	1,027,772	447,830
Total undiscounted lease liabilities at 31 December	**1,739,783**	**749,422**	**2,283,848**	**995,140**
(c) Amounts recognised in profit or loss				
Leases under IFRS 16	823,662	355,248	135,766	59,157
Depreciation on right-of-use asset	224,568	96,857	15,018	6,544
Interest on lease liability	**1,048,230**	**452,105**	**150,784**	**65,701**
(d) Amounts recognised in statement of cash flows				
Payment of interest	224,568	96,857	15,018	6,513
Payment of principal	969,343	417,550	254,967	110,566
Total payment	**1,193,911**	**514,407**	**269,985**	**117,079**

The contractual maturity for lease liabilities as at 31 December 2020 are disclosed in Note 4 (b).

2020 – Operating leases under IAS 17

	Within 1 year TZS'000	1 to 2 years TZS'000	2 to 5 years TZS'000	Total contractual cash flows TZS'000
Lease liabilities	-	-	1,739,783	1,739,783

2019 – Operating leases under IAS 17

	Within 1 year TZS'000	1 to 2 years TZS'000	2 to 5 years TZS'000	Total contractual cash flows TZS'000
Lease liabilities	1,256,076	924,359	103,413	2,283,848

The company has no lease contracts in the capacity of a lessor.

29. DIVIDEND PAYABLE

	2020 TZS '000	Memo 2020 USD	2019 TZS '000	Memo 2019 USD
Dividend declared in the year	21,989,659	9,537,215	16,666,667	7,262,164
Withholding Tax paid to Tanzania Revenue Authority (TRA)	(2,198,816)	(953,722)	(1,666,667)	(726,217)
Payment of capital gain tax and stamp duties on behalf of shareholders	(3,212,879)	(1,442,426)	-	-
Amount transferred to shareholders	-	-	(15,000,000)	(6,535,947)
Balance at 31 December	**16,577,964**	**7,141,057**	**-**	**-**

30. SUBSEQUENT EVENTS

At the date of signing the financial statements, the directors are not aware of any other matter or circumstance arising since the end of the financial period, not otherwise dealt with in these financial statements, which significantly affected the financial position of the Bank and results of its operations.

BRAC ZANZIBAR FINANCE LTD

REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2020

GENERAL INFORMATION

Board of Directors

Name	Position	Nationality
Dr. Muhammad Musa	Chair	Bangladeshi
Shameran Abed	Member	Bangladeshi
Johannes Maria Antonius Eskes	Member	Dutch
Syed Abdul Muntakim	Member	British

Administrator

Mr. Nkosilathi Moyo

Principal place of business

Mchinamwanzo, Sokoni,
P. O. Box 2635,
Zanzibar

Registered office

House No-ZA-57
Mchinamwanzo
Sokoni
P. O. Box 2635
Zanzibar

Auditor

KPMG
Certified Public Accountants
2nd Floor, The Luminary
Haile Selassie Road, Masaki
P. O. Box 1160
Dar es Salaam, Tanzania

Bankers

NBC Limited
Zanzibar Branch
Zanzibar Business Centre
Kenyata Road
P.O. Box 157
Zanzibar, Tanzania

1 REPORT OF THE BOARD OF DIRECTORS

The directors of BRAC Zanzibar Finance Limited have pleasure in submitting their report and the audited financial statements for the period ended 31 December 2020, which disclose the state of affairs of BRAC Zanzibar Finance Limited ("the Company") as at that date in accordance with Companies Act, 2002

2 REGISTRATION

BRAC Zanzibar Finance Ltd was incorporated as a company limited by shares on 25 September 2019 under the companies Act, No. 15 of 2013. BRAC Zanzibar Finance Ltd has two main shareholders, refer to capital structure Note 21. The company began operations effective 1 January 2020.

3 VISION

A world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential.

4 MISSION

The company mission is to empower people and communities in situations of poverty, illiteracy, disease and social injustice. Our interventions aim to achieve large scale, positive changes through economic and social programs that enable men and women to realize their potential.

5 OUR VALUES

Innovation- the Company has been an innovator in the creation of opportunities for the poor to lift themselves out of poverty. We value creativity in programme design and strive to display global leadership in ground breaking development ¬initiatives.

Integrity- the Company values transparency and accountability in all our professional work, with clear policies and procedures, while displaying the utmost level of honesty in our financial dealings. The Company holds these to be the most essential elements of our work ethic.

Inclusiveness- the Company is committed to engaging, supporting and recognising the value of all members of society, regardless of race, religion, gender, nationality, ethnicity, age, physical or mental ability, socioeconomic status and geography.

Effectiveness- the Company values efficiency and excellence in all our work, constantly challenging ourselves to perform better, to meet and exceed programme targets, and to improve and deepen the impact of our interventions.

6 PRINCIPAL ACTIVITIES

The principal activity of the Company is the provision of micro finance service to micro and small-scale entrepreneur in the informal sector of the Zanzibar economy. The Company has also been involved in partnership with people fighting poverty to improve their welfare in the various parts of Zanzibar.

7 FINANCIAL PERFORMANCE

The Company's performance during the period ended 31 December 2020 is as follows. These enhance sustainability of the Company and ability to reach new beneficiaries.

- Total revenue is TZS 2,173 million.
- Loans to customers is TZS 4,489 million
- During the period, the Company had a profit before tax of TZS 330 million. The statement of financial position as at 31 December 2020 is set out on page 93.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

8 RESULTS FROM OPERATIONS

The results for the Company for the period ended 31 December 2020 are set out on page 91.

9 COMPOSITION OF DIRECTORS

The Directors, who served during the period and up to the date of this report unless as otherwise stated, are set out on page 81.

10 CORPORATE GOVERNANCE

The Directors believe that high standards of corporate governance directly influence the Company stakeholder and investor confidence. The Directors also recognise the importance of integrity, transparency and accountability.

11 RISK MANAGEMENT

The Board of directors accept the final responsibility for the risk management and internal control system of the Company. The management ensures that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations;
- The safeguarding of the Company's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures.

There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Company's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

12 MANAGEMENT STRUCTURE

The Company under the supervision of the Board of directors and the day-to-day management is entrusted to the Chief Executive Officer who is assisted by the heads of divisions, departments and units.

The Structure of the Company comprises of the following divisions:

- Micro Finance Program (MF);
- Social Enterprise Program (SEP);
- Agriculture (Agri finance);
- Accounts and finance;
- Internal audit;
- Monitor;
- Information Technology (IT) and Management Information System (MIS);
- Human resources;
- Training; and
- Procurement, logistics and transportation.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

13 RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 20 to the financial statements.

14 TRANSFER OF ASSETS AND LIABILITIES FROM BRAC

On 6 November 2019 at the extra ordinary general meeting, the board of directors passed a special resolution to transfer all assets and liabilities of BRAC to BRAC Zanzibar Finance Ltd.

It was resolved that all assets and liabilities of BRAC as at 31 December 2019 should be transferred to BRAC Zanzibar Finance Limited at no consideration. On the date of transfer, 1 January 2020, total assets and total liabilities of BRAC were as summarised below:

	2019 TZS'000	Memo Total USD
Non-current assets	4,181,380	1,820,366
Loans to Customers	25,290	11,010
Property and Equipment	4,129	1,798
Intangible Assets		
Current assets		
Cash and Cash Equivalent	122,393	53,284
Other Assets	33,022	14,377
Total Assets	**4,366,214**	**1,900,835**
Liabilities		
Loan security fund	868,766	378,218
Other liabilities	683,906	297,739
Tax Payable	149,022	64,877
Related party payable	392,002	170,658
Total Liabilities	**2,093,696**	**911,492**
Net Assets	**2,272,518**	**992,455**
Translation reserve	-	(3,112)
Net Assets transferred from BRAC	**2,272,518**	**989,343**

15 FUTURE DEVELOPMENT PLANS

In 2021, the Company is planning to scaling out to Pemba and offer new financial products which suite the need of the people of Zanzibar.

Training is integral to improve efficiency in management and program delivery. Rigorous staff training in aspect of occupational and functional skills and techniques of community participation and development management will be organized to improve and maintain quality.

BRAC ZANZIBAR FINANCE LTD
REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2020

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

16 KEY ACHIEVEMENTS

The following are the Company's key achievements for the period:

- As of 31 December 2020, the amount disbursed was TZS 9.2 billion being loan advances issued to 8,778 clients.
- Strengthening of supporting services such as audit, compliance and finance which has brought positive impact in the financial performance during the period.
- Realigned on procurement services as currently all procurement procedures are channelled direct from Zanzibar.
- Development of business relationship with other stakeholders have strengthened hence brand awareness has increased.

17 SOLVENCY

The Board of directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of directors has reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

18 EMPLOYEES' WELFARE

Management/employee relationship

There were continued good relations between employees and management for the period ended 2020. There were no unresolved complaints received by management from the employees during the period.

The Company is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties.

Training

Training and development of staff capacity is one of the key priorities of the Company. During the period, all the Branch Accountants received hands-on training for Micro Finance and Small Enterprise programs, Area Accounts Manager and Regional Accounts Manager received training on IFRS 16, IFRS 19 and operations training. Selected staffs from other programs received training as prescheduled. The Company will continue to train, re-train and develop its staff in order to improve service delivery and innovation.

Medical facilities

The Company provides health insurance where it contributes 3% of basic salary and staff contributes 3% as insurance premium. Insurance services are provided by National Health Insurance Fund (NHIF), a government entity covering the whole country with many hospitals, clinics and pharmacy everywhere.

Persons with disabilities

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and appropriate training is arranged. It is the policy of the Company that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

REPORT OF THE BOARD OF DIRECTORS (CONTINUED)

18 EMPLOYEES' WELFARE (CONTINUED)

Retirement benefits

All eligible employees are members of Zanzibar Social Security Fund (ZSSF) or the National Social Security Fund (NSSF) which are approved pension funds. The Company contributes 13% (ZSSF) and 10% (NSSF) of the employees' gross monthly salary.

The ZSSF and NSSF are defined contribution schemes with the Company having no legal or constructive obligation to pay further top up contributions.

19 GENDER PARITY

The Company had 70 employees in 2020 with 55 being females and 15 males.

20 GOING CONCERN

The Board of Directors confirm that applicable accounting standards have been followed in preparing these financial statements on going concern and nothing has come to attention that cast doubt on the going concern of the entity on the signing date of the reports.

21 AUDITOR

The Company's auditor, KPMG, have expressed their willingness to continue in office and are eligible for re-appointment. A resolution to reappoint KPMG the auditor will be put to the Annual General Meeting.

BY ORDER OF THE BOARD OF DIRECTORS

Syed Abdul Muntakim
Director

Date: 04 May 2021

The Board of Directors are responsible for the preparation of financial statements that give a true and fair view of the Company comprising the statement of financial position as at 31 December 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended, and the information to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2013.

The Board of Directors are also responsible for such internal control as the board of directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Board of Directors have made an assessment of the ability of the Company to continue as a going concern and have disclosed the facts in Note 2 (d) of the financial statements. These financial statements have therefore not been prepared on a basis applicable to a going concern.

The auditor is responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of financial statements

The financial statements of BRAC Zanzibar Finance Ltd, as identified in the first paragraph, were approved and authorized for issue by the board of directors on 04 May 2021 and signed by:

Syed Abdul Muntakim
Director

BRAC ZANZIBAR FINANCE LTD

DECLARATION OF HEAD OF FINANCE

FOR THE PERIOD ENDED 31 DECEMBER 2020

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Governing Body/Management to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I **Thabit Ndilahomba** being the Head of Finance of BRAC Zanzibar Finance Ltd hereby acknowledge my responsibility of ensuring that financial statements for the period ended 31 December 2020, have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements of BRAC Zanzibar Finance Ltd comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by: ....

Position: Head of Finance

NBAA Membership No.: ACPA 02477

Date: 04 May 2021

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF BRAC ZANZIBAR FINANCE LTD

Report on the Audit of the financial statements

Opinion

We have audited the financial statements of BRAC Zanzibar Finance Limited ("the Company") set out on pages 92 to 119, which comprise the statement of financial position as at 31 December 2020, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of BRAC Zanzibar Finance Limited as at 31 December 2020, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2002.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Company in accordance with International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of financial statements in Tanzania and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter relating to supplementary information

We draw attention to the fact that the supplementary information presented in United States Dollar (USD) do not form part of the audited financial statements. We have not audited this supplementary information and, accordingly, we do not express an opinion on this supplementary information.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the document titled BRAC Zanzibar Finance Limited Report and Financial Statements for the period ended 31 December 2020 but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. 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.

Report on the Audit of the financial statements (Continued)

Responsibilities of Directors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002, and for such internal control as directors 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, directors are responsible for assessing the 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 directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the financial Statements

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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by the Companies Act, 2002 we report to you, based on our audit that:

- in our opinion, proper accounting records have been kept by BRAC Zanzibar Finance Limited;
- the individual accounts are in agreement with the accounting records of the company;
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit and
- information specified by the law regarding Directors' emoluments and other transactions with the Company is disclosed

KPMG
Certified Public Accountants (T)

Vonjale

Signed by: CPA Vincent Onjala (TACPA 2722)
Dar es Salaam

Date: 04 May 2021

BRAC ZANZIBAR FINANCE LTD

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE 15 MONTH PERIOD ENDED 31 DECEMBER 2020

	Notes	15 Months to 31 December 2020 TZS '000	Memo 2020 USD
Income			
Interest income	6	2,071,179	893,311
Interest expense (Loans and Lease liability)		(139,883)	(60,332)
		1,931,296	**832,979**
Other income	7	102,191	44,075
Total operating income		**2,033,487**	**877,054**
Impairment on loans to customers	8	(155,845)	(67,131)
Operating income after impairment charge		**1,877,642**	**809,923**
Operating expenses			
Staff costs	9	(671,404)	(289,580)
Travelling and transportation		(105,133)	(45,346)
Training workshop and seminars		(7,780)	(3,356)
Occupancy expenses	10	(4,176)	(1,801)
Other operating expenses	11	(713,753)	(307,845)
Depreciation on ROU of assets		(34,610)	(14,927)
Depreciation charge	16(a)	(9,160)	(3,951)
Amortization charge	16(b)	(1,177)	(508)
		(1,547,193)	**(667,314)**
Profit/(Loss) before taxation		**330,449**	**142,609**
Tax expense	12(a)	(53,294)	(22,986)
Profit for the period		**277,155**	**119,623**
Other comprehensive income		**-**	**-**
Total comprehensive Income for the period		**277,155**	**119,538**

Notes and related statements forming part of the financial statements appear on pages 96 to 119.

Report of the auditor's is on page 89 - 91.

The memos represent supplementary information presented in United States Dollar.

BRAC ZANZIBAR FINANCE LTD

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Notes	31 December 2020 TZS '000	Memo 2020 USD
ASSETS			
Cash and cash equivalents	13	248,412	107,005
Loans to customers	14	4,489,026	1,933,674
Other assets	15	16,777	7,227
Right of Use asset	24	69,220	29,817
Tax receivable	12	65,965	28,415
Deferred tax asset	17	94,193	40,574
Property and equipment	16 (a)	39,935	17,202
Intangible assets	16 (b)	2,952	1,272
Total assets		**5,026,480**	**2,165,186**
LIABILITIES AND CAPITAL FUND			
Liabilities			
Loan security fund	18	948,057	408,381
Lease Liability	24	73,825	31,801
Other liabilities	19	670,576	288,854
Due to related party	20	784,349	337,863
Total liabilities		**2,476,807**	**1,066,899**
Capital fund			
Ordinary share capital	21	1,500,000	655,081
Retained earnings		277,155	119,623
Capital reserve	21	772,518	337,374
Translation adjustment reserve		-	(13,791)
Total capital fund		**2,549,673**	**1,098,287**
Total liabilities and capital fund		**5,026,480**	**2,165,186**

The financial statements on pages 92 to 119 were approved and authorised for issue by the board of directors on 04 May 2021 and signed on its behalf by.

Syed Abdul Muntakim Director	Nkosilathi Moyo Administrator

Notes and related statements forming part of the financial statements appear on pages 96 to 119.

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BRAC ZANZIBAR FINANCE LTD

STATEMENT OF CHANGE OF EQUITY

FOR THE 15 MONTHS PERIOD ENDED 31 DECEMBER 2020

	Ordinary Share capital TZS'000	Capital Reserve TZS'000	Retained Earnings TZS'000	Total TZS'000	Memo USD
Balance as at 1 January 2020 (Transfer of net assets from BRAC)	-	2,272,518	-	2,272,518	992,455
Translation adjustment reserve transferred from BRAC	-	-	-	-	(3,112)
Allotted share capital	1,500,000	(1,500,000)	-	-	-
Profit for the period	-	-	277,155	277,155	119,623
Translation adjustment reserve	-	-	-	-	(10,679)
Balance as at 31 December 2020	**1,500,000**	**772,518**	**277,155**	**2,549,673**	**1,098,287**

Notes and related statements forming part of the financial statements appear on pages 96 to 119.

Report of the auditor's is on page 89 - 91.

The memos represent supplementary information presented in United States Dollars.

BRAC ZANZIBAR FINANCE LTD

STATEMENT OF CASH FLOWS

FOR THE 15 MONTHS PERIOD ENDED 31 DECEMBER 2020

	Notes	15 Months to 31 December 2020 TZS '000	Memo 2020 USD
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period		**330,449**	**142,609**
Adjustment for non-cash items:			
Provision for impairment on loans and advances	8	155,845	67,131
Depreciation of plant and equipment	16(a)	9,160	3,951
Depreciation of right of use asset	24(a)	34,610	14,927
Amortisation of intangible assets	16(b)	1,177	508
Disposals	16(a)	22	9
Cash from operating activities before working capital changes		**531,263**	**229,135**
Changes in:			
Loans to customers		(463,491)	(199,652)
Other assets		16,246	6,998
Loan security fund		79,291	34,155
Other liabilities		21,999	9,476
Balance due to related parties		392,347	169,006
Cash from operating activities after working capital changes		**577,655**	**249,118**
Tax paid	12(b)	(362,474)	(156,138)
Cash generated/ (used) in operating activities		**215,181**	**92,980**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment		(23,827)	(10,277)
Acquisition of right of use assets		(103,830)	(44,725)
Cash from investing activities		**(127,657)**	**(55,002)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on lease Liability	24	10,584	4,565
Payment of principal lease liability	24	27,911	12,039
Net cashflow from financing activities		**38,495**	**16,604**
Net Increase/decrease in cash and cash equivalents		**126,019**	**54,582**
Cash and cash equivalents transferred from BRAC		122,393	53,284
Translation adjustment reserve		-	(861)
Cash and cash equivalents at the end of the period	13	**248,412**	**107,005**

Notes and related financial statements forming part of the financial statements appear on pages 96 to 119.

Report of the auditor's is on pages 89 - 91.

The memos represent supplementary information presented in United States Dollars.

1. REPORTING ENTITY

BRAC Zanzibar Finance Ltd was incorporated as a company limited by shares on 25 September 2019. The Company is part of the global BRAC family and BRAC International Holdings BV holds majority shareholding. BRAC Zanzibar Finance Ltd has two main shareholders, refer to capital structure Note 21.

2. BASIS OF PREPARATION

(a) Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards. They were authorised for issue by the board of directors on 04 May 2021. Details of the Company accounting policies are included in Note 3.

(b) Functional and presentation currency

The financial statements are presented in thousands of Tanzanian Shillings (TZS'000), which is the Company functional currency.

Memorandum figures

The memorandum column representing the results in United States Dollars (USD) are for presentation purposes only, and do not form part of the audited financial statements. The exchange rates used to translate the TZS figures to USD memorandum were as follows:

- Assets and liabilities were translated at the closing rate at 31 December 2020 of TZS 2,321.5 to USD 1.
- Income and expenses were translated using an average exchange rate for the period of TZS 2,318.54 to USD 1.
- Equity is not translated; and
- All resulting exchange differences are being recognised in other comprehensive income.

(c) Use of estimates and judgements

In preparing these financial statements, management has made judgements and estimates that affect the application of the Company accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in Note 5.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 December 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial period is also included in Note 5.

The impacts of COVID-19 have been included in Note 4.

2. BASIS OF PREPARATION (CONTINUED)

(d) Going concern

The Board of Directors confirm that applicable accounting standards have been followed in preparing these financial statements on going concern and nothing has come to attention that cast doubt on the going concern of the entity on the signing date of the reports.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which is recognised directly in equity.

(b) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of profit or loss and other comprehensive income is resulting from Interest on financial assets and liabilities at amortised cost on an effective interest rate basis.

(c) Fees and commission income

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

However, for the leases of property the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The Company determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on a rate, initially measured using the rate as at the commencement date; and
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties or early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in rate. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases for some office premises. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity.

The Company has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the period and any adjustment to the tax payable or receivable in respect of previous periods. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax also includes any tax arising from dividends. Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if any.

(f) Cash and cash equivalent

Cash and cash equivalents include notes and coins on hand, balance in banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by The Company in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments

(i) Recognition

The Company initially recognises loans and advances, deposits, debt securities issued and liabilities when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (Continued)

(iii) De-recognition

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Company neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, Company continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Company writes off certain loans when they are determined to be uncollectible (see Note 4a).

(iv) Off setting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the company has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the BRAC Tanzania Finance Limited's trading activities.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets and liabilities (Continued)

(vi) Fair value measurement (continued)

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

- The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Company determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Company on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Company recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

At each reporting date the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Company considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances (Small enterprise program) are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial assets and liabilities (Continued)

(vii) Identification and measurement of impairment (continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(h) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to organisation and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation and amortisation charges

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative periods are as stated:

Furniture & fixtures	10%
Equipment	25%
Vehicles	20%
Bicycles	20%

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(i) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Impairment of non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Intangible assets

i. Recognition and measurement

Intangible assets including computer software that are acquired by the company and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

ii. Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

iii. Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Goodwill is not amortised.

The estimated useful lives for current and comparative periods are as follows:

- computer software 4 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(k) Loan security fund

The Company classifies capital instruments i.e. loan security fund as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument.

Loan security fund is initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Company chooses to carry the liabilities at fair value through profit or loss. BRAC Zanzibar Finance Ltd utilise the term loan as source of funding.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Provisions

A provision is recognised if, as a result of a past event, The Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if The Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(n) Share capital

Ordinary shares proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when declared by the board. Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(o) Contingent assets and liabilities

Contingent assets are disclosed where an inflow of economic benefits is probable. When the realisation of income is virtually certain, then the related asset is recognized as appropriate.

Contingent liabilities are disclosed in the financial statements where there is a possible obligation but payment is not probable or the amount cannot be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Changes in accounting standards, amendments and interpretations

New standards, amendments and interpretations effective and adopted during the period

The Company has adopted the following new standards and amendments during the period ended 31 December 2020, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2020. The nature and effects of the changes are as explained here in.

New standards or amendments	Effective for annual period beginning or after
IFRS 3 Definition of a Business	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020

- *IFRS 3 Definition of a Business*

With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

Optional concentration test

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

Substantive process

If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

The adoption of this standard did not have an impact on the financial statements of the Company.

- *Amendments to References to the Conceptual Framework in IFRS Standards*

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Changes in accounting standards, amendments and interpretations (continued)

- *Amendments to References to the Conceptual Framework in IFRS Standards (Continued)*

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes did not affect the amounts and disclosures of the Company's financial statements.

- *IAS 1 and IAS 8 Definition of Material*

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Company is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

New and amended standards and interpretations in issue but not yet effective for the period ended 31 December 2020

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Company has not early adopted the new and amended standards in preparing these financial statements.

The following new and amended standards are not expected to have a significant impact on the Company's financial statements.

New standards or amendments	Effective for annual period beginning or after
Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Classification of Liabilities as Current or Non-current (Amendments IAS 1)	1 January 2022
IFRS 17 Insurance contracts	1 January 2023
Amendments to IFRS 17	1 January 2023

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

4. FINANCIAL AND OPERATIONAL RISK MANAGEMENT

Introduction and overview

BRAC Zanzibar Finance Ltd has exposure to the following risks from its use of financial instruments:

(a) Credit risk;
(b) Liquidity risk;
(c) Market risks; and
(d) Operational risk.

This Note presents information about The Company's exposure to each of the above risks, The Company's objectives, policies and processes for measuring and managing risk.

Impact of COVID- 19

The coronavirus pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour.

Impact on the use of estimates, judgements and assumptions

The pandemic has had a significant impact on the risks that the Company is exposed to, in particular credit risk, and has forced the Company to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial statements. There remains a risk that future performance and actual results may differ from the judgements and assumptions used. As the outbreak continues to progress and evolve, it is challenging to predict the full extent and duration of its business and economic impact. Management considered the model outputs following appropriate assessment of credit risk.

COVID-19 customer payment relief

The Company implemented a payment relief programme across segments between April and May 2020 for eligible customers, allowing customers requiring short-term financial relief, to reduce or defer their weekly and monthly instalments to assist with cash flow needs. The payment relief programmes provides relief for periods of, in general up to 6 weeks as informed by management actions. The Company's existing credit policies continued to apply to customers not meeting the payment relief eligibility criteria.

(a) Credit risk

Credit risk is the risk of financial loss to Organisation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company loans and advances to customers.

Management of credit risk

For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk). The Company does not have any significant exposure to any individual customer or counterparty.

The model that the Company uses to mitigate this risk is arrangement with the respective members of the Company. The Company members are required to contribute for a customer who has defaulted on the weekly loan repayment. This model is used exclusively by The Company.

As set out above, the main activity of the Company is the provision of unsecured loans to Organisation members. The board of directors have delegated responsibility for the oversight of credit risk to the Country Representative who works with the assistance of Program manager and the Monitoring department. However, this must be viewed in light of the overall framework of the exclusive use of "Organisation guaranteed" loan repayment mechanism.

Impaired loans

Impaired loans and securities are loans and securities for which the Company determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

4. FINANCIAL AND OPERATIONAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (Continued)

Past due but not impaired loans

Loans, where contractual interest or principal payments are past due but The Company believes that impairment is not appropriate on the basis of the level of security or the stage of collection of amounts owed to The Company.

Allowances for impairment

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Organisations of homogeneous assets in respect of losses that have been incurred but have not been identified.

The table provides details of exposure to credit risk:

	2020
Micro finance	**TZS'000**
Carrying amount	4,345,524
Standard	255,806
Watch List	21,493
Substandard	25,254
Doubtful	97,156
Loss	**4,745,233**
	(256,207)
Allowance for impairment	
	4,489,026
Net loans	
	121,439
Balance at 1 January (Transfer from BRAC)	155,845
Charge for the period	(21,077)
Direct write offs	**256,207**

Write-off policy

BRAC Zanzibar Finance Ltd writes off a loan balance (and any related allowances for impairment losses) when The Company credit committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Company approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to The Company's reputation.

4. FINANCIAL AND OPERATIONAL RISK MANAGEMENT (Continued)

(b) Liquidity risk (Continued)

Residual contractual maturities of financial liabilities.

31 December 2020	Carrying amount TZS'000	Contractual cash flows TZS'000	Within 1 year TZS'000
Loan security fund	948,057	948,057	948,057
Other current liabilities (including related parties)	1,454,924	1,454,924	1,454,924
Total liabilities	**2,402,981**	**2,402,981**	**2,402,981**

The previous table shows the undiscounted cash flows on The Company's financial liabilities and on the basis of their earliest possible contractual maturity.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates etc. will affect BRAC Zanzibar Finance Ltd income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Currency risk

The Company is exposed to currency risk on payments that are denominated in a currency other than the respective functional currency of Company, the Tanzanian Shilling (TZS). The currencies in which these transactions primarily are denominated are Tanzanian Shilling (TZS) and US Dollars (USD).

The Company strategy for managing its foreign currency exposure is through transacting mainly using its functional currency.

Exposure to currency risk for foreign denominated amounts in the following classes of financial instruments; disclosure around market risk also relates to sensitivity analysis of the type of market risk – currency risk, showing how the income profit or loss and equity would have been affected by reasonably possible changes in the relevant risk variable at the period-end date.

During the period the Company did not incur significant transactions in other foreign currencies except few immaterial transactions with related entities.

(ii) Interest rate risk

The interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates and the fair value interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates.

4. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (Continued)

31 December 2020	Up to 1 month TZS'000	From 1 to 12 months TZS'000	From 1 years to 2 years TZS'000	From 2 years and above TZS'000	Non-interest bearing TZS'000	Total TZS'000
ASSETS						
Cash and bank balances	-	-	-	-	248,412	248,412
Loans to customers*	4,345,524	302,553	67,226	29,931	-	4,745,234
Other assets	-	-	-	-	16,777	16,777
Total assets	**4,345,524**	**302,553**	**67,226**	**29,931**	**265,189**	**5,010,422**
LIABILITIES						
Loan security fund		-	-	-	(948,057)	(948,057)
Other liabilities	-	-	-	-	(1,454,924)	(1,454,924)
Total liabilities	-	-	-	-	**(2,402,981)**	**(2,402,981)**
Net assets/(liabilities)	**4,548,171**	**302,553**	**67,226**	**29,931**	**(2,137,792)**	**2,607,441**

** Loans and advances to customers outstanding before impairment.*

(iii) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of The Company's operations and are faced by all business entities.

The Company objective is to manage operational risk so as to balance the avoidance of financial losses and damage to The Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- requirements for the reconciliation and monitoring of transactions.
- documentation of controls and procedures.
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified.
- requirements for the reporting of operational losses and proposed remedial action.
- training and professional development.
- risk mitigation, including insurance where this is effective.
- development of contingency plans; and
- Compliance with regulatory and other legal requirements.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of the Internal Audit reviews are discussed with the management of the business unit to which they relate and Country Representative.

5. USE OF ESTIMATES AND JUDGEMENTS

Management discussed the development, selection and disclosure of The Company's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial and operational risk management (see Note 4).

Key sources of estimation uncertainty

(i) Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(g) (vii). The specific counterparty component of the total allowances for impairment applies to claims evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial where each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of collectively assessed allowances is for country risks.

In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on how well these estimate future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

(ii) Property and equipment, leased premises and intangible assets

Critical estimates are made by the the board of directors in determining the useful lives of property and equipment, leased premises refurbishment and intangible assets as well as their residual values.

(iii) Taxes

The Company is subjected to several taxes and levies by the government and quasi-government regulatory bodies. As a rule of thumb, The Company recognizes liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgement is usually required in the interpretation and applicability of those taxes /levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

(iv) Fair values of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

5. USE OF ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (continued)

(iv) Fair values of financial instruments (Continued)

The Company measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised. Their carrying amount are considered an approximate of their fair value on the basis that the financial instruments are short term or reprice in the short run.

31 December 2020

	Level 1	Level 2	Level 3	Carrying Value	Fair Values
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
ASSETS					
Cash and bank balances	-	248,412	248,412	248,412	248,412
Loans to customers	-	-	4,489,026	4,489,026	4,489,026
Other assets	-	-	16,777	16,777	16,777
Total assets	-	**248,412**	**4,754,215**	**4,754,215**	**4,754,215**
LIABILITIES					
Other liabilities	-	-	1,454,924	1,454,924	1,454,924
Loan security fund	-	-	948,057	948,057	948,057
Total liabilities	-	-	**2,402,981**	**2,402,981**	**2,402,981**

The financial assets above fall under loans and receivables at amortised cost while the financial liabilities are carried at amortised cost.

	2020 TZS '000	Memo 2020 USD
6. INTEREST INCOME		
Interest on loans to Company members:		
- Micro finance	1,693,474	730,405
- Small enterprise program	293,010	126,377
- Agri-finance	84,695	36,529
	2,071,179	893,311
7. OTHER INCOME		
Loan application fee	1,190	513
Loan appraisal fee	89,953	38,797
Other income	1,744	752
Membership fees	9,161	3,951
Administrative fee from Insurance scheme	143	62
	102,191	44,075
8. IMPAIRMENT ON LOANS TO CUSTOMERS		
Balance at 1 January (Transfer from BRAC)	121,439	52,869
Charge for the period	155,845	67,131
Direct write off	(21,077)	(9,079)
Foreign currency translation reserve	-	(558)
Balance at 31 December	256,207	110,363
9. STAFF COSTS		
Salaries	638,313	275,308
Bonus	33,091	14,272
	671,404	289,580
10. OCCUPANCY EXPENSES		
Recognition exemption for leases of low-value and short-term assets		
Utilities	4,176	1,801
	4,176	1,801

11. OTHER OPERATING EXPENSES

	2020 TZS '000	Memo 2020 USD
Maintenance and general expenses	142,607	61,506
Audit fees	36,989	15,954
Office stationery	15,794	6,812
Head Office logistics and management expenses	518,363	223,573
	713,753	307,845

12. TAXATION

(a) Tax expense

Tax charge for the period	147,487	63,560
Deferred tax (credit) / charge (Note 17)	(94,193)	(40,574)
	53,294	22,986
Tax rate reconciliation	%	%
Effective tax rate	30	30
Standard rate of income tax	30.0	30.0
Tax effect of prior period deferred tax (over)/under provision	1.1	0.2
Tax effect of non-deductible expenses	0.5	0.4
Effective rate of income tax	31.6	30.6

(b) Tax payable

At 1 January (Transfer from BRAC)	149,022	64,877
Charge for the period	147,487	63,560
Tax paid	(362,474)	(156,138)
Translation Reserve	-	(714)
At 31 December	(65,965)	(28,415)

13. CASH AND CASH EQUIVALENTS

	2020 TZS '000	Memo 2020 USD
Vodacom M-PESA (receivable within 90 days)	434	187
Cash at bank	247,978	106,818
	248,412	107,005

14. LOANS TO CUSTOMERS

	2020 TZS '000	Memo 2020 USD
At January 2020 (Transfer from BRAC)	4,302,819	1,853,465
Loans disbursed	9,165,847	4,277,582
Loans repayments	(8,703,968)	(4,078,613)
Write Off	(19,465)	(8,397)
Loans to customers (gross)	**4,745,233**	**2,044,037**
Impairment on loans to customers (Note 8)	(256,207)	(110,363)
Balance at 31 December	**4,489,026**	**1,933,674**
Analysis of Loans		
Microfinance	3,586,936	1,545,094
Small Enterprise Programme	909,083	391,593
Agri-finance	249,214	107,350
	4,745,233	**2,044,037**

15. OTHER ASSETS

Advances and prepayments	4,680	2,016
Stock and stores	12,097	5,211
	16,777	**7,227**

16. FIXED ASSETS

(a) Property and equipment

	Furniture &Fixtures TZS'000	Equipment TZS'000	Motor cycles TZS'000	Total TZS'000	Memo USD
Cost					
At 1 January 2020 (Transfer from BRAC)	**46,057**	**37,319**	**483**	**83,859**	**36,540**
Additions during the period	21,162	2,665	-	23,827	10,277
Disposal	-	-	(22)	(22)	(9)
Foreign translation adjustment	-	-	-	-	(431)
Balance at 31 December 2020	**67,219**	**39,984**	**461**	**107,664**	**46,377**
Accumulated depreciation					
At 1 January 2020 (Transfer from BRAC)	**29,600**	**28,969**	**-**	**58,569**	**25,530**
Charge for the period	5,971	3,152	37	9,160	3,951
Foreign translation adjustment	-	-	-	-	(306)
Balance at 31 December 2020	**35,571**	**32,121**	**37**	**67,729**	**29,175**
Net book value (NBV)					
At 31 December 2020	**31,648**	**7,863**	**424**	**39,935**	**17,202**

16. FIXED ASSETS (CONTINUED)

(b) Intangible asset

	ERP software TZS'000	2020 Total TZS'000	Memo 2020 USD
Cost			
At 1 January 2020	**4,708**	**4,708**	**2,050**
Additions	**-**	**-**	**-**
Balance at 31 December 2020	**4,708**	**4,708**	**2,050**
Accumulated depreciation			
At 1 January 2020	579	579	252
Charge for the period	1,177	1,177	508
Foreign translation adjustment			(3)
Balance at 31 December 2020	**1,756**	**1,756**	**757**
Net book value			
At 31 December 2020	**2,952**	**2,952**	**1,272**

17. DEFERRED TAX ASSET

Credit/(charge) for the period	94,193	40,574
At 31 December	**94,193**	**40,574**
Deferred tax arises from temporary-differences on the following items:		
Property and equipment	8,042	3,464
Impairment provision – general	86,151	37,110
At 31 December	**94,193**	**40,574**

18. LOAN SECURITY FUND

Balance at 1 January (Transfer from BRAC)	868,766	378,218
Collections during the period	274,338	118,173
Withdrawals during the period	(195,047)	(84,018)
Foreign translation adjustment	-	(3,992)
	948,057	**408,381**

19. OTHER LIABILITIES

	2020 TZS '000	Memo 2020 USD
Liabilities for expense	545,572	235,008
Accrued expenses	125,004	53,846
	670,576	288,854

20. RELATED PARTY TRANSACTIONS

	2020 TZS '000	Memo 2020 USD
Due to related parties:		
Microfinance		
BRAC Tanzania Finance Limited	730,596	314,708
BRAC International Holdings B.V.	53,753	23,155
	784,349	337,863

21. SHARE CAPITAL

Ordinary share capital

During the period the company issued 750,000 and allotted 750,000 to two shareholders. Each ordinary share has per value TZS 2,000. Below is the outstanding balance on ordinary share capital.

	Ownership	No	TZS'000	Memo USD
BRAC International Holding BV	99.9%	749,999	1,499,998	655,080
Shameran Abed	0.01%	1	1	1
		750,000	1,500,000	655,081

Capital reserve

On 1 January 2020 TZS 2,272,518,000 net assets of BRAC were transferred to BRAC Zanzibar Finance Ltd as was approved on 6 November 2019 at the extra ordinary general meeting. As at the date of transfer, TZS 1,500,000,000 shares were allotted leaving a capital reserve balance of TZS 772,518,000.

22. CONTINGENT LIABILITIES

The board of directors are not aware of any contingent liabilities as at the date of this report.

23. CAPITAL COMMITMENTS

There were no commitments for capital expenditure not provided for in these financial statements at 31 December 2020.

24. LEASES

Leases as lessee (IFRS 16)

See accounting policy in Note 3 (e). The Company leases a number of branch and office premises. The leases typically run for a period of 1 to 3 years, with an option to renew the lease after that date.

Information about leases for which the company is a lessee is presented below.

	2020 TZS '000	Memo 2020 USD
(a) Right-of-Use (ROU) asset (leased office premises)		
Balance at 1 January	103,830	43,342
Depreciation charge for the period	(34,610)	(13,525)
Balance at 31 December	69,220	29,817
(b) Lease liability (leased office premises)		
Non-cancellable operating lease commitments		
Between one and five years	73,825	31,801
Total undiscounted lease liabilities at 31 December	73,825	31,801
(c) Amounts recognised in profit or loss		
Leases under IFRS 16		
Depreciation on right-of-use asset	34,610	14,927
Interest on lease liability	10,584	4,565
	45,194	19,492
(d) Amounts recognised in statement of cash flows		
Payment of interest	10,584	4,565
Payment of principal	27,911	12,039
Total payment	38,495	16,604

The contractual maturity for lease liabilities as at 31 December 2020 are disclosed in Note 5 (b).

2020 – Operating leases under IAS 17

	Within 1 year TZS'000	1 to 2 years TZS'000	2 to 5 years TZS'000	Total contractual cash flows TZS'000
Lease liabilities	-	-	1,739,783	1,739,783

The company has no lease contracts in the capacity of a lessor.

25. SUBSEQUENT EVENTS

At the date of signing the financial statements, the directors are not aware of any other matter or circumstance arising since the end of the financial period, not otherwise dealt with in these financial statements, which significantly affected the financial position of the company and results of its operations.

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