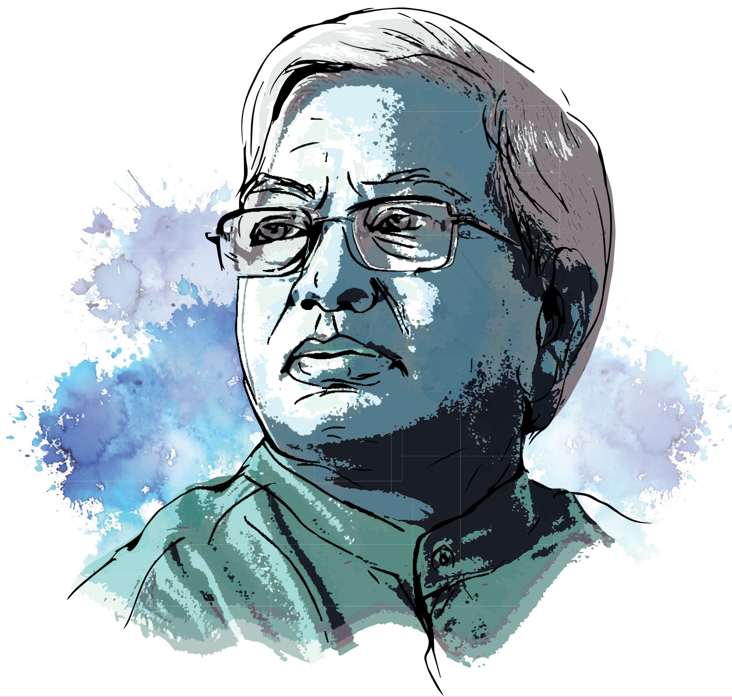
brac

ANNUAL REPORT 2019

BRAC TANZANIA FINANCE LIMITED



Sir Fazle Hasan Abed KCMG
1936 - 2019

We will not say 'rest' in peace.

Thank you, Abed bhai.

Thank you for showing us how meaningful one's life can be.

Thank you for instilling the courage in us to take on the impossible.

Thank you for showing us how to listen and learn,
to fail and to get up again in the service of others.

Thank you for making us see that no one is ordinary and
to seek potential in everyone.

We will not say 'rest' in peace.

The Abed bhai we know would not rest until we build an equal world.

We know you would not want us to lament your loss for long.

You would want us to tirelessly fight poverty and inequality,
like you did the last 47 years.

We promise to rise to that responsibility.

We promise to be worthy of your legacy.

CONTENT

LETTER FROM THE EXECUTIVE DIRECTOR

STRONGER TOGETHER IN TIMES OF TRANSITION

2019 was a year of great change and transition for BRAC International. First and foremost in our hearts, we lost our dear founder, Sir Fazle Hasan Abed. Abed Bhai's guidance, vision, and spirit are irreplaceable and deeply missed. Before his passing, Abed Bhai spearheaded the creation of a new Global Board to lead us in the post-founder era. This body is guided by the new BRAC Global Strategy which sets a bold vision for BRAC over the next decade. This strategy not only helped bring the BRAC family together but provides an enormous amount of guidance for our work, outlining a path to reach at least 250 million people by 2030.

In this spirit of transition, we began 2019 working to build a strong base for the years to come by consolidating and strengthening our programme and organisational management. Our core focus areas included improving our programme quality, both in design and implementation, by developing new program quality standards and improving our front line supervision and monitoring, evaluation, and learning (MEL) systems through targeted in-country pilots.

We also took several steps to build BI's capacity to achieve impact at scale. We developed a Microfinance Growth for Impact Plan: a strategy for converging Microfinance operations with other social development programmes, while opening a new Africa Regional Office in Nairobi, Kenya, to build leadership and greater supervision at the field level. Steps were taken to improve our grants management capacity at all levels to respond to the needs of our donors and those we serve.

While our management focus was on strengthening internal capacity, on the ground we continued to deliver innovative programs to support those living in situations of poverty and inequality. In 2019, we reached a total of 6.6 million people, predominantly women and girls, across 10 countries in Asia and Africa. BI Microfinance, our signature financial inclusion programme, provided 650,000 program participants and their families access to basic financial services and support in six countries, five in Africa and one in Asia.

The COVID-19 pandemic has emerged as a major challenge while continuing our organisational strengthening work and programming. Building on our existing capacity, we have been working with governments through National Coordination Committees and Task Forces in each of our countries of operation to quickly meet the needs of those affected by the virus. To date, BI has reached over 45 million people through our COVID-19 response programming. We have also worked to develop innovative ways to continue our existing programmes safely and effectively. For example, our early childhood education team has been utilising local radio stations to deliver play-based learning to children stuck in their homes in Uganda and Tanzania.

Our innovative spirit was not limited to fighting COVID, but also fighting the other great challenge of our time: climate change. We see how the changing climate is affecting the people we serve, decimating livelihoods, health, food security, and pushing people into poverty. We are acting now to build and deploy tools that will enable us to fight climate change-induced disasters by strengthening early warning systems and supporting locally-led climate adaptation programmes.

It is through these challenging times that we see the true spirit of BRAC. Abed Bhai always believed in the power of collective action and effort to meet the challenges that face us. It is through the support, compassion, and generosity of our partners, peers, host governments, and donors that we are able to continue fulfilling his vision to protect, help, and uplift vulnerable people everywhere.

We believe that those living in poverty and inequality are not only resilient but that they are able to take control of their own lives. Together we can build towards an even brighter future.

Dr Muhammad Musa
Executive Director
BRAC International

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I am delighted to present the Annual Report and Audited Financial Statements for BRAC Tanzania Finance Limited and BRAC Zanzibar for the year of 2019. This was a very eventful, yet challenging year as it was underpinned by effective financial performance, with net profit after tax increasing by 61%. We also lost our Chair and Founder of BRAC, the late Sir Fazle Hasan Abed, which was indeed a big blow to the whole BRAC family. To honor his legacy, we will continue to implement programmes that offer opportunities for marginalized women to help empower them.

Performance Overview

We continued to effectively perform to remain one of the leading microfinance institutions in Tanzania in terms of branch network, active borrowers, and loan outstanding. Our number of borrowers increased by 10% with over 203,000 lives being impacted across 150 branches over 116 districts in 25 regions. The portfolio outstanding increased by 12%. For the second year running, our client from the SEP programme was recognized by the Citi Micro-entrepreneurship Award, for showing growth, innovation and philanthropy in their business practices.

Strategic Initiatives

The process of converting the legal structure of BRAC Tanzania Finance Limited from a company limited by guarantee to one limited by shares, materialized in September 2019. During this process, The Government of Tanzania issued the Microfinance Service Providers Act of 2018, followed by the Microfinance (Non-Deposit Taking Microfinance Services Providers) Regulations of 2019 which came into operation on the 1st November 2019 and require compliance by 31st October 2020. The Ruka Mbele Team, which oversaw the conversion process, was changed into a Transformation Committee responsible for overseeing compliance to Tier 2 regulations and ultimately transformation into deposit-taking in 2022.

Outlook

We acknowledge the challenges that lie ahead underpinned by climate change, difficult economic environment and increased competitive pressure. It is, therefore, mandatory for us to be more responsive in anticipating and meeting the needs of our clients. We will work on strengthening our internal controls and risk management systems and embrace consumer protection principles when dealing with our clients so that we become their partner of choice. We are optimistic in delivering sustainable financial performance in 2020. We plan to prioritise digitizing our operations by embracing technology to create efficiency and convenience for our clients.

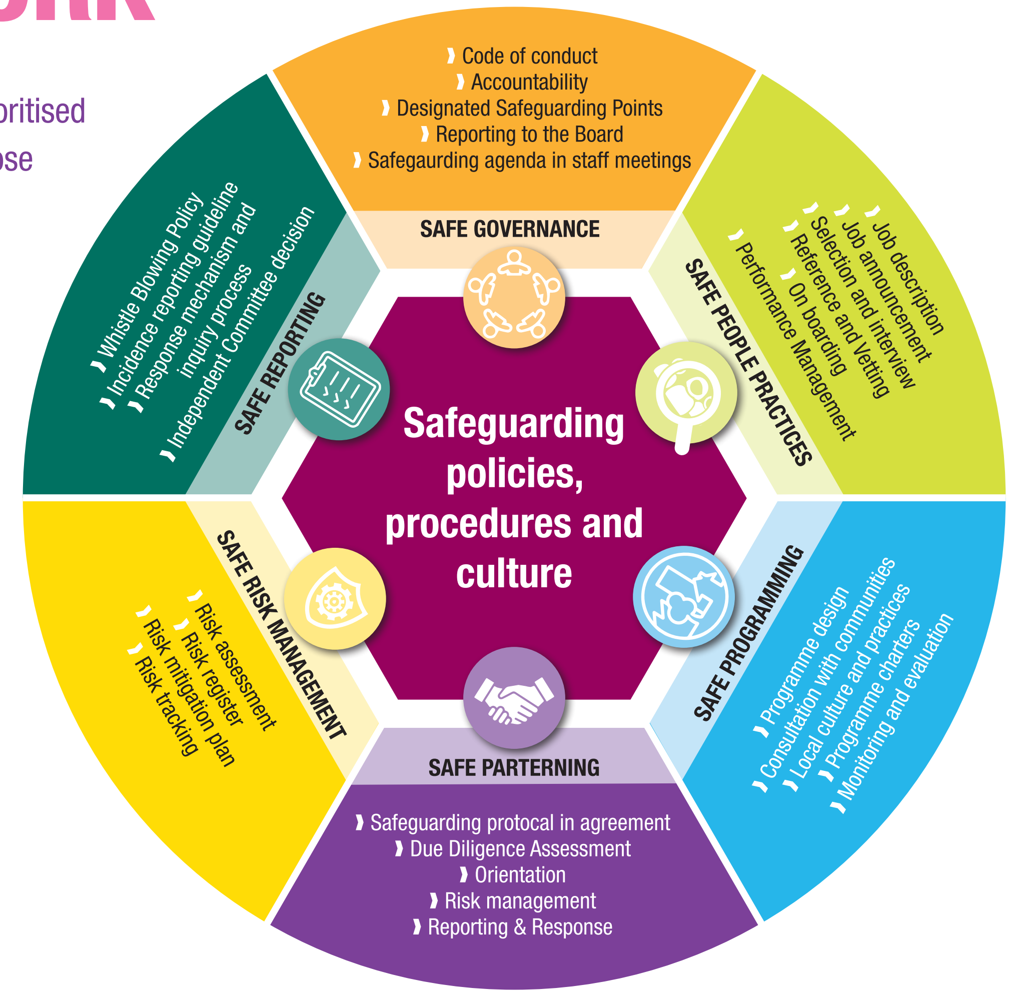
Acknowledgement

I would like to thank our strategic partners, shareholders and Board of Directors for having confidence and supporting BRAC Tanzania. I cannot thank our employees enough for their hard work and dedication to our mission of providing financial services to the underprivileged people. Finally, I express our sincere gratitude to our valued clients for their continued support and patronage.

Nkosilathi Moyo
Chief Executive Officer
BRAC Tanzania Microfinance Limited

BRAC SAFEGUARDING FRAMEWORK

Since its inception, BRAC has prioritised the safety and wellbeing of all those it works with – stakeholder of all programmes, members of staff and volunteers, and partners and donors. From the beginning of 2018, BRAC strengthened its safeguarding compliance, and has committed to ensure that safeguarding measures are incorporated across all levels of the organisation.



BRAC currently operates with six safeguarding standards: safe governance, safe people practices, safe programming, safe partnering, safe risk management and safe reporting. A safeguarding unit has been formed within BRAC Human Resources and Learning Department to provide technical support in strengthening safeguarding at organisational, programmatic and partnership levels.

BRAC has developed a standalone safeguarding policy as well as specialised policies to address sexual harassment, protection of children and adolescents, prevention of workplace bullying and violence, rights of persons with disabilities, and whistleblowing. All members of staff at BRAC are trained on safeguarding through classroom and online sessions. Different programmes and departments are in the process of developing risk mitigation plans to curb safeguarding risks associated with their work.

BRAC's overall strategy to safeguard people is firstly through means of prevention. If that fails, each case or incident violating the policy is addressed through a mechanism that is fair, transparent and objective. Our priority is to take safety measures for the complainant if and when an incident arises.

BRAC has a robust internal investigation process and unit with two separate streams to address safeguarding-related breaches, as well as two independent decision-making committees. A centralised 24/7 call centre has been established to lodge complaints. Additional emphasis is given on awareness and data management related to complaints regarding all forms of harassment and bullying. BRAC's safeguarding unit implements action plans jointly developed with DFID, and in collaboration with all its programmes and departments to build a strong safeguarding culture within the organisation.

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.

With the help of **Microfinance**, 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.

OUR COUNTRY-WISE REACH IN 2019

532,265 people reached in TANZANIA	**86,125** people reached in LIBERIA	**131,949** people reached in SIERRA LEONE
5,433 people reached in RWANDA	**2,206,531** people reached in UGANDA	**32,100** people reached in SOUTH SUDAN
1,914 people reached in PHILIPPINES	**3,668,788** people reached in AFGHANISTAN	**130,056** people reached in MYANMAR
1,366 people reached in NEPAL	A total of **6,599,435** people reached in Africa and Asia in 2019	

PROGRAMMATIC REACH OF BRAC INTERNATIONAL

833,921
people through the **Education programme** in Afghanistan, Philippines, Uganda, and Liberia

100,313
people through the **Agriculture, Food Security and Livelihood programme** in Myanmar, Nepal, South Sudan, Uganda, Liberia, and Sierra Leone

7,725
people reached through the **Emergency Preparedness and Response programme** in Myanmar, Uganda, and Sierra Leone

2,401
people reached through the **Ultra-Poor Graduation programme** in Uganda and Liberia

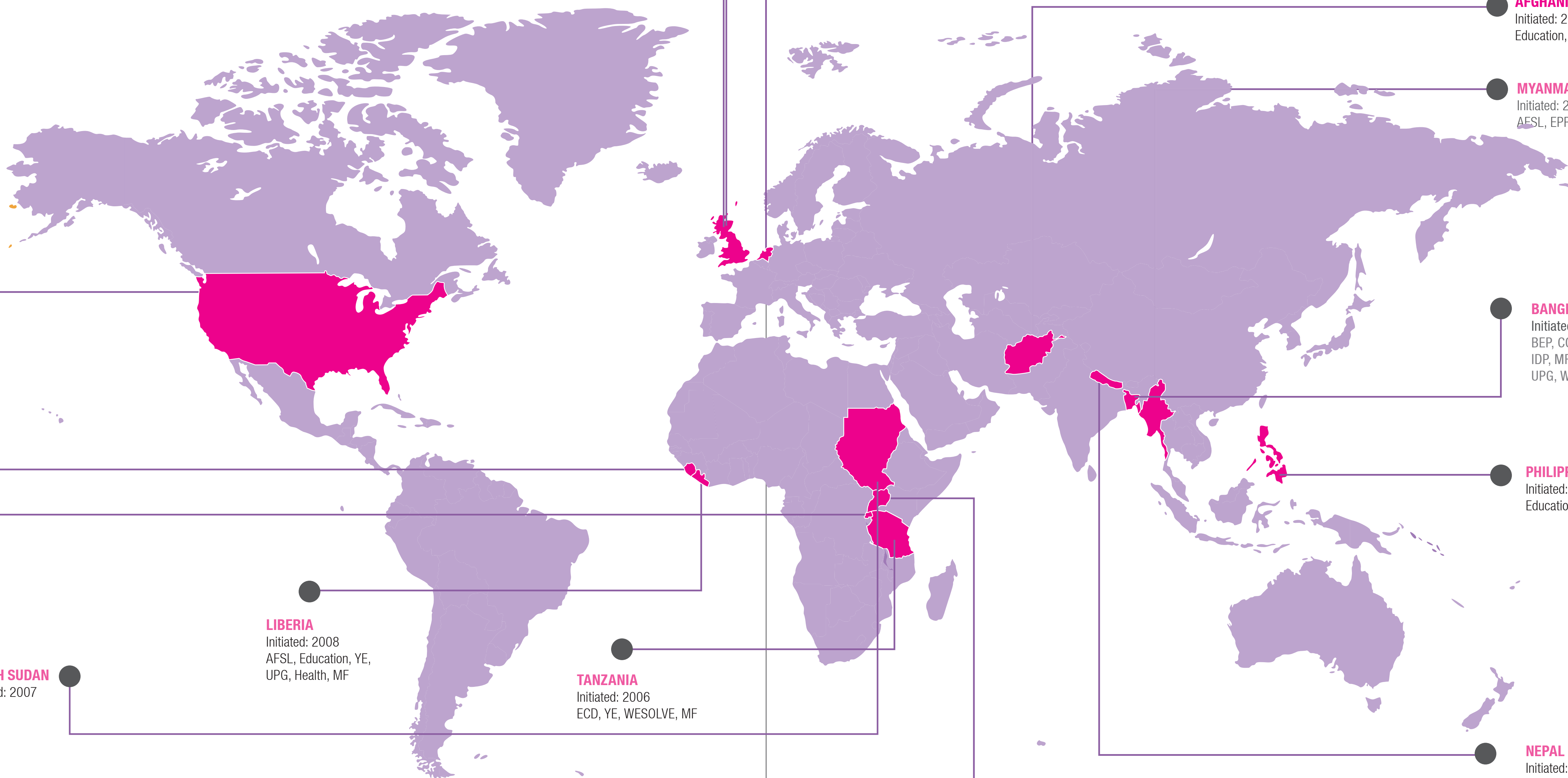
16,623
people through the **Early Childhood Development programme** in Tanzania and Uganda

59,359
people through the **Youth Empowerment programme** in Nepal, Tanzania, Uganda, Liberia, and Sierra Leone

3,307,849
people reached through the **Health programme** in Afghanistan, Nepal, Liberia, Uganda, and Sierra Leone

646,442
borrowers and **150,231** depositors through the **Microfinance programme** in Myanmar, Uganda, Liberia, Tanzania, Sierra Leone, and Rwanda

BRAC ACROSS THE WORLD



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
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

STICHTING BRAC INTERNATIONAL MANAGEMENT AS OF 31 DECEMBER, 2019

MANAGEMENT BOARD

DR MUHAMMAD MUSA
EXECUTIVE DIRECTOR
BRAC International

SYED ABDUL MUNTAKIM
DIRECTOR
Finance
BRAC International

RUTH OKOWA
DIRECTOR
Africa Region
BRAC International

M ANOWAR HOSSAIN
DIRECTOR
Asia Region
BRAC International

SHARMIN SULTAN
DIRECTOR
Human Resources
BRAC International

DIRECTORS

SHAMERAN ABED
SENIOR DIRECTOR
Microfinance, Ultra Poor Graduation
BRAC and BRAC International

DIRK BROER BOOY
SENIOR DIRECTOR
Programme Development, Resource Mobilisation and Learning,
BRAC and BRAC International

HANS ESKES
DIRECTOR
BRAC International Holding B.V.

SONIA WALLMAN
DIRECTOR
Grant Management, Programme Development, Resource Mobilisation & Learning,
BRAC and BRAC International

KENNETH CAROL VAN TOLL
DIRECTOR
Institutional Fundraising and Partnership
BRAC International

MARJOLEIN VAN DEN HOVEN
DIRECTOR
Private Sector Fundraising
BRAC International

AUDREY AHWAN
DIRECTOR
Programme Development, Resource Mobilisation and Learning,
BRAC and BRAC International

MOUTUSHI KABIR
DIRECTOR
Communications and Outreach
BRAC and BRAC International

NANDA DULAL SAHA
DIRECTOR
Internal Audit
BRAC and BRAC International

MD SAJEDUL HASAN
DIRECTOR
Humanitarian Programme
BRAC and BRAC International

STICHTING BRAC INTERNATIONAL SUPERVISORY BOARD

Marilou van Golstein Brouwers
Chair (Appointed Chair to the Board on 7 April 2020, member since 28 March 2019)

Stichting BRAC International Supervisory Board
BRAC International Holdings B.V. Supervisory Board

Marilou van Golstein Brouwers is a former chair of the Management Board and founder of Triodos Investment Management BV, 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.

Ameerah Haq
(Was appointed as the Board Chair on 6 August 2019 and resigned on 7 April 2020)

Stichting BRAC International Supervisory Board

Ms Ameerah Haq is the former UN under-secretary-general for the Department of Field Support. She held the position of under-secretary-general from 2009 till her retirement and was the senior-most Bangladeshi national in the United Nations during those years. She most recently served as the vice chair of the high-level independent panel on peace operations for the UN. She has over 39 years of UN experience including 19 years of field experience. She was the last special representative of the secretary-general (SRSG) in the UN Integrated Mission in Timor-Leste. She has also held the positions of deputy SRSG and UN resident coordinator in Sudan, as well as deputy SRSG and UN resident coordinator in Afghanistan. In addition, Ms Haq has held senior positions within the UN development programme and has served as UN resident coordinator in Malaysia and Laos.

Ms Haq currently serves on the Board for the Centre for Humanitarian Dialogue in Geneva, on the secretary-general's senior expert group on Human Rights Up Front, on the Board for the Peace Operations Training Institute, Williamsburg, Virginia. She is also a special advisor to the United Nations Foundation in Washington and a member of the Special Advisory Group of the Challenges Forum of the Folke Bernadette Academy of Sweden. Ms Haq lectures frequently at many universities and speaks at seminars hosted by think tanks and non-governmental organisations.

During her service in the UN, Ms Haq was awarded the highest Presidential Medal in East Timor by President Jose Ramos Horta, the highest civilian medal of the Lao People's Democratic Republic and the Malalai Medal of Honor from President Hamid Karzai of Afghanistan, which is among the highest civilian honors given for courage and dedication. She is also the recipient of the Julia Taft Outstanding Humanitarian Service Award during the time she served as humanitarian coordinator for her work in Darfur, Sudan.

Ms Haq received a bachelor of science degree in psychology from Western College for Women in Oxford, Ohio in 1969. She subsequently went on to receive a master of science degree in Community Organization and Planning from Columbia University, New York in 1972, and a master in business administration from New York University in 1974.

Sylvia Borren
Vice Chair

Stichting BRAC International Supervisory Board

Sylvia Borren has worked all her life within and for civil society organisations, both professionally and as a volunteer.

She was part of the Dutch and global women's and sexual rights movements (COC, ILGA, IWC for a just and sustainable Palestinian-Israeli peace) and is now advisor to the UN Women National Committee Netherlands and ATRIA (the Institute on gender equality and women's history). Ms Borren was part of the anti-poverty movement (director of Oxfam Novib 1994-2008, co-chair of the Global Call to Action against Poverty and EEN) and is now the Vice Chair of the Stichting BRAC International Supervisory Board.

She was on two national governmental advisory commissions (for Youth Policy and the Advisory Council on International Affairs), co-chair of the Worldconnectors (a Dutch think tank), on the board of a large mental health institute (Altrecht), worked as an organisational consultant with De Beuk for many years, led the project Quality Educators for All with the trade union Education International, and continues to be a member of the Worldconnectors.

Ms Borren was recently director of Greenpeace Netherlands (2011-2016), part of the Forest Stewardship Council Netherlands, and is now on the advisory commission of Staatsbosbeheer, which manages nature reserves.

She is now a freelance consultant at 'Working for Justice' and a senior adviser for Governance & Integrity.

Dr Debapriya Bhattacharya
Member

Stichting BRAC International Supervisory Board

Dr Debapriya Bhattacharya, a macroeconomist and public policy analyst, is a Distinguished Fellow at the Centre for Policy Dialogue (CPD), Dhaka, where he was its first Executive Director. He was the Ambassador and Permanent Representative of Bangladesh to WTO and UN Offices in Geneva and Vienna and former Special Advisor on LDCs to the Secretary General of UNCTAD. Earlier, he was a Senior Research Fellow at the Bangladesh Institute of Development Studies (BIDS).

He studied in Dhaka, Moscow, and Oxford. Visiting positions held include Senior Fulbright Fellow at the Center for Global Development, Washington DC. He serves on the boards and working groups of various leading institutions and editorial boards of reputed journals including Oxford Development Studies. He was General Secretary of the Bangladesh Economic Association for three consecutive terms.

Dr Bhattacharya chairs the Southern Voice, a network of 50 think tanks from Africa, Asia, and Latin America, dedicated to following up and reviewing the implementation of the Sustainable Development Goals (SDGs). He led the pioneering multi-country studies on shaping the 2030 Agenda of the United Nations, data deficits of SDG monitoring, and early signals of SDG implementation in the developing countries. He also chairs LDC IV Monitor, an independent partnership of eight international organisations and academic institutions engaged in monitoring the outcome of the fourth United Nations Conference on the Least Developed Countries.

He serves as the Convenor of the Citizen's Platform for SDGs, Bangladesh - a platform of more than 100 NGOs and private sector bodies, seeking to contribute to the delivery of the SDGs at the country level.

He recently edited the volume Bangladesh's Graduation from the Least Developed Countries Group: Pitfalls and Promises, Routledge (2018); Southern Perspectives on the Post-2015 International Development Agenda, Routledge, London (2017); team leader of the study Quest for Inclusive Transformation of Bangladesh: Who Not to be Left Behind (2017).

Parveen Mahmud FCA
Member

Stichting BRAC International Supervisory Board
BRAC International Holdings B.V. Supervisory Board

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.

Shabana Azmi
Member

Stichting BRAC International Supervisory Board

Shabana Azmi is an internationally celebrated film and theatre actress. She has won five national and five international awards for best actress.

She is a highly respected social activist and tireless campaigner for the rights of women, slum dwellers, and the underprivileged. She heads the Mijwan Welfare Society (MWS), an NGO that works for empowerment of the girl child in rural India. MWS works on education, primary health and sanitation, skill development, and employment generation.

Ms Azmi was nominated to The Rajya Sabha by the President of India in 1997. She is a recipient of the Padmashri and Padma Bhushan. She was awarded the Gandhi International Peace Prize in 2006. At the bicentennial celebrations of international human rights in Paris in 1989, she was honoured along with Mother Theresa by President Mitterand of France. She also won the Crystal Award at the World Economic Forum 2006. She has been conferred five Doctorates by renowned universities, both national and international. She has received the prestigious Martin Luther King, Rosa Park, and Chavez Awards and is a visiting professor at the University of Michigan. A former UN Goodwill Ambassador for Population and Development, she continues to work on issues of public health. She has recently been nominated as Global Leadership Ambassador for Women in Public Service Project initiated by Hillary Clinton.

Victoria Sekitoleko
Member

Stichting BRAC International Supervisory Board

Victoria Balyejusa Sekitoleko is a former Minister of Agriculture in the Ugandan government. She was a representative of the United Nations Food and Agriculture Organization (FAO) in China, Mongolia, and South Korea, and previously served as the FAO's representative in Ethiopia to the African Union and to the Economic Community for Africa.

Ms Sekitoleko is currently the chair of the governing board of the Uganda Agribusiness Alliance, which unites all those involved in the industry to optimise their ability to profitably and sustainably pursue the many global opportunities in the world's largest industry.

In 2010, Victoria founded the Uganda Community Cultural Center which trades as Speakers Forum. This trains professionals to become skilled presenters and also supports community libraries.

Ms Sekitoleko was educated at Makerere University in Kampala, where she attained a BSc in Agriculture majoring in Farm Management and Extension.

Gregory Chen
Member

Stichting BRAC International Supervisory Board
BRAC International Holdings B.V. Supervisory Board

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.

GROUP FINANCE AND AUDIT COMMITTEE

Composition of the present finance and audit committee is as follows:

- Parveen Mahmud FCA, Chair
- Dr Muhammad Musa, Member
- Syed Abdul Muntakim, Secretary
- Sylvia Borren, Member
- Hans Eskes, Member

The primary function of the finance and audit committee is to assist the governing board in fulfilling its responsibilities on the:

- Financial reporting and budgeting processes
- System of internal controls and risk assessment
- Compliance with legal and regulatory requirements
- Qualifications, independence, and performance of the external auditors
- Qualifications, independence, and performance of the internal auditfunction

BRAC TANZANIA FINANCE LIMITED GOVERNANCE AND MANAGEMENT

Country Advisory Council Members

Dr. Bill Kiwia–Chair
Dr. Hassan Mshinda
Ms. Zahra Nuru
Ms. Fatma Riyami
Mr. Audax Rukonge

Country Management Team

Mr. Nkosilathi Moyo	Chief Executive Officer.
Mr. Syed Humayun Kabir	Programme Manager, Microfinance.
Mr. Akmal Hossain	Programme Manager, Small Enterprise Program.
Mr. Thabit Ndilahomba	Head Finance
Ms. Carolyne Mwanri	Head, Human Resources and Development.
Ms. Julieth Abia	Head Internal Audit.
Mr. Nassor Mnambila	Head, Administration, Procurement and Logistics.
Mr. Amedeus Mushi	Company Secretary and Legal Manager,
Ms. Emma Mbaga	Manager, Communications

BRAC Tanzania Finance Limited.

Board Members
Dr. Muhammad Musa – Chair
Mr. Shameran Bahar Abed
Mr. Johannes Maria Antonius Eskes
Mr. Syed Abdul Muntakim
Mr. Nkosilathi Moyo (Ex Officio Member)

BRAC Zanzibar Finance Ltd

Dr. Muhammad Musa
Mr. Shameran Bahar Abed
Mr. Johannes Maria Antonius Eskes
Mr. Nkosilathi Moyo (Ex Officio Member)

MICROFINANCE

According to the World Bank, more than half of the population in Tanzania do not have access to financial services. People living in poverty are further deprived from access to financial services, particularly those living in rural and hard-to-reach areas. With a significant proportion of adult Tanzanians generating income from seasonal farming activities, access to financial services is an important factor in coping with unexpected shocks and increasing their income.

OUR APPROACH

Focusing particularly on women living in poverty in rural and hard-to-reach areas, BRAC Tanzania Finance Limited (BTFL) seeks to provide financial services responsibly to people at the bottom of the pyramid, empowering them economically and enabling them to create self-employment opportunities, and build financial resilience.

According to a 2019 baseline impact assessment (based on Lean Data surveys), clients noted improvements in their financial resilience in emergencies and 95% of our clients stated that their quality of life has improved since engaging with BRAC. Further, most of our clients could not easily name a good alternative to BRAC, indicating that we are successfully reaching people who may not otherwise have access to critical financial services.

Our products include a collateral-free, group-based microloan provided exclusively to women, small enterprise loans for entrepreneurs seeking to grow their businesses, and loans for rural smallholder farmers. Across all our endeavours, we adhere to the Client Protection Principles and the Universal Standards for Social Performance Management.

MOVING FORWARD

We aim to develop innovative, client-centric products that cater to the heterogeneous needs of people living in poverty. Leveraging learnings from past implementation, we will continue to tailor our Agrifinance product and develop a new product specifically targeting the youth segment of the country. We will also explore alternative and digital delivery channels, and move towards digitising field operations to track whether we are effectively reaching people living in poverty and achieving the desired social outcomes for our clients.

OPERATIONAL HIGHLIGHTS
(up to December 2019)

Over **203,000** borrowers, of whom **97%** are women

Largest microfinance provider in the country with **150** branches in **25** regions and **116** districts. Three new branches were opened this year

Total disbursement of **TZS 230** billion (USD 99.7 million)

One of our Small Enterprise Loan clients was a runner-up for Citi Foundation's Micro-entrepreneurship Awards

2019 BASELINE IMPACT ASSESSMENT HIGHLIGHTS

94% of clients reported increases in income after engaging with BRAC

97% reported improved ability to better plan their finances

71% reported using savings to pay for an emergency expense after working with BTFL, compared with only 42% before

83% reported contributing to family decisions more frequently

96% reported spending more on home improvements, and 82% spend more on children's education

ASPIRATIONS TO LIVE COMFORTABLY AND CONFIDENTLY

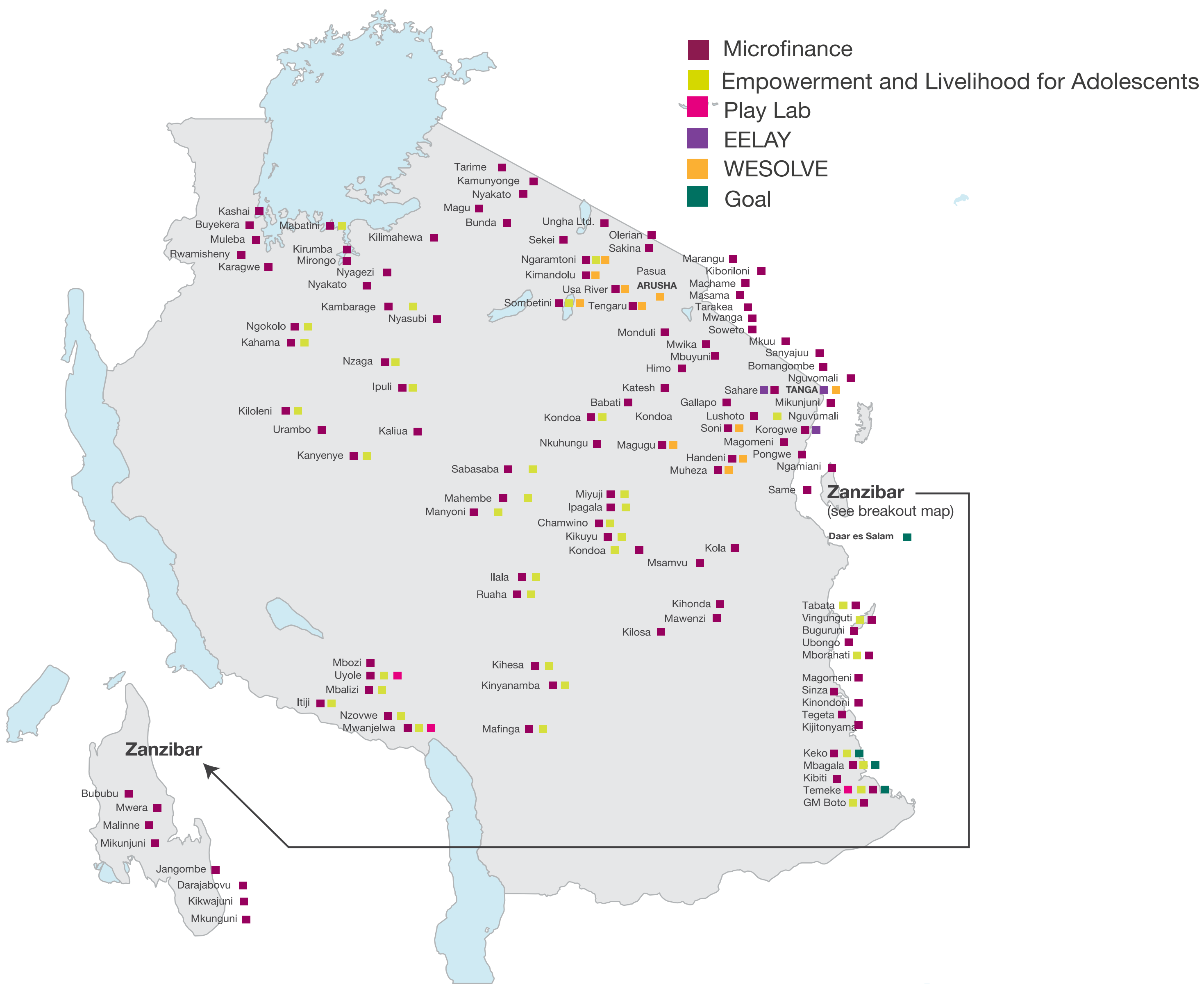
Emily Steven Simbambili lives in Tanga region, Tanzania. She got introduced to the BRAC Tanzania Microfinance programme when she was trying to find funds in order to enroll her daughter in secondary school. She heard about the organisation from a peer who also advised her to prepare documents that are required to obtain a loan.

"Although I was hesitant at first because I was afraid of debts, I still gathered up my courage and took out a small loan of only TZS 100,000 (USD 43)," she says. "I used half of it to pay for my daughter's school fees and invested the remaining half in a small business, selling chicken soup at the market," she adds.

Once Emily realised that she could pay her loans without facing any financial setback, she went ahead and took two more loans of TZS 200,000 (USD 86) and TZS 400,000 (USD 172). She kept investing in her existing business and also started new ventures by taking in bigger amounts of loan from BRAC Microfinance. Her new business ventures include charcoal business and selling beverages and ice cream. With the businesses flourishing, she could also renovate her house and get an electricity line.

While expressing her gratitude towards the BRAC Microfinance team, she says, "I am extremely grateful to BRAC Tanzania Microfinance for supporting me over the years. I am now living comfortably, confidently running my businesses and feeling more financially secured."

PROGRAMMES IN BRAC TANZANIA



FINANCIALS

OPERATIONAL AND FINANCIAL HIGHLIGHTS OF MICROFINANCE PROGRAMME

NET INCOME

BRAC in Tanzania completed a profitable year in 2019 by registering pretax profit of USD 11,119,998 in 2019 compared to USD 6,900,841 in 2018. This is mainly due to increase in the number of borrowers from 197,172 in 2018 to 197,670 in 2019 and grant utilization.

OPERATING EXPENSES

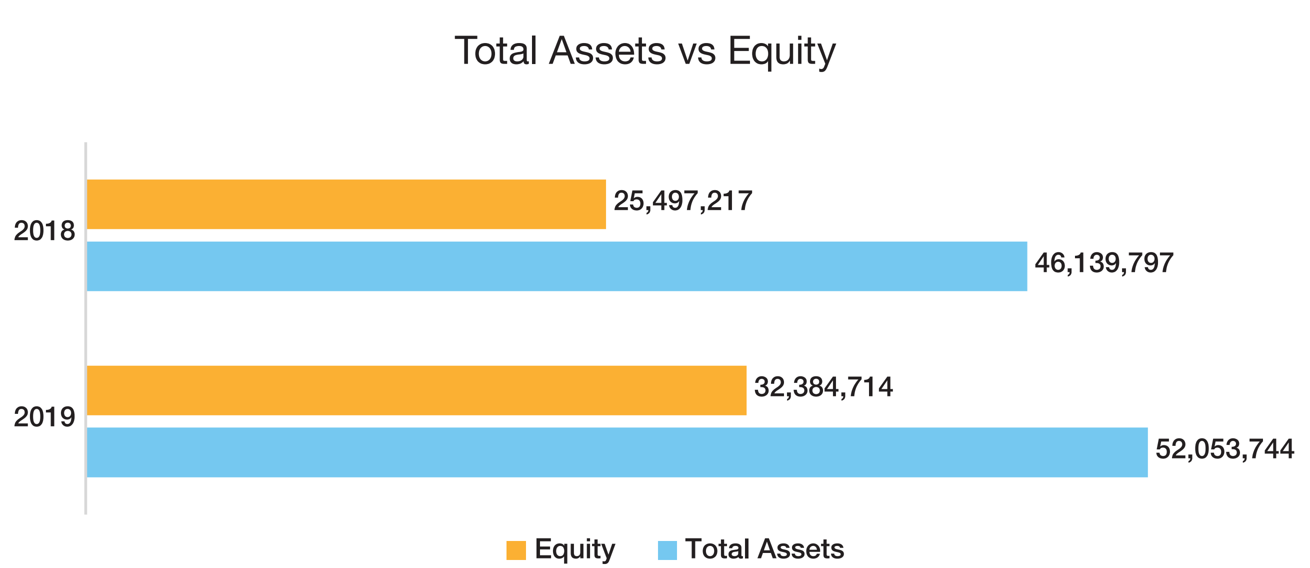
Total operating expenses for the year were USD 13,220,724 as against USD 11,816,313 in 2018.

PROVISIONS FOR IMPAIRMENT LOSSES

Total reserve as against impairment in 2019 was USD 2,095,407 as against USD 2,377,559 in 2018 . This year amount charged for impairment on loans was USD 591,261 as against USD 768,128 in 2018. Portfolio at Risk (PAR>30 days) has gone down to 1.97% in 2019 as against 2.69% in 2018.

FINANCIAL POSITION

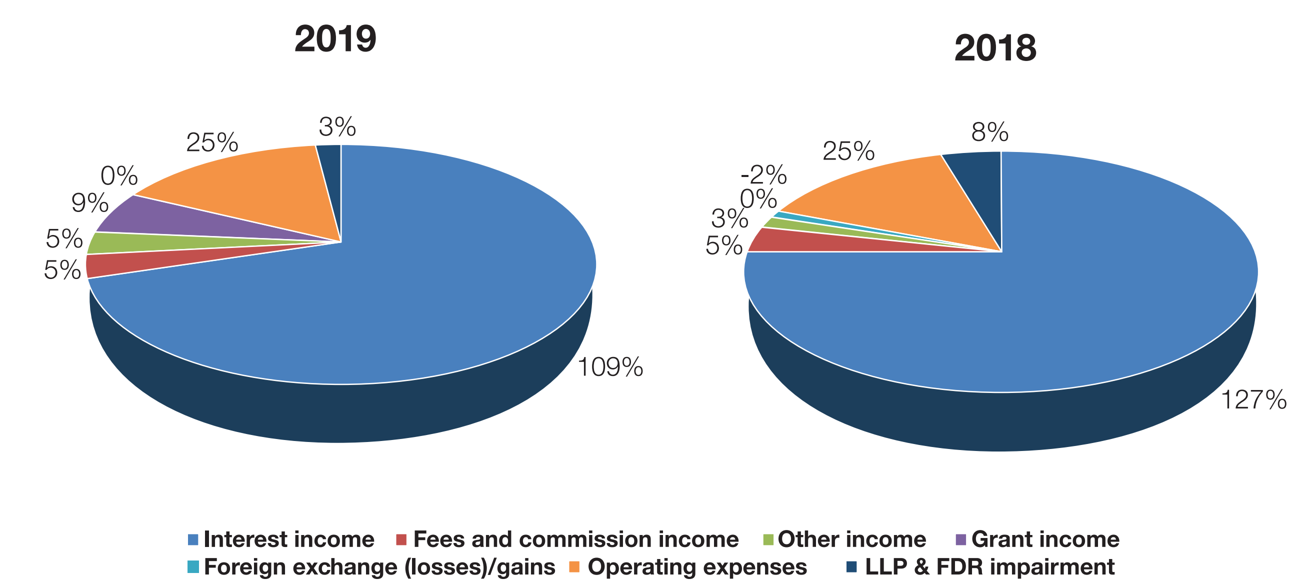
In 2019, total assets grew up by 13% to USD 52,053,744. Loans Outstanding to customers increased by 10% and is now 89% of total assets. Security deposits increased by 15% and In 2019 net Equity increased by 27% to USD 32,384,714 from USD 25,497,217. The growth of net equity is a direct result of increase in profitability.



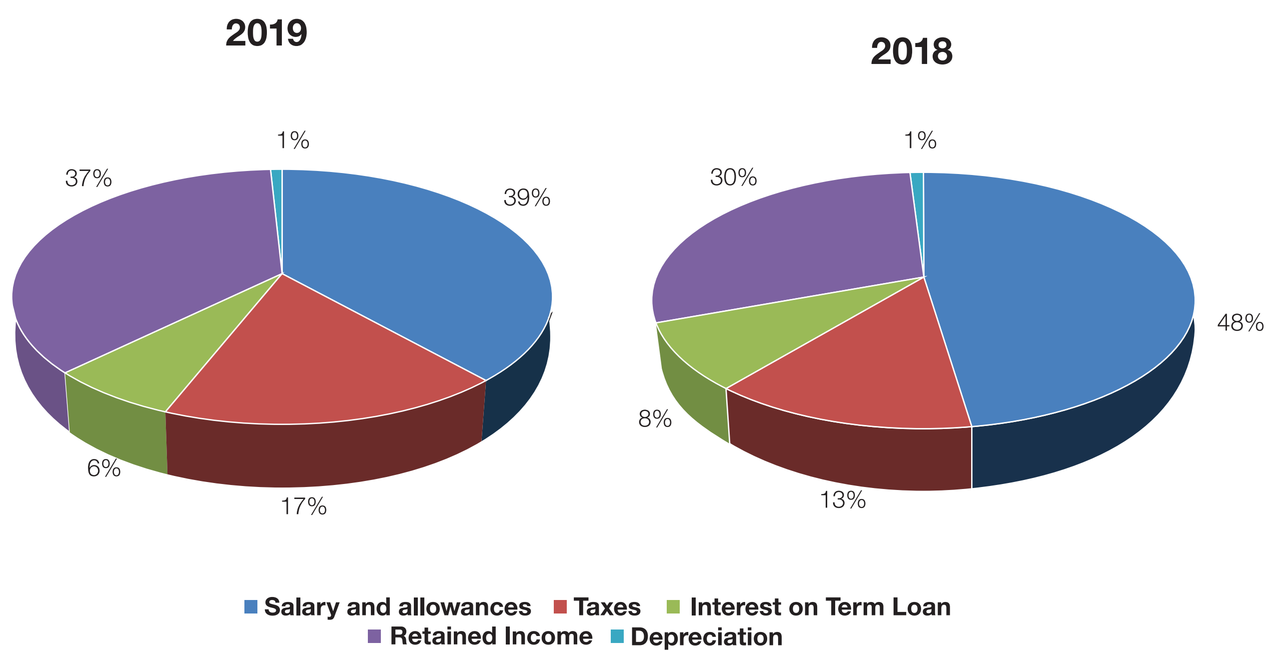
VALUE ADDED STATEMENTS

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	2019		2018	
	Amount(USD)	%	Amount(USD)	%
Interest income	22,385,567	109%	20,272,995	127%
Fees and commission income	960,889	5%	865,137	5%
Other income	1,023,697	5%	412,918	3%
Grant income	1,844,043	9%	0	0%
Foreign exchange (losses)/gains	55,172	0%	-279,597	-2%
Operating expenses	-5,112,292	-25%	-4,017,491	-25%
LLP & FDR impairment	-591,261	-3%	-1,234,251	-8%
Total value added	**20,565,815**	**100%**	**16,019,711**	**100%**



Distribution of Value Addition	2019		2018	
	Amount	%	Amount	%
Employees				
Salary and allowances	7,924,509	39%	7,639,651	48%
Local Authorities				
Taxes	3,580,464	17%	2,132,723	13%
Creditors				
Interest on Term Loan	1,337,385	7%	1,320,048	8%
Growth				
Retained income	7,539,534	37%	4,768,118	30%
Depreciation	183,923	1%	159,171	1%
Total value distributed	**20,565,815**	**100%**	**16,019,711**	**100%**



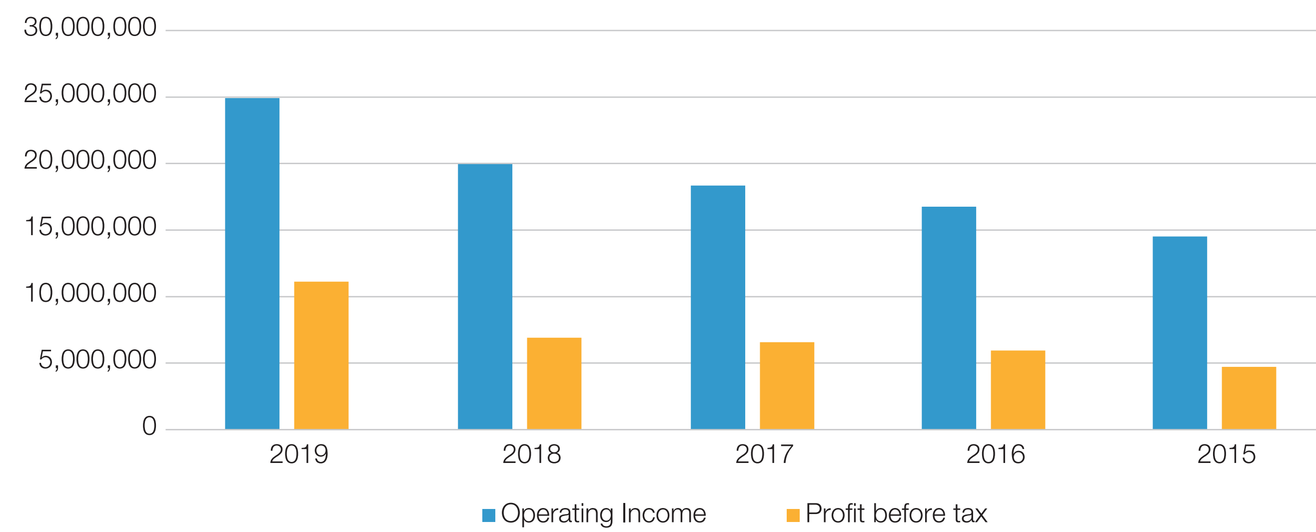
CONTRIBUTION TO GOVERNMENT EXCHEQUER

PARTICULAR	2019	2018
	USD	USD
Income Tax	3,580,464	2,132,723
Staff Tax	954,363	1,158,844
Social Insurance	195,054	155,081
Total	**4,729,881**	**3,446,648**

FIVE YEAR PERFORMANCE REVIEW

CURRENCY	2019	2018	2017	2016	2015
	USD	USD	USD	USD	USD
Income Statement					
Operating Income	24,931,983	19,951,405	18,335,697	16,759,526	14,525,998
Profit before tax	11,119,998	6,900,841	6,571,041	5,947,524	4,719,218
Financial Position					
Total Asset	52,053,744	46,139,797	41,949,044	37,699,222	30,579,011
Net Equity	32,384,714	25,497,217	18,974,137	14,617,662	10,940,765
Loans to Customers (net)	44,230,034	39,788,908	36,937,669	32,210,883	25,007,158
Cash at Bank	2,347,579	1,698,137	2,641,190	2,116,361	1,688,598
Returns and ratio					
Return on Asset	23%	16%	17%	12%	16%
Operational Self Sufficiency (OSS)	139%	129%	129%	131%	126%
Operational Statistics					
Total borrowers	197,862	197,172	183,103	162,398	138,142
Cost per Loan	47.18	47.06	45.00	36.10	62.00
PAR>30 days (%)	1.97	2.69	3.56	2.75	2

OPERATING INCOME VS PROFIT BEFORE TAX



BRAC TANZANIA FINANCE LIMITED

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

GENERAL INFORMATION

Directors

Name	Position	Nationality	Status
Mr. Faruque Ahmed	Chairperson	Bangladeshi	Retired
Dr Muhammad Mussa	Chairperson	Bangladeshi	Active
Mr. Shameran Abed	Member	Bangladeshi	Active
Mr. Johannes Maria Antonius Eskes	Member	Dutch	Active
Syed Abdul Muntakim	Member	British	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

Auditors

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. Box1863
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

Exim Bank (Tanzania) Limited
P.O. Box 1431
Dar es Salaam, Tanzania

CRDB Bank Plc.
P.O. Box268
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 2019, 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. Refer capital structure note 24 for more

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 151 branch offices in Tanzania including extending loan facilities.

6. FINANCIAL PERFORMANCE

The Company's performance during the year ended 31 December 2019 is as follows:

- Total Interest income increased by 12% from TZS 44,211 million in 2018 to TZS 49, 431 million in 2019.
- Loans to customers (Gross) increased by 9% from TZS 93,064 million in 2018 to TZS 102,018 million in 2019.
- Operating expenses increased by 14% from TZS 25,723 million in 2018 to TZS 29,293 million in 2019.
- Finance costs have increased by 3% from TZS 2,882 million in 2018 to TZS 2,960 million in 2019.

During the year, the Company had an attributable profit of TZS 16,659 billion (2018: TZS 10,358 billion) an increase of 61%. The statement of financial position as at 31 December 2019 is set out on page 38.

7. RESULTS FROM OPERATIONS

The result for the Company's operations for the year ended 31 December 2019 is set out on page 37.

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 27.

9. DIRECTORS' BENEFITS

No director has received or become entitled to receive any benefits during the financial year (2018: NIL).

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 authorised auditors, 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;
- Agri-Finance;
- Investment Fund;
- Accounts & finance;
- Internal audit;
- Monitoring;
- Information Technology (IT) and Management Information System (MIS);
- Human resources;
- Training; and
- Procurement, logistics and transportation.

13. RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 28 to the financial statements.

14. FUTURE DEVELOPMENT PLANS

In 2020 the Company has a transformation agenda which will include

- Applying to Bank of Tanzania for Tier 2 licence on Microfinance services
- In FY2021 the Company anticipate for a transformation to Tier 1 (Deposit taking institution)

These plans will need training and succession plan, improvement and revisiting of company policies and hiring of key personnel. At a minimum, the company will need to hire personnel for the positions of Head of Credit and Risk and Compliance manager.

15. KEY ACHIEVEMENTS IN 2019

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

- The number of borrowers has increased by 0.4% during the year and the amount disbursed has increased by 9% from TZS 202 billion in 2018 to TZS 220 billion in 2019.
- Agri-finance product has experienced slight increase in the amount disbursed of 5% from TZS 12.3 billion in 2018 to TZS 12.08 billion in 2019. However the portfolio at risk for Agri-finance (above 30 days/PAR 30) ranges from 0.57% to 2.25%. This has brought seasonal challenges on supporting agricultural sector which is occupied by more poor farmers. However the PAR 30 rate is still below the industry rate of 5.0% hence opportunity for growth of the product is available in the Country.
- Strengthening of supporting services such as risk management, audit, procurement and finance which has brought positive impact in the financial performance during the year.
- 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.
- Development of business relationship with other stakeholders have strengthened hence brand awareness has increased.

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.

During the year 2019, the Company spent a sum of TZS 352 million for staff training in order to improve employees' technical skills and hence effectiveness (2018: TZS 356 million).

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. During the year 2019, The Company paid TZS 439 million.

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 438 million.

Retirement benefits

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

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

BRAC TANZANIA FINANCE LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

18. GENDER PARITY

The Company had 1,475 employees in 2019 out of them 282 males and 1,475 females. In 2018 total employees were 1,667 with 234 males and 1,360 females.

19. AUDITORS

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

BY ORDER OF THE BOARD

.... 20th April 2020

Director

BRAC TANZANIA FINANCE LIMITED

STATEMENT OF DIRECTOR'S RESPONSIBILTIES

FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, 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 auditors are 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 20/04/2020 and signed by:

....

Director

BRAC TANZANIA FINANCE LIMITED

DECLARATION OF HEAD OF FINANCE
FOR THE YEAR ENDED 31 DECEMBER 2019

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 Nkulachomba 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 2019, 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: 20/04/2020

KPMG
Certified Public Accountants
2ND Floor, The luminary
Haile Selassie Road, Masaki
PO Box 1160
Dar es Salaam, Tanzania

Telephone +255 22 2600330
Fax +255 22 2600490
Email info@kpmg.co.tz
Internet www.kpmg.com/eastrafrica

INDEPENDENCE AUDITORS' REPORT TO THE MEMEBERS 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 12 to 47, which comprise the statement of financial position as at 31 December 2019, 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 2019, 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 *Auditors' 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 matter relating to the impact of uncertainties due to the Covid-19 on our audit

As disclosed in note 30 to the financial statements, Covid-19 affects the Company and results in certain uncertainties for the future financial position and performance of the Company. Uncertainties related to the potential effects of Covid-19 are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Company, the related disclosures and the appropriateness of the going concern assumption in the financial statements. The appropriateness of the going concern assumption depends on assessment of the future economic environment and the Company's future prospects and performance. The Covid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to levels of uncertainty. An audit cannot predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Covid-19.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act, 2002, Statement of Directors' responsibilities, Declaration of Finance Manager and supplementary information presented in USD in the memorandum columns. The other information does not include the financial statements and our auditors' 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.

Director are responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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 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.

KPMG
Certified Public Accountants (T)

KPMG

Signed by: CPA Vincent Onjala (TACPA 2722)
Dar es Salaam
24 April 2020

BRAC TANZANIA FINANCE LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 TZS '000	Memo* 2019 USD	2018 TZS '000	Memo* 2018 USD
Income					
Interest income	7	49,431,418	21,436,001	44,211,613	19,441,538
Interest expense	8	(2,959,654)	(1,283,458)	(2,881,871)	(1,267,269)
Net interest income		**46,471,764**	**20,152,543**	**41,329,742**	**18,174,269**
Fee and commission income	9	2,102,067	911,564	1,967,390	865,137
Other income	10	2,487,872	1,078,869	198,947	87,485
Grant income utilised	27	4,041,000	1,752,385	-	-
Total operating income		**55,102,703**	**23,895,361**	**43,496,079**	**19,126,891**
Impairment charge on loans to customers	17(b)	(1,289,777)	(559,314)	(1,720,080)	(756,385)
Impairment provision on Fixed deposits	16	-	-	(1,060,000)	(466,123)
Operating Income after Impairment Charges		**53,812,926**	**23,336,047**	**40,715,999**	**17,904,383**
Staff costs and other benefits	11	(18,322,842)	(7,945,725)	(16,746,514)	(7,364,083)
Travelling and transportation costs		(2,791,501)	(1,210,538)	(2,516,530)	(1,106,615)
Training, workshop and seminars costs		(351,952)	(152,624)	(356,175)	(156,624)
Occupancy expenses	12	(833,102)	(361,276)	(945,264)	(415,669)
Other operating expenses	13	(6,534,473)	(2,833,683)	(4,803,794)	(2,112,412)
Depreciation of property and equipment	19	(416,071)	(180,430)	(243,820)	(107,217)
Amortisation	20	(43,057)	(18,672)	(110,578)	(48,625)
Total operating expenses		**(29,292,998)**	**(12,702,948)**	**(25,722,675)**	**(11,311,245)**
Profit before taxation		**24,519,928**	**10,633,099**	**14,993,324**	**6,593,138**
Tax expense	14	(7,861,173)	(3,409,008)	(4,634,909)	(2,038,147)
Profit for the year		**16,658,755**	**7,224,091**	**10,358,415**	**4,554,991**
Other comprehensive income		-	-	-	-
Foreign currency translation gain/(loss)		-	-	-	-
Total comprehensive income for the year		**16,658,755**	**7,224,091**	**10,358,415**	**4,554,991**

Notes and related statements forming part of the financial statements appear on pages 41 to 72.

Report of the auditors is on page 35 to 36.

*Supplementary information presented in United States Dollar

BRAC TANZANIA FINANCE LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	2019 TZS '000	Memo* 2019 USD	2018 TZS '000	Memo* 2018 USD
ASSETS					
Cash and bank balances	15	5,265,407	2,294,295	3,780,167	1,644,623
Fixed deposits	16	9,327,198	4,064,139	6,890,486	2,997,819
Loans to customers	17	97,330,189	42,409,668	87,670,168	38,142,340
Other assets	18	692,407	301,702	835,016	363,287
Property and equipment	19	936,722	408,158	845,421	367,814
Intangible assets	20	106,484	46,398	76,310	33,200
Deferred tax asset	21	1,442,519	628,549	1,976,355	859,846
Total assets		**115,100,926**	**50,152,909**	**102,073,923**	**44,408,929**
LIABILITIES AND EQUITY					
Long term liabilities					
Long term portion of term loans	26	15,426,722	6,721,883	15,490,308	6,739,312
Total long term liabilities		**15,426,722**	**6,721,883**	**15,490,308**	**6,739,312**
Current liabilities					
Other liabilities	22	796,631	347,114	1,077,972	468,989
Related party payables	23	1,182,188	515,115	2,209,162	961,132
Corporate tax payable	14(b)	2,203,153	959,981	2,006,704	873,049
Loan security fund	25	19,933,319	8,685,542	17,961,533	7,814,459
Current portion of term loans	26	3,506,537	1,527,903	1,093,474	475,734
Deferred revenue grants	27	-	-	5,174,483	2,251,243
Total current liabilities		**27,621,828**	**12,035,655**	**29,523,328**	**12,844,606**
Total liabilities		**43,048,550**	**18,757,538**	**45,013,636**	**19,583,918**
Equity					
Capitalised donated equity		13,076,058	5,688,953	13,076,058	5,688,953
Ordinary share capital	24	15,000,000	6,535,948	-	-
Retained earnings		43,976,318	19,101,449	43,984,229	19,479,911
Translation reserve		-	69,021	-	(343,853)
Total equity		**72,052,376**	**31,395,371**	**57,060,287**	**24,825,011**
Total equity and liabilities		**115,100,926**	**50,152,909**	**102,073,923**	**44,408,929**

The financial statements on pages 41 to 72 were approved for issue by the Board of Directors on 20/04/2020 and signed on its behalf by;

Director
BRAC Tanzania Finance Ltd

Chief Executive Officer
BRAC Tanzania Finance Ltd

Notes and related statements forming part of the financial statements appear on pages 41 to 72.

Report of the auditors is on page 35 to 36.

*Supplementary information presented in United States Dollar

BRAC TANZANIA FINANCE LIMITED

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	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 2018	**8,039,570**		**32,951,176**	**40,990,746**	**18,292,696**
Profit for the year	-	-	10,358,415	10,358,415	4,364,767
Adjustment related to prior year (unrecoverable prepaid) balance)	-	-	(20,375)	(20,375)	(8,960)
Total comprehensive income	-	-	10,338,040	10,338,040	4,355,807
Transactions with owners:					
Donated equity*	5,036,488	-	-	5,036,488	**2,214,737**
					305,624
Capital assets acquired**	-	-	695,013	695,013	**302,377**
					(343,853)
Currency translation reserve	-	-	-	-	
Balance as at 31 December 2018	**13,076,058**	**-**	**43,984,229**	**57,060,287**	**24,825,011**
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**
Transactions with owners:					
				-	
Ordinary shares allotment***	-	15,000,000	(15,000,000)		**-**
Transfer from reserve on dividend payment (WHT)	-	-	(1,666,666)	**(1,666,666)**	**(722,752)**
	-	**15,000,000**	**(16,666,666)**	**(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**

(*) Donated equity relates to equity contributed by donors from prior years.

(**) Capital assets acquired relate to fixed assets worth TZS 570 million (Cost- TZS 1,238 million; Accumulated depreciation TZS 668 million) from BRAC Maendeleo at closure of the Livelihood Enhancement through Agricultural Development (LEAD) project following donor approval.

(***) During the period the Company changed its registration status from a company limited by guarantee to a company limited by shares. Consequently TZS 15 billion of worth of shares were issued. The share issue was done through a dividend issue. The shareholding structure is disclosed in Note 24.

Notes and related statements forming part of the financial statements appear on pages 41 to 72.

* Supplementary information presented in United States Dollar

	Notes	2019 TZS '000	Memo* 2019 USD	2018 TZS '000	Memo* 2018 USD
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		24,519,928	10,633,099	14,993,324	6,593,138
Adjustment for non-cash items					
Depreciation charge and amortisation	19&20	459,128	199,102	354,398	155,842
Amortisation of capital grants	27	(4,041,000)	(1,752,385)	-	-
Interest expense on borrowings	26	2,944,636	1,276,945	2,881,871	1,267,269
Loans written off	17(b)	1,996,414	869,898	1,882,192	827,672
Interest on lease liabilities	29	15,018	6,513	-	-
Impairment charge on loans to customers	17(b)	1,289,777	559,314	1,720,080	756,385
Impairment charges of fixed deposits		-	-	1,060,000	466,123
		27,183,901	**11,792,486**	**22,891,865**	**10,066,429**
Changes in:					
- Other assets		73,562	31,900	266,260	117,085
- Deposits		(2,436,712)	(1,056,683)	(2,406,917)	(1,058,414)
- Other liabilities		(2,526,831)	(1,095,764)	876,583	385,464
- Loans to customers		(12,946,212)	(5,614,142)	(13,695,196)	(6,022,302)
Cash flow from operating activities		**9,347,708**	**4,057,797**	**7,932,595**	**3,488,262**
Tax paid	14	(7,061,841)	(3,077,055)	(3,613,874)	(1,589,159)
Interest paid on borrowings	26	(3,133,290)	(1,358,755)	(3,140,379)	(1,380,945)
Interest paid on lease liabilities	29	(15,018)	(6,513)	-	-
Net cash (used in)/generated from operating activities		**(862,441)**	**(384,526)**	**1,178,342**	**518,158**
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of PPE and Intangible assets	19	(246,170)	(107,264)	(228,430)	(99,590)
Proceeds from disposal of assets		5,567	2,414	-	-
Net cash used in investing activities		**(240,603)**	**(104,850)**	**(228,430)**	**(99,590)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Share Capital		15,000,000	6,535,948	-	**-**
Dividend Paid during the year		(16,666,666)	(7,227,522)	-	-
Term loans acquired during the year	26	7,433,095	3,223,372	338,263	147,167
Repayment of the term loans - principal	26	(4,894,964)	(2,122,708)	(5,507,617)	(2,396,179)
Payment of lease liability - principal	29	(254,967)	(110,566)	-	-
Loan security funds received during the year	25	7,166,014	3,122,446	20,153,612	8,862,314
Loan security funds paid during the year	25	(5,194,228)	(2,263,281)	(17,920,156)	(7,880,178)
Net cash generated from financing activities		**2,588,284**	**1,157,689**	**(2,935,898)**	**(1,266,876)**
Net increase/(Decrease) in cash and cash equivalents		**1,485,240**	**668,313**	**(1,985,986)**	**(848,308)**
Cash and cash equivalents at the beginning of the year	15	3,780,167	1,644,623	5,766,153	2 ,573,027
Foreign exchange translation reserve		-	(18,641)	-	(80,096)
Cash and cash equivalents at the end of the year	15	**5,265,407**	**2,294,295**	**3,780,167**	**1,644,623**

Notes and related statements forming part of the financial statements appear on pages 41 to 72.

Report of the auditors is on page 35 to 36.

*Supplementary information presented in United States Dollar

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 2nd October 2019. The Company remained dormant since incorporation until 1 January 2012 when it took over the Micro finance division of BRAC Tanzania. The Company is situated at Plot 17, Natai Plaza, and Coca cola Road, Dar es Salaam, Tanzania.

The company is part of the global BRAC family and BRAC International Holdings BV holds majority shareholding. Refer note 24 for capital and ownership structure.

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. The company adopted IFRS 16 from 1 January 2019 as explained under note 3.

(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 2019 of TZS 2,295 (2018: TZS 2,298.50) to USD 1 except for additions to property and equipment which were translated at an average rate for the period of TZS 2,305.88 (2018:TZS 2,274.08) to USD 1;
- Income and expenses were translated using an average exchange rate for the period of TZS 2,305.88 (2018:TZS 2,274.08) 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. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Company initially applied IFRS16 Leases from 1 January 2019, together with a number of new standards and amendments, that became effective but do not have a material effect on the Company's financial statements.

IFRS 16 introduced a single, on-balance sheet accounting model for leases. As a result, the company, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Company applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

A. Definition of a lease
Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 4 (p).

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee
As a lessee, the Company leases a number office premises for its branches around Tanzania. The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for some of these leases – i.e. these leases are on-balance sheet.

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

i. Leases classified as operating leases under IAS 17

Previously, the Company classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019 (see Note 4(o) (c)). Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Company:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends
- within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. As a lessee (continued)
i. *Leases classified as operating leases under IAS 17 (continued)*

As a result the Company has not applied IFRS 16 on lease contracts for a number of branches with remaining term of less than 12 months and management does not believe that the contracts would be renewed due to a number of transformation plans that will start in 2020. Management will continue reviewing the lease agreement and decide accordingly as the future dictates.

The company does not have lease contracts in the capacity of a lessor.

C. Impact on financial statements

• *Impact on transition*

On transition to IFRS 16, the Company recognised additional right-of-use assets and right-of-use-liabilities. The impact on transition is summarised below.

	January 2019 1 TZS'000
(Right-of-use-assets (included in property and equipment	340,000
(Right-of-use-liabilities (included in other liabilities	340,000

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 16.7%.

	TZS'000 January 2019 1
Operating lease commitments as at 31 December 2018 as disclosed under IAS 17	2,283,848
Discounted using the incremental borrowing at 1 January 2019	1,801,501
Recognition exemption for leases with less than 12 months of lease term as at transition	(1,461,501)
Lease liabilities recognised at 1 January 2019	340,000

• *Impact for the period*

As a result of application of IFRS 16, in relation to the leases that were previously classified as operating leases, the company recognised TZS 214 million of right-of-use assets and TZS 85 million of lease liabilities as at 31 December 2019.

Also in relation to those leases under IFRS 16, the company has recognised depreciation and interest costs, instead of operating lease expense. During the year ended 31 December 2019, the company recognised TZS 136 million of depreciation charges on right-of-use assets and TZS 15 million of interest costs from these leases.

D. Extension options

Some leases of office premises contain extension options exercisable by the company before the end of the non-cancellable contract period. Where practicable, the company seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the company and not by the lessors. The company assesses at lease commencement date whether it is reasonably certain to exercise the extension options.

4. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (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.

4. SIGNIFICANT ACCOUNTING POLICIES (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: Policy applicable from 1 January 2018.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (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.

4. SIGNIFICANT ACCOUNTING POLICIES (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.

4. SIGNIFICANT ACCOUNTING POLICIES (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.

4. SIGNIFICANT ACCOUNTING POLICIES (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.

4. 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) New standards and interpretation in issue but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these financial statements.

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

– Amendments to References to Conceptual Framework in IFRS Standards.

– Definition of a Business (Amendments to IFRS 3).

– IFRS 17 Insurance Contracts.

(p) Leases

Policy applicable from 1 January 2019

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Leases (continued)

Policy applicable from 1 January 2019 (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.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Company determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:

• the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Leases (continued)

Policy applicable before 1 January 2019 (continued)

• the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output

In the comparative period, as a lessee the Company classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Company's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

5. 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.

5. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

(a) Credit risk (continued)

Management of credit risk (continued)

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. The table below provides details of exposure to credit risk

Loans to customers

	2019 TZS'000	2018 TZS'000
Standard	98,809,706	88,354,574
Watch List	1,200,705	1,096,030
Substandard	318,195	690,592
Doubtful	125,553	148,110
Loss	1,563,658	2,775,128
Gross loans to customers	**102,017,817**	**93,064,434**
Allowance for impairment	(4,687,628)	(5,394,266)
Net loans	**97,330,189**	**87,670,168**

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.

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5. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

(b) Liquidity risk (continued)

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.

December 2019 31	Carrying amount TZS'000	Contractual cash flows TZS'000	Within year 1 TZS'000	to 2 1 years TZS'000	to 5 2 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**

(*) 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 2018	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	17,961,533	17,961,533	17,961,533	-	-
Term loans	16,583,782	16,583,782	1,093,474	6,979,396	8,510,912
Deferred revenue grants	5,174,483	5,174,483	-	5,174,483	-
Other current liabilities	1,510,821	1,510,821	1,510,821	-	-
Related Party Payables	2,209,162	2,209,162	2,209,162	-	-
Total	**43,439,781**	**43,439,781**	**22,774,990**	**12,153,879**	**8,510,912**

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.

5. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

(d) Currency risk (Continued)

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The table below summarises the exposure to foreign currency exchange rate risk at 31 December 2019. Assets and liabilities are categorised by currency. (Equivalent Amounts in TZS'000)

31 December 2019	2019 TZS('000)	2018 TZS('000)
Financial Assets		
Cash and bank balance	431,285	107,200
Total assets	**431,285**	**107,200**
Financial liabilities		
Term loans*	15,910,807	13,990,308
Related party payables	1,182,188	515,114
Deferred grants	-	5,174,483
Total liabilities	**17,092,995**	**19,679,905**
Net on balance sheet position	**(16,661,710)**	**(19,572,705)**

* Out of the amount TZS 15.7 billion relates to term loans that are USD based loans hedged and recorded in local currency at the inception phase. 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 2019 is USD 1 = 2,295 (2018: TZS 2,298.50) strengthening of USD against TZS by 5% means that the rate of exchange will move to USD 1 = TZS 2,409 (2018: TZS 2,482.92)

If the exchange rate changes by 5% the Company is likely to experience foreign exchange loss of TZS 14 Million (2018: The movement in exchange was not expected to have significant impact on the profit or loss as most the transactions and commitments were in local currency).

(i) 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.

5. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

(c) Market risk (Continued)

The table below shows interest exposure on assets and liabilities as at 31 December 2019. Amounts in TZS ('000)

December 2019 31	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
Lease liabilities	-	85,033	-	-	**85,033**	-
Loan security fund	-	19,933,318	-	-	**19,933,318**	19,933,318
Term loans	-	3,506,537	14,715,934	710,788	**18,933,259**	225,086
Related party liabilities	-	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)**

December 2018 31	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	3,780,167	- -	-	-	3,780,167	3,780,167
Fixed deposits	-	6,890,486	-		6,890,486	-
Loans to customers		87,670,168			87,670,168	-
Other assets		402,554		-	402,554	-
Total assets	**3,780,167**	**94,963,208**	**-**	**-**	**98,743,375**	**3,780,167**
LIABILITIES						
Other liabilities	1,077,972	-	-	-	1,077,972	1,077,972
Loan security fund		17,961,533	-	-	17,961,533	17,961,533
Term loans	-	1,093,474	6,979,396	8,510,912	16,583,782	225,086
Deferred revenue grants	-	5,174,483	-	-	5,174,483	5,174,483
Related party payables	-	2,209,162	-	-	2,209,162	2,209,162
Total liabilities	**1,077,972**	**26,438,652**	**6,979,396**	**8,510,912**	**43,006,932**	**26,648,236**
Net assets/(liabilities)	**2,702,195**	**68,524,556**	**(6,979,396)**	**(8,510,912)**	**55,736,443**	**(22,868,069)**

5. FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES (Continued)

(c) Market risk (Continued)

(ii) Interest rate risk (continued)

Sensitivity analysis

The average market lending rate for the year ended 31 December 2019 is 17% (2018: 21%). If the interest rate rise by 5% the Company performance would be impacted by TZS 147m (2018: NIL)

(d) 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;
- 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.

(d) 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).

6. 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 5).

6. USE OF ESTIMATES AND JUDGEMENTS (Continued)

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 2019, 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 (2014-2018) 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.

(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.

6. USE OF ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (continued)

(ii) Fair values of financial instruments

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.

	Level 2 TZS'000	Carrying value TZS'000	Fair values TZS'000
31 December 2019			
ASSETS			
Cash and bank balances	5,265,407	5,265,407	5,265,407
Fixed deposits	9,327,198	9,327,198	9,327,198
Loans to customers	97,330,189	97,330,189	97,330,189
Other assets	681,945	681,945	681,945
Total assets	**112,604,739**	**112,604,739**	**112,604,739**
LIABILITIES			
Other liabilities	673,686	673,686	673,686
Lease liabilities	85,033	85,033	85,033
Loan security fund	19,933,318	19,933,318	19,933,318
Related party payables	1,182,188	1,182,188	1,182,188
Term loans	18,933,259	18,933,259	18,933,259
Total liabilities	**40,807,484**	**40,807,484**	**40,807,484**
31 December 2018			
ASSETS			
Cash and bank balances	3,780,167	3,780,167	3,780,167
Fixed deposits	6,890,486	6,890,486	6,890,486
Loans to customers	87,670,168	87,670,168	87,670,168
Other assets	402,554	402,554	402,554
Total assets	**98,743,375**	**98,743,375**	**98,743,375**
LIABILITIES			
Other liabilities	1,077,972	1,077,972	1,077,972
Loan security fund	17,961,533	17,961,533	17,961,533
Related party payables	2,209,162	2,209,162	2,209,162
Term loans	16,583,782	16,583,782	16,583,782
Deferred revenue grants	5,174,483	5,174,483	5,174,483
Total liabilities	**43,006,932**	**43,006,932**	**43,006,932**

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.

6. USE OF ESTIMATES AND JUDGEMENTS (Continued)

Key sources of estimation uncertainty (continued)

(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.

7. INTEREST INCOME

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Micro finance	39,681,090	17,207,758	35,012,194	15,396,201
Small enterprise program	6,225,998	2,699,912	5,590,633	2,458,415
Adolescent development program	663,446	287,704	742,924	326,692
Empowerment and livelihood for adolescent program	238,684	103,506	332,259	146,107
Agriculture	2,597,982	1,126,618	2,490,501	1,095,169
We Solve	3,449	1,496	11,029	4,850
Pembejeo	19,330	8,382	9,383	4,126
Job Holder Loan	1,439	625	22,690	9,978
	49,431,418	**21,436,001**	**44,211,613**	**19,441,538**

8. INTEREST EXPENSE

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Interest expense on loans from:				
-Bank of Africa	152,924	66,316	-	-
-Responsibility	214,364	92,959	109,997	48,370
-BRAC International	-	-	4,626	2,034
-Global Partnership Social Investment Fund	927,647	402,275	927,647	407,922
-Stromme Microfinance (E.A) Ltd	362,750	157,307	591,750	260,215
-Triodos Investment Management	615,434	266,884	615,434	270,630
-FMO	606,504	263,011	606,504	266,703
-Fund management fees	189,374	82,122	145,937	64,174
-BRAC (Zanzibar) finance costs allocation	(124,361)	(53,929)	(120,024)	(52,779)
Interest expense on lease liabilities	15,018	6,513	-	-
	2,959,654	**1,283,458**	**2,881,871**	**1,267,269**

9. FEE AND COMMISSION INCOME

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Loan appraisal fee	2,065,837	895,853	1,934,950	850,872
Loan application fee	36,230	15,711	32,440	14,265
	2,102,067	**911,564**	**1,967,390**	**865,137**

10. OTHER INCOME

Gain due to early repayment of loan	160	69	88	39
Interest income from bank deposit	521,613	226,198	675,529	297,068
Sale from passbooks	56,557	24,526	74,862	32,920
Administrative fees from Insurance business	62,237	26,989	73,743	32,428
Gain from disposal of assets	-	-	10,550	4,639
Release on FDR impairment	1,720,080	745,915	-	-
Foreign exchange gain/ (loss)	127,225	55,172	(635,825)	(279,609)
	2,487,872	**1,078,869**	**198,947**	**87,485**

11. STAFF COSTS AND OTHER BENEFITS

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Salaries and benefits	17,595,289	7,630,221	16,266,169	7,153,049
Bonus	727,553	315,504	480,345	211,034
	18,322,842	**7,945,725**	**16,746,514**	**7,364,083**

12. OCCUPANCY EXPENSES

Rent	739,030	320,482	857,878	377,242
Utilities	94,072	40,794	87,386	38,427
	833,102	**361,276**	**945,264**	**415,669**

13. OTHER OPERATING EXPENSES

Maintenance and general expenses	1,089,970	472,667	438,052	192,628
Cash write off	13,912	6,033	16,809	7,391
Members death benefit expenses	15,255	6,615	60,210	26,477
Office Vehicle running expenses	75,983	32,950	74,444	32,736
Audit and other legal fees	402,243	174,433	142,307	62,578
Head Office logistics and management expenses	1,932,626	838,086	1,691,536	743,833
Stationery expenses	478,778	207,623	294,606	129,550
Staff medical Insurance	438,784	190,279	382,124	168,035
Software Maintenance	330,712	143,414	266,367	117,132
Business licence fees	245,679	106,539	417,258	183,485
Bank Charges	200,593	86,987	142,668	62,736
Other expenses	1,309,938	568,057	877,413	385,831
	6,534,473	**2,833,683**	**4,803,794**	**2,112,412**

14. TAXATION

(a) Tax expense

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Current income tax charge	7,327,337	3,177,510	4,892,422	2,151,385
Deferred tax (credit) /charge for the year	533,836	231,498	(257,513)	(113,238)
	7,861,173	**3,409,008**	**4,634,909**	**2,038,147**
Effective rate of income tax	**32.5%**		**30.7%**	
Tax rate reconciliation	%		%	
Standard rate of income tax	**30**		30	
Effect of prior year deferred tax under-provisions	**0.9**		-	
Tax effect of penalties and interests	**0.7**		-	
Tax effect of non-deductible expenses	**0.9**		0.7	
Computed effective rate of tax	**32.5**		**30.7**	

(a) Tax payable

At 1 January Balance b/f	2,006,704	873,049	728,156	324,925
Charge during the year	7,327,337	3,177,510	4,892,422	2,151,385
Withholding tax utilised during the year	(69,047)	(30,116)	-	-
Tax paid	(7,061,841)	(3,077,055)	(3,613,874)	(1,589,159)
Foreign exchange translation reserve	-	16,593	-	(14,102)
At 31 December	**2,203,153**	**959,981**	**2,006,704**	**873,049**

15. CASH AND BANK BALANCES

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Cash in hand	154,910	67,499	53,307	23,192
Cash at bank	5,110,497	2,226,796	3,726,860	1,621,431
	5,265,407	**2,294,295**	**3,780,167**	**1,644,623**

16. FIXED DEPOSITS

Principal	8,900,324	3,878,137	7,615,897	3,313,420
Interest receivable	426,874	186,002	334,589	145,568
Total fixed deposits	**9,327,198**	**4,064,139**	**7,950,486**	**3,458,988**
Provision for impairment	-	-	(1,060,000)	(466,123)
Foreign exchange translation difference	-	-	-	4,954
Net fixed Deposit reserve	**9,327,198**	**4,064,139**	**6,890,486**	**2,997,819**

17. LOANS TO CUSTOMERS

(a) Net loans to customers

(Loans to customers (gross	102,017,817	44,452,207	93,064,434	40,489,203
Provision for impairment on loans to customers [([Note-16(b	(4,687,628)	(2,042,539)	(5,394,266)	(2,346,863)
Balance at 31 December	**97,330,189**	**42,409,668**	**87,670,168**	**38,142,340**

(b) Impairment charge on loans to customer

Balance as at 1 January	5,394,265	2,346,863	4,848,424	2,163,509
Day one adjustment on initial application of IFRS 9	-	-	707,954	315,910
Charge for the year	1,289,777	559,314	1,720,080	756,385
Write offs	(1,996,414)	(869,898)	(1,882,192)	(827,672)
Foreign exchange translation difference	-	6,260	-	(61,269)
Balance at 31 December	**(4,687,628)**	**(2,042,539)**	**(5,394,266)**	**(2,346,863)**

(c) Gross loans to customers

Micro finance	77,569,121	33,799,181	71,939,630	31,298,512
Small enterprise program	16,244,080	7,078,030	15,461,349	6,726,713
(We Solve (Danida	12,812	5,583	1,699,735	739,497
Empowerment and livelihood for adolescent program	1,399,622	609,857	625,241	272,021
Agriculture	6,780,381	2,954,414	3,327,964	1,447,885
Pembejeo	7,978	3,476	2,510	1,092
Job Holder Loan	3,823	1,666	8,005	3,483
Balance as at 31 December	**102,017,817**	**44,452,207**	**93,064,434**	**40,489,203**

18. OTHER ASSETS

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Advances and prepayments	215,813	94,036	195,025	87,378
Stock of consumables	206,399	89,934	131,620	57,263
Interest expense receivable from Zanzibar	170,877	74,456	256,516	111,601
Employee Receivables	2,792	1,217	5,813	-
Advance withholding tax on FDR interest	10,462	4,559	100,004	43,508
Current account in transit	86,064	37,500	146,038	63,537
	692,407	**301,702**	**835,016**	**363,287**

19. PROPERTY AND EQUIPMENT

	Furniture	Equipment	Motor Vehicles	Bicycle	ROU asset (Leasehold buildings)	Total	Memo Total USD
COST							
At 1 January 2018	**525,171**	**400,241**	**37,020**	**3,240**	**-**	**965,672**	**430,911**
Additions	30,779	67,619	85,694	-	-	184,092	80,093
Transfer from Maendeleo	516,443	147,936	209,043	-	-	873,422	384,077
Assets not recorded in FAR previous years	82,089	134,183	148,883	-	-	365,155	160,573
Disposal	(1,000)	(72,680)	(32,338)	(3,240)	-	(109,258)	(48,045)
Foreign Exchange Translation reserve	-	-	-	-	-	-	(16,056)
At 31 Dec 2018	**1,153,482**	**677,299**	**448,302**	**-**	**-**	**2,279,083**	**991,553**
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)	-	-	-	-
Asset purchased in prior years not updated in Orbit	-	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**
DEPRECIATION							
At 1 January 2018	**228,730**	**361,950**	**37,020**	**3,240,000**	**-**	**3,867,700**	**283,330**
Charge for the year	102,878	83,836	57,106	-	-	243,820	107,217
Disposal	(1,000)	(72,680)	(32,338)	(3,240,000)	-	(3,346,018)	(48,045)
Accumulated depreciation on assets not recorded in previous years	216,052	104,615	176,207	-	-	496,874	218,495
Impact of assets not recorded in previous years	69,217	6,792	95,277	-	-	171,286	75,322
Foreign Exchange Translation reserve	-	-	-	-	-	-	(12,580)
At 31 December 2018	**615,877**	**484,513**	**333,272**	**-**	**-**	**1,433,662**	**623,739**
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 impact	(8,994)	12,866	(3,872)	-	-	-	-
Impact of asset purchased in prior years not updated in Orbit	-	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**
NET BOOK VALUE							
At 31 December 2018	**537,605**	**192,786**	**115,030**	-	-	**845,421**	**367,814**
At 31 December 2019	**490,610**	**196,145**	**45,734**	-	**204,234**	**936,722**	**408,158**

20. INTANGIBLE ASSETS

	Software TZS'000	Memo Total USD
Cost		
At 1 January 2018	**552,890**	**246,716**
Additions	44,338	19,497
Foreign Exchange Translation reserve	-	(6,379)
At 31 December 2018	**597,228**	**259,834**
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**
Accumulated amortization		
At 1 January 2018	**410,340**	**183,106**
Charge for the year	110,578	48,625
Foreign Exchange Translation reserve	-	(5,097)
At 31 December 2018	**520,918**	**226,634**
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**
(Net book value (NBV		
At 31 December 2018	**76,310**	**33,200**
At 31 December 2019	**106,484**	**46,398**

(*) Additions for the period relate to costs for the enhancement of the Fixed Assets Module and Human Resources database.

21. DEFERRED TAX ASSET

	2019 TZS'000	Memo 2019 USD Memo	2018 TZS'000	Memo 2018 USD Memo
3 The movement in the deferred tax asset during the year is as follows:				
Opening balance as at 1 January	**1,976,355**	**859,846**	1,506,456	672,225
Credit for the year- Note 14 (a)	(533,836)	(231,498)	257,513	113,238
Charge to reserve on initial application of IFRS 9	-		212,386	93,394
Foreign exchange translation difference	-	201	-	(19,011)
At 31 December	**1,442,519**	**628,549**	**1,976,355**	**859,846**
Deferred tax arises from temporary differences on the following items:				
Capital allowances	41,483	18,076	51,929	22,593
Impairment provision – general	1,406,289	612,762	1,454,527	632,816
Other provisions	-	-	469,899	204,437
Depreciation of right of use assets	(5,253)	(2,289)	-	-
	1,442,519	**628,549**	**1,976,355**	**859,846**

22. OTHER LIABILITIES

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Accrued expenses	505,287	220,166	653,971	284,521
SDL payable	217	95	118,624	51,609
Provision for audit fees	59,380	25,874	53,322	23,199
NSSF payable	146,714	63,928	252,055	109,660
Lease liabilities	85,033	37,051	-	-
	796,631	**347,114**	**1,077,972**	**468,989**

23. RELATED PARTY PAYABLES

Payable to BRAC Bangladesh	38,902	16,951	309,437	134,626
(Payable to BRAC IT Service (BITS	215,158	93,752	216,705	94,281
Payable to BRAC International Holdings B.V	928,128	404,412	1,683,020	732,225
	1,182,188	**515,115**	**2,209,162**	**961,132**

24. SHARE CAPITAL

During the year the company issued 10,000,000 and allotted 5,000,000 to four shareholders. Each ordinary share has per value TZS 3,000. Below is the outstanding balance on ordinary share capital.

	Ownership	No	TZS'000	Memo USD
BRAC Bangladesh	25%	1,250,000	3,750,000	1,633,987
BRAC Foundation	24.99%	1,249,999	3,749,997	1,633,986
BRAC International Holding BV	50%	2,500,000	7,500,000	3,267,974
Shameran	0.01%	1	3	1
		5,000,000	**15,000,000**	**6,535,948**

LOAN SECURITY FUND

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Balance as at 1 January 2018	17,961,533	7,814,459	15,728,077	7,018,330
Collection during the year	7,166,014	3,122,446	20,153,612	8,862,314
Withdrawals during the year	(5,194,228)	(2,263,281)	(17,920,156)	(7,880,178)
Foreign exchange translation reserve	-	11,918	-	(186,007)
Balance as at 31 December 2018	**19,933,319**	**8,685,542**	**17,961,533**	**7,814,459**

25. TERM LOANS

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Long term portion of term loans	15,426,722	6,721,883	15,490,308	6,739,312
Current portion of term loans	3,506,537	1,527,903	1,093,474	475,734
	18,933,259	**8,249,786**	**16,583,782**	**7,215,046**
Term movement movement				
Opening balance	**16,583,782**	**7,215,046**	**22,011,644**	**9,819,957**
New loans received during the year	7,433,095	3,223,372	338,263	147,167
Interest accrued during the year	2,944,636	1,276,945	2,881,871	1,267,269
Interest paid during the year	(3,133,290)	(1,358,755)	(3,140,379)	(1,380,945)
Principal repaid during the year	(4,894,964)	(2,122,708)	(5,507,617)	(2,396,179)
Foreign exchange translation loss	-	15,886	-	(242,223)
	18,933,259	**8,249,786**	**16,583,782**	**7,215,046**
Long term portion of term loan				
Whole Planet Foundation	338,263	147,391	338,263	147,167
ResponsAbility Investments AG	1,161,500	506,100	-	-
(BRAC (Bangladesh	-	-	225,087	97,928
Stromme Microfinance (E.A) Limited	500,000	217,865	1,500,000	652,600
Global Partnerships Social Investment Fund 6.0, LLC	5,595,079	2,437,943	5,595,078	2,434,230
Triodos Microfinance Fund	3,916,325	1,706,460	3,916,325	1,703,861
Nederlandse Financierings-Maatschappij Voor Ontwik-(kelingslanden N.V. (FMO	3,915,555	1,706,124	3,915,555	1,703,526
	15,426,722	**6,721,883**	**15,490,308**	**6,739,312**

26. TERM LOANS (Continued)

Current portion of term loans

Bank Of Africa (T)	1,623,222	707,286	-	-
ResponsAbility Investments AG	744,382	324,349	-	-
BRAC (Bangladesh)	225,086	98,077	-	-
Stromme Microfinance (E.A) Limited	842,693	367,186	1,009,003	438,983
Global Partnerships Social Investment Fund 6.0, LLC	30,077	13,105	34,295	14,921
Triodos Microfinance Fund	20,987	9,145	25,119	10,928
Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. (FMO)	20,090	8,755	25,057	10,902
	3,506,537	**1,527,903**	**1,093,474**	**475,734**

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 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. During the year USD 170,648 was paid as interest. The loan was obtained to finance issue of micro finance.

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. During the year USD 100,570 was paid as interest. The loan was obtained to finance issue of micro finance

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. During the year USD 100,570 was paid as interest. The loan was obtained to finance issue of micro finance

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 instalment (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 June 2022.

BRAC (Bangladesh)

The balance of TZS 225m (USD 97,928) as at 31 December 2019 relates to amounts that were paid by BRAC Bangladesh on behalf of BRAC Tanzania during the initial stages of the company and were resolved to be booked as an interest free loan payable to BRAC Bangladesh. The loan is payable on demand.

Bank of Africa (BOA) Tanzania

During the year BRAC Tanzania Finance Limited secured overdraft facility of TZS 2,000 million and trade line TZS 1,500m making a total facility being TZS 3,500 million. The facility is active from February 2019 subject to annual renewal on merit basis. The interest rate is 17% per annum.

27. DEFERRED REVENUE GRANTS

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
(a) **Donor funds received in advance**				
Opening balance	**5,174,483**	**2,251,243**	**5,174,483**	**2,309,006**
Inter-company settlement	(1,133,483)	(493,892)	-	-
Grants income utilised during the year	(4,041,000)	(1,752,385)	-	-
Foreign currency translation difference	-	(4,966)	-	(57,763)
Balance at 31 December	**-**	**-**	**5,174,483**	**2,251,243**

28. RELATED PARTY TRANSACTIONS

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
(a) Due to related parties				
BRAC Bangladesh (loan payable)	225,088	98,077	225,088	97,928
BRAC Bangladesh (Expatriate staff and travelling cost)	-	-	309,437	134,626
BRAC International Holdings B.V	928,126	404,412	1,683,020	732,226
BRAC IT services (BITS)	215,158	93,751	216,705	94,281
BRAC (Zanzibar)-Interest receivable on term loan	170,877	74,456	256,514	111,601
	1,539,249	**670,696**	**2,690,764**	**1,170,662**
Head Office logistics and management expenses	1,932,626	838,131	876,950	372,534
Expatriate staff and travelling cost	-	-	159,713	67,815

(c) Expenses incurred by Brac Tanzania Finance Limited on behalf of others

BRAC Zanzibar interest on HO funds (Borrowed funds)	124,361	53,933	120,024	52,779

29. 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.

Previously, these leases were classified as operating leases under IAS 17.
Information about leases for which the company is a lessee is presented below.

	2019 TZS'000	2019 Memo USD
(a) Right-of-Use (ROU) asset (leased office premises)		
Balance at 1 January	340,000	148,148
Depreciation charge for the year	(135,766)	(58,875)
Balance at 31 December	**204,234**	**89,273**
(b) Amounts recognised in profit or loss		
2019 – Leases under IFRS 16		
Depreciation on right-of-use asset	135,766	58,875
Interest on lease liability	15,018	6,513
Expenses relating to short term leases	739,031	320,521
	889,815	**385,909**
2018 – Operating leases under IAS 17		
Lease expense	857,878	377,255
(c) Amounts recognised in statement of cash flows		
2019 – Leases under IFRS 16		
Payment of interest	15,018	6,513
Payment of principal	254,967	110,566
Total payment	**269,985**	**117,079**

The contractual maturity for lease liabilities as at 31 December 2019 are disclosed in Note 5 (b).

2018 – 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.

30. SUBSEQUENT EVENTS

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic due to its rapid spread across the globe. Many governments including the Tanzanian government, are taking stringent measures to help contain the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders. This has led to a relatively weaker economic outlook and uncertainties across the globe. As a result the company will likely experience a decrease in profitability due to decrease in loan disbursements which will affect the interest income.

As at the date of this report, there is no sufficient data to quantify the effects of the pandemic however, based on preliminary assessment the directors and management believe the effect of the pandemic does not have a material impact on the financial statements as at 31 December 2019 based on the current information and does not amount to a material uncertainty over the company's ability to continue as a going concern. At the time of signing the financial statements, the directors are not aware of any other events after the year end not otherwise dealt with in these financial statements.

BRAC

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

GENERAL INFORMATION

Members of Governing Council

Name	Position	Nationality
Dr. Muhammad Musa	Chair	Bangladeshi
Ms. Ruth A. Okowa	Member	Kenyan

Administrator

Mr. Fordson Kafweku	Country Representative (Ex-officio director)
Mr. Nkosilathi Moyo	Chief Executive Officer (CEO) - Microfinance

Principal place of business

Mombasa, Mjini Magharibi
P. O. Box 2635
Zanzibar

Registered office
House No-SH/M/0/89
Mombasa, Mjini Magharibi
P. O. Box 2635
Zanzibar

Auditors

KPMG
Certified Public Accountants
02nd 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. Box157
Zanzibar, Tanzania

REPORT OF THE GOVERNING COUNCIL

1 The members of BRAC Governing Council have the pleasure in submitting their report and the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of BRAC ("the Organization") as at that date.

2 REGISTRATION

BRAC is a not-for-profit organization registered under the Societies Act, 1995 of the Zanzibar Revolutionary Government.

3 VISION

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

4 MISSION

The Organization'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 programs that enable men and women to realize their potential.

5 OUR VALUES

Innovation- the Organisation 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 Organization 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 Organization holds these to be the most essential elements of our work ethic.

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

7 FINANCIAL PERFORMANCE

Organization's performance during the year ended 31 December 2019 is as follows. These enhance sustainability of the organization and ability to reach new beneficiaries.

- Total revenue increased by 15% from TZS 1,995 million in 2018 to TZS 2,304 million in 2019.
- Loans to customers increased by 10% from TZS 3,784 million in 2018 to TZS 4,181 million in 2019.

During the year, the Organization had a surplus before tax of TZS 1,123 million (2018: TZS 700 million) being growth of 60% from 2018.

The statement of financial position as at 31 December 2019 is set out on page 84.

8 RESULTS FROM OPERATIONS

The results for the Organisation for the year ended 31 December 2019 are set out on page 83.

9 COMPOSITION OF MEMBERS OF THE GOVERNING COUNCIL

The members of the Governing Council, who served during the year and up to the date of this report, are set out on page 74.

10 CORPORATE GOVERNANCE

The members of the Governing Council believe that high standards of corporate governance directly influence the Organisation's stakeholder and investor confidence. The members also recognise the importance of integrity transparency and accountability.

11 RISK MANAGEMENT

The members of the Governing Council accept the final responsibility for the risk management and internal control system of the Organization. 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 Organization'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 Organization's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

12 MANAGEMENT STRUCTURE

The Organizations under the supervision of the members of the Governing Council and the day-to-day management is entrusted to the Country Representative who is assisted by the heads of divisions, departments and units.

The organization structure of the Organization comprises of the following divisions:

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

13 RELATED PARTY TRANSACTIONS

Related party transactions are disclosed in Note 21 to the financial statements.

14 FUTURE DEVELOPMENT PLANS

In 2020 the Organization will transform to Microfinance entity "BRAC Zanzibar Finance Limited" with limited shares from NGO status. The decision will pave a way for BRAC Mission and Vision of extending its operations to remote and rural areas.

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.

15 KEY ACHIEVEMENTS IN 2019

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

- The borrowings has increased and amount disbursed has improved by 24% from TZS 3.8 billion in 2018 to TZS 4.2 billion in 2019.
- Strengthening of supporting services such as audit, procurement and finance which has brought positive impact in the financial performance during the year.
- Development of business relationship with other stakeholders have strengthened hence brand awareness has increased.
- This is the sixth year of operation where BRAC has made a profit for the third time and paid corporate tax to the Government.

6 SOLVENCY

The members of Governing Council confirm that applicable accounting standards have been followed in preparing these financial statements. At the time of signing these financial statements, the members of the Governing Council had passed a resolution to transfer the assets and liabilities, effective 1 January 2020, from BRAC to a newly formed Microfinance entity "BRAC Zanzibar Finance Limited". BRAC is expected to be de-registered in the foreseeable future and as such, these financial statements have not been prepared on the basis of accounting policies applicable to a going concern.

17 EMPLOYEES' WELFARE

Management/employee relationship

There were continued good relations between employees and management for the year 2019. There were no unresolved complaints received by management from the employees during the year.

The Organisation 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 Organisation. During the year, all the Branch Accountants received hands-on training for Micro Finance and Small Enterprise programs. The Organisation will continue to train, re-train and develop its staff in order to improve service delivery and innovation.

During the year 2019, the Organisation spent a sum of TZS 12 million for staff training in order to improve employees' technical skills and hence effectiveness (2018: TZS 33 million).

Medical facilities

The Organisation reimburses medical expenses incurred by employees for medical treatment on case to case basis.

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 Organisation continues and appropriate training is arranged. It is the policy of the Organisation that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

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 Organisation contributes 10% of the employees' gross monthly salary.

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

18 GENDER PARITY

The Organisation had 70 employees in 2019 with 55 being females and 15 males, whilst in 2018 the Organisation, had 69 employees with 58 being females and 11 males.

19 GOING CONCERN

The members of Governing Council confirm that applicable accounting standards have been followed in preparing these financial statements. At the time of signing these financial statements, the members of the Governing Council had passed a resolution to transfer the assets and liabilities, effective 1 January 2020, from BRAC to a newly formed Microfinance entity "BRAC Zanzibar Finance Limited". BRAC is expected to be de-registered in the foreseeable future, pursuant to the prerequisites under the Societies Act 1995 in which it was established and the fact that activities undertaken by the entity are not commensurating with the law in which it was established, the Governing Council adhere to the requirements of the Societies Act and directives from Registrar of Non-Governmental Organisations (NGOs) for the organisation to be de- registered in the near future by the Registrar since it does not fit the category of NGOs.

20 AUDITORS

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

BY ORDER OF THE COUNCIL

....
Ruth A. Okowa
Director

20/04/.2020

The members of the Governing Council are responsible for the preparation of financial statements that give a true and fair view of BRAC comprising the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year 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 Societies Act, 1995.

The members of the Governing Council are also responsible for such internal control as the members of the Governing Council 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 members of the Governing Council have made an assessment of the ability of the Organization to continue as a going concern and have disclosed the facts in Note 19 of the Directors' report and Note 2(d) of the financial statements. These financial statements have therefore not been prepared on a basis applicable to a going concern.

The auditors are 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, as identified in the first paragraph, were approved and authorized for issue by the members of the Governing Council on 20/04/2020 and signed by:

....
Ruth A. Okowa
Director

BRAC

DECLARATION OF HEAD OF FINANCE

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 hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2019, have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements of BRAC 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: 20/04/2020

KPMG
Certified Public Accountants
2ND Floor, The luminary
Haile Selassie Road, Masaki
PO Box 1160
Dar es Salaam, Tanzania

Telephone +255 22 2600330
Fax +255 22 2600490
Email info@kpmg.co.tz
Internet www.kpmg.com/eastrafrica

INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF GOVERNING COUNCIL OF BRAC

Opinion

We have audited the financial statements of BRAC ("the Organization") set out on pages 11 to 36, which comprise the statement of financial position as at 31 December 2019, and 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 as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Organisation 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.

Emphasis of Matter

We draw attention to Note 2(d) in the financial statements, which describes that the going concern basis of preparing the financial statements has not been used because on 6 November 2019, the Members of Governing Council resolved to transfer the assets and liabilities of BRAC to a newly formed entity, BRAC Zanzibar Microfinance Limited, with effect from 1 January 2020. BRAC will be de-registered in the foreseeable future. Our opinion is not modified in respect of this matter.

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 matter relating to the impact of uncertainties due to the Covid-19 on our audit

As disclosed in note 30 to the financial statements, Covid-19 affects the Company and results in certain uncertainties for the future financial position and performance of the Company. Uncertainties related to the potential effects of Covid-19 are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Company, the related disclosures and the appropriateness of the going concern assumption in the financial statements. The appropriateness of the going concern assumption depends on assessment of the future economic environment and the Company's future prospects and performance.

The Covid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to levels of uncertainty. An audit cannot predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Covid-19.

Other Information

Members of Governing Council are responsible for the other information. The other information comprises the *Members of Governing Council's Report as required by the Non-Governmental Organizations Act, 2002, Statement of responsibilities of the Governing Council's, and Declaration of Head of Finance and supplementary information in the memorandum columns,* but does not include the financial statements and our auditors' 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.

KPMG

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 the Members of Governing Council's

The Members of Governing Council are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as Members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Members of Governing Council are responsible for assessing the Organization'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 Organization or to cease operations, or have no realistic alternative but to do so.

Members of Governing Council are responsible for overseeing the Organization's financial reporting process.

Auditors' 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 auditors' 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 Organisation'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 Members of Governing Council's 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 Organisation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Organisation 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 Members of Governing council 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.

KPMG
Certified Public Accountants (T)

KPMG

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

24 April 2020

BRAC

STATEMENT OF CAPITAL FUND
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 TZS '000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
Income					
Interest income	6	2,189,823	949,566		831,457
Interest expense		(124,363)	(53,927)	(120,024)	(52,779)
		2,065,460	**895,639**	**1,770,776**	**778,678**
Other income	7	113,750	49,325	104,236	45,836
Grant income		211,375	91,658	-	-
Total operating income		**2,390,585**	**1,036,622**	**1,875,012**	**824,514**
Impairment on loans to customers	8	(73,675)	(31,947)	(26,705)	(11,743)
Operating income after impairment charge		**2,316,910**	**1,004,675**	**1,848,307**	**812,771**
Operating expenses					
Staff costs	9	(678,666)	(294,288)	(626,663)	(275,568)
Travelling and transportation		(100,499)	(43,579)	(80,430)	(35,367)
Training, workshop and seminars		(11,820)	(5,126)	(33,376)	(14,676)
Occupancy expenses	10	(34,346)	(14,893)	(38,956)	(17,131)
Other operating expenses	11	(360,669)	(156,397)	(361,572)	(158,997)
Depreciation charge	16	(8,057)	(3,493)	(7,570)	(3,329)
Surplus before taxation		**1,122,853**	**486,899**	**699,740**	**307,703**
Tax expense	12(a)	(395,400)	(171,456)	(215,073)	(94,576)
Surplus for the year		**727,453**	**315,443**	**484,667**	**213,127**
Other comprehensive income		-	-	-	-
Total comprehensive surplus for the year		**727,453**	**315,443**	**484,667**	**213,127**

Notes and related statements forming part of the financial statements appear on pages 87 to 108.

Report of the auditors is on page 81 - 82.

The memos represent supplementary information presented in United States Dollar.

BRAC

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 TZS '000	Memo 2019 USD	2018 TZS '000	Memo 2018 USD
ASSETS					
Cash and cash equivalents	13	122,393	53,284	123,003	53,514
Loans to customers	14	4,181,380	1,820,366	3,784,636	1,646,568
Other assets	15	33,023	14,377	15,029	6,539
Deferred tax asset	17	-	-	25,990	11,307
Property and equipment	16 (a)	25,290	11,010	27,425	11,932
Intangible assets	16 (b)	4,129	1,798	2,317	1,008
Total assets		**4,366,215**	**1,900,835**	**3,978,400**	**1,730,868**
LIABILITIES AND CAPITAL FUND					
Liabilities					
Loan security fund	18	868,766	378,218	766,697	333,564
Other liabilities	19	683,906	297,739	948,673	412,736
Tax payable	12(b)	149,022	64,877	32,113	13,971
Related party payables	21	392,002	170,658	474,477	206,429
Grants invested in loans	20	-	-	211,375	91,962
Total liabilities		**2,093,696**	**911,492**	**2,433,335**	**1,058,662**
Capital fund					
Donor funds		814,454	363,433	814,454	363,433
Retained earnings		1,458,064	629,022	730,611	313,579
Translation adjustment reserve		-	(3,112)	-	(4,806)
Total capital fund		**2,272,518**	**989,343**	**1,545,065**	**672,206**
Total liabilities and capital fund		**4,366,214**	**1,900,835**	**3,978,400**	**1,730,868**

The financial statements on pages 87 to 108 were approved and authorised for issue by the members of Governing Council on 20/04/2020 and signed on its behalf by;

Ruth A. Okowa
Director
BRAC

Nkosilathi Moyo
Chief Executive Officer (CEO)
BRAC

Notes and related statements forming part of the financial statements appear on pages 87 to 108.

Report of the auditors is on page 81 - 82.

The memos represent supplementary information presented in United States Dollar.

BRAC

STATEMENT OF CAPITAL FUND
FOR THE YEAR ENDED 31 DECEMBER 2019

	Donor funds TZS'000	Accumulated deficit/ Surplus TZS'000	Total TZS'000	Memo USD
Balance as at 1 January 2018	**814,454**	**245,944**	**1,060,398**	**463,510**
Surplus for the year	-	484,667	484,667	213,127
Translation adjustment reserve	-	-	-	(13,961)
Balance as at 31 December 2018	**814,454**	**730,611**	**1,545,065**	**672,206**
Balance as at 1 January 2019	**814,454**	**730,611**	**1,545,065**	**672,206**
Surplus for the year	-	727,453	**727,453**	315,443
Translation adjustment reserve	-	-	**-**	1,694
Balance as at 31 December 2019	**814,454**	**1,458,064**	**2,272,518**	**989,343**

Notes and related statements forming part of the financial statements appear on pages 87 to 108.

Report of the auditors is on page 81 - 82.

The memos represent supplementary information presented in United States Dollars.

BRAC
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 TZS '000	Memo 2019 USD	2018 TZS 000	Memo 2018 USD
CASH FLOWS FROM OPERATING ACTIVITIES					
Surplus for the year		1,122,853	486,899	699,740	307,703
Adjustment for non-cash items:					
Provision for impairment on loans and advances	8	73,675	31,947	26,705	11 ,743
Depreciation of property and equipment	16(a)	7,478	3,242	7,570	3,329
Amortisation of intangible assets	16(b)	579	251	-	-
Non cash gain on asset recognition		-	-	(31,323)	(18,306)
Loss on disposals		964	418	-	-
Cash from operating activities before working capital changes		1,205,549	522,757	702,692	304,469
Changes in:					
- Loans to customers	14	(470,418)	(203,986)	(823,712)	(338,959)
- Other assets	15	(17,993)	(7,802)	19,862	9,031
- Loan security fund	18	102,069	44,260	164,161	64,695
- Other liabilities	19	(264,767)	(114,810)	(90,203)	(50,841)
- Grants received in loans	20	(211,375)	(91,658)	-	-
- Balance due to related parties	21(a)	(82,475)	(35,763)	172,301	71,589
Cash from operating activities after working capital changes		(944,959)	(409,759)	(557,591)	(244,485)
Tax paid	12(b)	(252,501)	(109,491)	(172,535)	(75,870)
Cash generated/ (used) in operating activities		8,089	3,507	(27,434)	(15,886)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property and equipment		(6,308)	(2,735)	-	-
Acquisition of intangible assets	16(b)	(2,391)	(1,037)	(2,317)	(1,008)
Cash from investing activities		(8,699)	(3,772)	(2,317)	(1,008)
Net decrease in cash and cash equivalents		(610)	(265)	(29,751)	(16,894)
Cash and cash equivalents at the beginning of the year	13	123,003	53,514	152,754	68,163
Translation adjustment reserve		-	35	-	2,245
Cash and cash equivalents at the end of the year	13	122,393	53,284	123,003	53,514

Notes and related financial statements forming part of the financial statements appear on pages 87 to 108.
Report of the auditors is on page 81 - 82.
The memos represent supplementary information presented in United States Dollars.

BRAC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. REPORTING ENTITY

BRAC is a non-for-profit organization registered under the Societies Act, 1995 of the Zanzibar Revolutionary Government. BRAC is situated at House No-SH/M/0/89, Mombasa, Mjini Magharibi, P. O Box 2635, Zanzibar.

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 Members of the Governing Council's on ………………2020. Details of the Organisation's 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 Organisation'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 2019 of TZS 2,297 (2018: TZS 2,298.50) to USD 1 except for additions to property and equipment which were translated at an average rate for the period of TZS 2,306.13 (2018:TZS 2,274.08) to USD 1;
- Income and expenses were translated using an average exchange rate for the period of TZS 2,306.13 (2018:TZS 2,274.08) 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 Organisation's 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 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is also included in Note 5.

(d) Going concern

Pursuant to the change of BRAC legal form of registration which resulted into its re-organisation and incorporation of BRAC Zanzibar Finance Limited, with the same owners, administration, vision and mission , On 6 November 2019, the members of the Governing Council passed a resolution to transfer the assets and liabilities including income tax obligation, if any, as such will be indicated in the audited financial statements as at and for the year ended 31 December 2019, effective 1 January 2020, from BRAC to the newly formed Microfinance entity "BRAC Zanzibar Finance Limited". This decision will pave a way for fulfilment of BRAC Mission and Vision. As such, the going concern basis of preparing these financial statements has not been used. The financial statements have been prepared on the basis that all assets and liabilities stated will be transferred to the new entity at their respective carrying amounts. BRAC is expected to be de-registered in the foreseeable future, pursuant to the prerequisites under the Societies Act 1995 in which it was established given the fact that activities undertaken by the entity are not commensurating with the law in which it was established, the Governing Council adhere to the requirements of the Societies Act and directives from Registrar of Non-Governmental Organisations for the organisation to be de- registered in the near future by the Registrar since it does not fit the category of NGOs.

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.

(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 release to income to match the depreciation for the period and amortisation of the fixed assets as charged to Profit or Loss.

Grants utilized to reimburse program related expenditure are recognised as grant income for the period.

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

(d) Grants (continued)

i. *Deferred grants (continued)*

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 recognised as revenue grant receivable.

(ii) Grant income

Grant income is recognized on a cash basis to the extent that the Organisation fulfils the conditions of the grant. This income is transferred from the deferred grant received from donors and recognised as income in profit or loss.

A substantial portion of the Organisation's donor grants are for funding of 'Not-for-Profit' projects and programs, and for these grant, income recognized 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) Leases payments made

The Organisation has not applied IFRS 16 during the period because of lease amount of leased properties are too small to amortize and there are no significant investment by the entity in respective properties. Therefore payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(f) 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 Organization 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 year and any adjustment to the tax payable or receivable in respect of previous years. 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:

Deferred tax (continued)

– 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 Organization 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.

(g) Financial instruments

(i) **Recognition and initial measurement**

Trade receivables issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Organisation 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 and subsequent measurement

The Organisation classifies its financial assets and liabilities into the following categories: financial assets at amortised cost; cash and cash equivalent and trade and other payables. Management determines the classification of its investments at initial recognition by performing an assessment of the objective of the business model in which a financial instrument is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

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 Organisation in the management of its short-term commitments.

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

Financial assets at amortised cost

Financial assets at amortised cost are financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognized at fair value which is the cash consideration to originate or purchase the loan including any transaction costs and measured subsequently at amortised cost using the effective interest rate method, less any impairment losses. The financial assets comprise other receivables/asset and amount due from related parties.

BRAC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

Trade and other payables

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method. Trade and other payables comprise other liabilities, due from related parties and deferred grant income.

(iii) De-recognition

The Organisation 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 Organisation is recognised as a separate asset or liability. The Organisation derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Organisation enters into transactions whereby it transfers assets recognised on 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 Organisation 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, Organisation 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 Organisation derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire with the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) recognised in profit or loss.

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

(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 organisation 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 Company of similar transactions such as in the BRAC's trading activity.

(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 Organisation has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Organisation 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 Organisation 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 Organisation 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 Organisation 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 Organisation 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.

(vii) Identification and measurement of impairment

At each reporting date the Organisation 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 Organisation on terms that the Organisation 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 Company of assets such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company.

The Organisation considers evidence of impairment for loans and advances at both a specific asset and collective level. All individually significant loans and advances securities 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 Companying together loans and advances and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Organisation 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.

(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 organisation'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.

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 four years.

(k) Security deposits from customers and term loans

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

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

(l) Provisions

A provision is recognised if, as a result of a past event, the organisation 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 organisation 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) Changes in accounting standards, amendments and interpretations

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

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Standards in issue and effective from 1 January 2019

A. Leases as lessee (IFRS 16)

The Organisation leases a number of branch and office premises. The leases typically run for a period of 1 year, with an option to renew the lease after that date. Payments are done on an annual basis.

Previously, these leases were classified as operating leases under IAS 17.

The Organisation did not recognise a Right-of-use asset and the relating lease liability for the leased office premises as it has opted to apply IFRS 16 low value and short term assets exemption due to the following reasons;

- There is a plan to relocate the leased premises in the foreseeable future and hence bringing an asset on balance sheet may not be feasible;
- All of the leased premises are of low value and hence considered as insignificant
- Substantial amount of the leased premises is occupied by a related Organisation, BRAC Microfinance Tanzania Limited, which has adopted the standard in their financial statements.

However expenses on such assets are presented in Occupancy expenses (see Note 10).

Standards and amendments in issue but not effective

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

- Amendments to References to Conceptual Framework in IFRS Standards.
- Definition of a Business (Amendments to IFRS 3).
- IFRS 17 Insurance Contracts.

The Organisation has not early adopted any of the standards.

4. FINANCIAL AND OPERATIONAL RISK MANAGEMENT

Introduction and overview

BRAC 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 organisation's exposure to each of the above risks, the organisation's objectives, policies and processes for measuring and managing risk.

(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 BRAC's loans and advances to customers.

Management of credit risk

For risk management reporting purposes, BRAC considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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

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

As set out above, the main activity of the Organisation is the provision of unsecured loans to Organisation members. The members of Governing Council 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 organisation 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, where contractual interest or principal payments are past due but the organisation believes that impairment is not appropriate on the basis of the level of security or the stage of collection of amounts owed to the Organisation.

Allowances for impairment

The Organisation 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.

BRAC
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

The table provides details of exposure to credit risk:

Micro finance	2019 TZS'000	2018 TZS'000
Carrying amount		
Standard	4,171,388	3,749,154
Watch List	33,610	67,398
Substandard	7,713 7,713	5,560
Doubtful	8,010 8,010	1,639
Loss	82,098	31,439
	4,302,819	**3,855,190**
Allowance for impairment	(121,439)	(70,554)
Net loans	**4,181,380**	**3,784,636**
Balance at 1 January	70,554	97,415
IFRS 9 transition adjustment	-	(30,962)
Charge for the year	73,675	26,705
Direct write offs	(22,790)	(22,604)
	121,439	**70,554**

Write-off policy

BRAC writes off a loan balance (and any related allowances for impairment losses) when the organisation 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 Organisation will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Organisation'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 organisation's reputation.

Residual contractual maturities of financial liabilities.

	Carrying amount	Contractual cash flows	Within 1 year
31 December 2019	**TZS'000**	**TZS'000**	**TZS'000**
Loan security fund	868,766	868,766	868,766
Other current liabilities (including related parties)	1,075,908	1,075,908	1,075,908
Total liabilities	**1,944,674**	**1,944,674**	**1,944,674**
31 December 2018			
Loan security fund	766,697	766,697	766,697
Other current liabilities (including related parties)	1,634,525	1,634,525	1,634,525
Total liabilities	**2,401,222**	**2,401,222**	**2,401,222**

The previous table shows the undiscounted cash flows on the organisation'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'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.

(i) Currency risk

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

The Organisation's 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 year-end date.

During the year the Organisation 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.

December 2019 31	**Up to 1 month**	**From 1 to 12 months**	**From 1 years to 2 years**	**From 2 years and above**	**Non- interest bearing**	**Total**
	TZS'000	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
ASSETS						
Cash and bank balances	-	-	-	-	122,393	122,393
*Loans to customers	4,195,383	25,338	27,567	1,446	-	4,249,734
Other assets	-	-	-	-	33,023	33,023
Total assets	**4,195,383**	**25,338**	**27,567**	**1,446**	**155,416**	**4,405,150**
LIABILITIES						
-	Loan security fund	-	-	-	(868,766)	(868,766)
Other liabilities	-	-	-	-	(1,075,908)	(1,075,908)
Total liabilities	**-**	**-**	**-**	**-**	**(1,944,674)**	**(1,944,674)**
(Net assets/(liabilities	**4,195,383**	**25,338**	**27,567**	**1,446**	**(1,789,258)**	**2,460,476**

31 December 2018	**Up to 1 month**	**From 1 to 12 months**	**From 1 years to 2 years**	**From 2 years and above**	**Non-interest bearing**	**Total**
	TZS'000	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
ASSETS						
Cash and bank balances	-	-	-	-	123,003	123,003
Loans to customers*	3,773,395	19,898	15,735	1,125	-	3,810,153
Other assets	-	-	-	-	15,029	15,029
Total assets	**3,773,395**	**19,898**	**15,735**	**1,125**	**138,032**	**3,948,185**
LIABILITIES						
Loan security fund	-	-	-	-	(766,697)	(766,697)
Other liabilities	-	-	-	-	(1,423,150)	(1,423,150)
Deferred grants	-	-	-	-	(211,375)	(211,375)
Total liabilities	**-**	**-**	**-**	**-**	**(2,401,222)**	**(2,401,222)**
Net assets/(liabilities)	**3,773,395**	**19,898**	**15,735**	**1,125**	**(2,263,190)**	**1,546,963**

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

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Organisation'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 Organisation's operations and are faced by all business entities.

The Organisation's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Organisation'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 Organisation 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 Organisation 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 organisation'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 members of the Governing Council in determining the useful lives of property and equipment, leased premises refurbishment and intangible assets as well as their residual values.

(iii) Taxes

The Organisation is subjected to several taxes and levies by the government and quasi-government regulatory bodies. As a rule of thumb, the Organisation 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.

The Organisation 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 2019	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	-	122,393	122,393	122,393	122,393
Loans to customers	-	-	4,181,380 33,023	4,181,380	4,181,380
Other assets	-	-	33,023	33,023	33,023
Total assets	-	122,393	4,214,403	4,336,796	4,336,796
LIABILITIES					
Other liabilities	-	-	1,224,930	1,224,930	1,224,930
Loan security fund	-	-	868,766	868,766	868,766
Total liabilities	-	-	2,093,696	2,093,696	2,093,696

December 2018 31	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	-	123,003	-	123,003	123,003
Loans to customers	-	-	3,784,636	3,784,636	3,784,636
Other assets	-	-	15,029	15,029	15,029
Total assets	-	123,003	3,799,665	3,922,668	3,922,668
LIABILITIES					
Other liabilities	-	-	1,197,310	1,197,310	1,197,310
Loan security fund	-	-	766,697	766,697	766,697
Deferred revenue grants	-	-	211,375	211,375	211,375
Total liabilities	-	-	2,175,382	2,175,382	2,175,382

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

	2019	Memo 2019	2018	Memo 2019
	TZS'000	USD	TZS'000	USD
6. INTEREST INCOME				
Interest on loans to Company members:				
- Micro finance	1,828,693	792,971	1,611,927	708,826
- Small enterprise program	270,184	117,159	184,552	81,155
- Agri-finance	90,946	39,436	94,321	41,476
	2,189,823	949,566	1,890,800	831,457

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7. OTHER INCOME

	2019	Memo 2019	2018	Memo 2018
	TZS'000	USD	TZS'000	USD
Loan application fee	1,330	577	1,000	440
Loan appraisal fee	98,069	42,525	87,817	38,616
Other income	3,602	1,562	1,919	844
Membership fees	9,925	4,304	10,144	4,460
Administrative fee from Insurance scheme	824	357	3,356	1,476
	113,750	49,325	104,236	45,836

8. IMPAIRMENT ON LOANS TO CUSTOMERS

Balance at 1 January	70,554	30,716	97,415	42,382
IFRS 9 transition adjustment	-	-	(30,962)	(13,470)
Charge for the year	73,675	31,947	26,705	11,743
Direct write off	(22,790)	(9,882)	(22,604)	(9,834)
Foreign currency translation reserve	-	88	-	(125)
Balance at 31 December	121,439	52,869	70,554	30,696

9. STAFF COSTS

Salaries	650,512	282,080	617,830	271,684
Bonus	28,154	12,208	8,588	3,776
Staff Insurance	-	-	245	108
	678,666	294,288	626,663	275,568

10. OCCUPANCY EXPENSES

Recognition exemption for leases of low-value and short term assets				
Rent	30,210	13,100	26,448	11,630
Utilities	4,136	1,793	12,508	5,501
	34,346	14,893	38,956	17,131

11. OTHER OPERATING EXPENSES

Maintenance and general expenses	66,884	29,002	75,432	33,170
Audit fees	38,553	16,718	40,749	17,919
Office stationery	11,838	5,134	10,030	4,411
Head Office logistics and management expenses	243,394	105,543	235,361	103,497
	360,669	156,397	361,572	158,997

12. TAXATION

(a) **Tax expense**

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2019 USD
Tax charge for the year 1	369,410	160,186	216,585	95,241
(Deferred tax (credit) / charge (Note 17 2	25,990	11,270	(1,512)	(665)
	395,400	**171,456**	**215,073**	**94,576**

Tax rate reconciliation	%	%
Effective tax rate	31.6	30.6
Standard rate of income tax	30.0	30.0
Tax effect of prior year 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

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2019 USD
At 1 January	32,113	13 971	(11,937)	(5,326)
Charge for the year	369,410	160,186	216,585	95,242
Tax paid	(252,501)	(109,491)	(172,535)	(75,870)
Translation Reserve	-	211	-	(75)
At 31 December	**149,022**	**64,877**	**32,113**	**13 971**

13. CASH AND CASH EQUIVALENTS

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2019 USD
Cash in hand	96	42	574	250
Vodacom MPESA (receivable within 90days)	1,581	688	2,945	1,281
Cash at bank	120,716	52,554	119,484	51 983
	122,393	**53,284**	**123,003**	**53,514**

14. LOANS TO CUSTOMERS

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2019 USD
(Loans to customers (gross	4,302,819	1,873,234	3,855,190	1,677,264
(Impairment on loans to customers (Note 8	(121,439)	(52,868)	(70,554)	(30,696)
Balance at 31 December	**4,181,380**	**1,820,366**	**3,784,636**	**1,646,568**
Analysis of Loans				
Microfinance	3,360,997	1,463,212	3,116,586	1,355,851
Small Enterprise Programme	708,005	308,230	509,125	221,551
Agri-finance	233,817	101,792	229,479	99,862
	4,302,819	**1,873,234**	**3,855,190**	**1,677,264**

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15. OTHER ASSETS

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2019 USD
Advances and prepayments	19,931	8,677	8,011	3,485
Stock and stores	13,092	5,700	7,018	3,054
	33,023	**14,377**	**15,029**	**6,539**

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 2018	**30,657**	**13,697**	**1,203**	**45,557**	**20,329**
*Previous unrecorded assets	-	33,197	3,813	37,010	16,102
**Reclassification	15,400	(15,400)	-	-	-
Foreign translation adjustment	-	-	-	-	(508)
Balance at 31 December 2018	**46,057**	**31,494**	**5,016**	**82,567**	**35,923**
At 1 January 2019	**46,057**	**31,494**	**5,016**	**82,567**	**35,923**
Additions during the year	-	5,825	483	6,308	2,735
Disposal	-	-	(5,016)	(5,016)	(2,175)
Foreign translation adjustment	-	-	-	-	25
Balance at 31 December 2019	**46,057**	**37,319**	**483**	**83,859**	**36,508**
Accumulated depreciation					
At 1 January 2018	**29,759**	**11,987**	**139**	**41,885**	**18,703**
Charge for the year	4,605	2,449	516	7,570	3,329
*Previously unrecorded assets	-	2,291	3,396	5,687	2,501
Reclassification	(9,371)	9,371	-	-	-
Foreign translation adjustment	-	-	-	-	(542)
Balance at 31 December 2018	**24,993**	**26,098**	**4,051**	**55,142**	**23,991**
At 1 January 2019	**24,993**	**26,098**	**4,051**	**55,142**	**23,991**
Charge for the year	4,606	2,872	-	7,478	3,242
Disposal	-	-	(4,051)	(4,051)	(1,756)
Foreign translation adjustment	-	-	-	-	21
Balance at 31 December 2019	**29,599**	**28,970**	**-**	**58,569**	**25,498**
(Net book value (NBV					
At 31 December 2018	**21,064**	**5,396**	**965**	**27,425**	**11,932**
At 31 December 2019	**16,458**	**8,349**	**483**	**25,290**	**11,010**

(b) Intangible asset

	ERP software TZS'000	Total TZS'000	Memo USD
Cost			
At 1 January 2018	-	-	-
Additions	2,317	2,317	1,008
Balance at 31 December 2018	**2,317**	**2,317**	**1,008**
At 1 January 2019	**2,317**	**2,317**	**1,008**
Additions	2,391	2,391	1,042
Balance at 31 December 2019	**4,708**	**4,708**	**2,050**
Accumulated depreciation			
At 1 January 2018	-	-	-
Charge for the year	-	-	-
Balance at 31 December 2018	-	-	-
At 1 January 2019	**-**	**-**	**-**
Charge for the year	579	579	252
Balance at 31 December 2019	**579**	**579**	**252**
Net book value			
At 31 December 2018	**2,317**	**2,317**	**1,008**
At 31 December 2019	**4,129**	**4,129**	**1,798**

17. DEFERRED TAX ASSET

	2019 TZS'000	Memo 2019 USD	2018 TZS'000	Memo 2018 USD
At 1 January	**25,990**	**11,307**	**33,767**	**14,691**
Credit/(charge) for the year	14,513	6,318	1,512	698
(Credit to reserves (IFRS9 Initial application	-	-	(9,289)	(4,082)
Deferred tax derecognised	(40,503)	(17,633)	-	-
Foreign translation adjustment	-	8	-	-
At 31 December	-	-	**25,990**	**11,307**
-Deferred tax arises from temporary :differences on the following items				
Property and equipment	49,791	21,677	4,824	2,099
Impairment provision - general	(9,288)	(4,044)	21,166	9,209
At 31 December	**40,503**	**17,633**	**25,990**	**11,307**

In 2019, Management derecognised the deferred tax asset of TZS 40,503,000 following the decision of the governing council to cease operations for NGO entity (BRAC) effective from 1 January 2020. The Company limited by shares (BRAC Zanzibar Finance Limited) will take over the Microfinance business. The deferred tax asset will be recreated in the newly formed entity.

18. LOAN SECURITY FUND

	2019 TZS'000	Memo 2018 USD	2018 TZS'000	Memo 2018 USD
Balance at 1 January	766,697	333,564	602,536	268,869
Collection during the year	297,369	128,947	1,050,966	458,091
Withdrawals during the year	(195,300)	(84,687)	(886,805)	(385,903)
Foreign translation adjustment	-	394	-	(7,493)
	868,766	**378,218**	**766,697**	**333,564**

19. OTHER LIABILITIES

	2019 TZS'000	Memo 2018 USD	2018 TZS'000	Memo 2018 USD
Project current accounts	639,266	278,305	885,410	385,212
Accrued expenses	44,640	19,434	63,263	27,524
	683,906	**297,739**	**948,673**	**412,736**

20. DEFERRED GRANTS

Grants invested in loans				
Balance at 1 January	211,375	91,962	211,375	91,962
Grant income	(211,375)	(91,658)	-	-
Foreign translation adjustment	-	(304)	-	-
	-	-	**211,375**	**91,962**

This relates to capital funds that were received to specifically fund micro-finance loans. During the period, capital funds were recognised as grant income.

21. RELATED PARTY TRANSACTIONS

	2019 TZS'000	Memo 2018 USD	2018 TZS'000	Memo 2018 USD
Due to related parties:				
Microfinance				
Stichting BRAC International	708	308	708	308
BRAC Tanzania Finance Limited	245,016	106,668	208,956	90,910
BRAC International Holdings B.V	53,140	23,134	197,731	86,026
BRAC IT Services (BITS)	93,138	40,548	67,082	29,185
	392,002	**170,658**	**474,477**	**206,429**

22. CONTINGENT LIABILITIES

The members of the Governing Council are not aware of any contingent liabilities as at the date of this report.

23. SUBSEQUENT EVENTS

At the time of signing these financial statements, the Organization has transferred its assets and liabilities to the newly formed Microfinance entity "BRAC Zanzibar Finance Limited" effective 1 January 2020. BRAC is currently operating as a dormant entity waiting to be deregistered in the foreseeable future.

The current pandemic Coronavirus COVID-19 outbreak is also seen to likely impact the economy due to its rapid spread across the globe. As at the date of this report, there is no sufficient data to quantify the effects of the pandemic however, this will be closely monitored and assessed in the new entity, BRAC Microfinance Tanzania Limited.

BRAC INTERNATIONAL HOLDINGS B.V.

New World Campus
Spaameplein 2
2515 VK Den Haag
The Netherlands
T : + 31 (0)6 31633163
E : info@bracinternational

BRAC TANZANIA

NATAI PLAZA
Plot NO 17, Light Industrial Area-
Mikocheni P O Box: 105213
Dar es Salaam, Tanzania
E: info.tanzania@brac.net
W: www.bracinternational.nl/tanzania

EDITORIAL PANEL

Emma Mbaga
Musharrat Bidita
Sadiaa Haque

Graphic Design

Sinthia Ahmed

Photo Credit

BRAC Tanzania