MicroLoan Foundation Annual Report and Financial Statments 2018

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

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Mphatso Banda, a MicroLoan client from Malawi used her loans, and financial literacy and business training to start a grocery business to provide for her children.

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Registered with FUNDRAISING REGULATOR

Chairman's introduction

At MicroLoan Foundation we are proud to be working at the forefront of poverty alleviation and women's financial inclusion. Empowering the most vulnerable women to work their own way out of poverty is at the heart of what we do. The women we support are able to start their own small businesses thanks to the loans, financial literacy training and business support they receive. Creating a livelihood allows these women to alleviate the pressures of living in poverty. Parents can send their children to school, provide them with regular nutritious meals and afford basic healthcare using the profits generated by their enterprises.

In 2018 we saw a lot of change for the charity. In January, after nearly two decades at the helm of the organisation, founder Peter Ryan stepped down from his role as CEO. We want to thank him for his vision, work and commitment to MicroLoan's journey. Later in the year we welcomed Medha Wilson, our new Global Director of Microfinance, who joined the MicroLoan team bringing extensive microfinance expertise with her.

This year we have focused on strengthening the governance of our subsidiaries and our operational capacity to expand our reach. We have seen growth across all three countries of operation. Malawi remains our largest area of operations where we have seen the operational self-sufficiency ratio increase to 93%. In Zambia our head office was relocated to the capital, Lusaka, in line with our strategic aims to expand into the northern region of the country. Navigating the changing financial and political climate in Zimbabwe brought with it its own set of challenges, but we are proud to report that our client numbers have continued to grow steadily and that MicroLoan Zimbabwe sustained a 100% loan repayment rate during 2018.

Moving forward into 2019 MicroLoan Foundation solidified a key partnership to become part of the WildHearts Foundation. It has been a great honour to join MicroLoan as their new Chairman as part of this merger. With joined forces it is our aim to transform one million lives every year. I would like to say a big thank you to all our valued donors, partners and supporters, and I hope you will come with us on this journey.

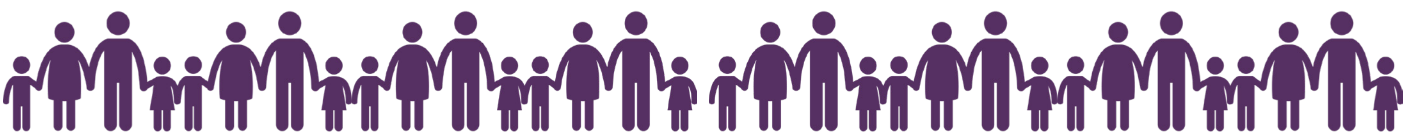
Dr Mick Jackson
Chairman

Our ambition

MicroLoan's vision is a world where all those living in poverty have the opportunity to build better lives for themselves and their families. We believe that the best way to achieve our vision is to provide the poorest and most vulnerable women with the opportunity to work their own way out of poverty, building independence and resilience as their financial situation improves.

In 2018 the charity reached a significant milestone - since our operations began in 2002 MicroLoan has reached one million lives. We have supported over 200,000 women to start their own business by providing training and over £53 million in more than 750,000 loans. As a result an estimated 800,000 children in their care have benefitted from increased access to education, healthcare and nutrition.

Our ambition is to increase the number of people who benefit from our work. We will do this by growing our operational capacity and efficiency. By 2020, MicroLoan aims to provide 100,000 women each year with the means to start their own businesses and an estimated 400,000 children will benefit from the wider social impact of the increased household income. This already takes us half way towards our longer term goal to transform the lives of one million people every year as part of the WildHearts Foundation.



Transforming 1 million lives

How we work

We work with women

Evidence shows that when a woman increases her income, she spends it on her children and family first - improving their health and education. Women have also proved to be more reliable borrowers and are more likely to repay their loans

We provide ongoing training and support

After the initial eight training modules, once a woman's business is up and running, we continue to support her. Loan & Training Officers visit groups every two weeks to provide more advice, financial literacy and business training.

We make finance accessible

We want to help the poorest, so no loan is too small. We do not ask for collateral or remove vital assets if a woman is struggling to repay – we work to help her find a solution.

We work in rural areas

Every day our Loan & Training Officers travel on motorbikes to remote rural villages. We go where other organisations do not go to help those who need it the most.

We work with groups

We work with groups of around 15 women in Malawi, and with smaller groups of five women in Zambia and Zimbabwe. The women provide social, financial and business support to each other and the group has a collective responsibility for the loans.

We use technology

The Loan & Training Officers capture data on tablets in the field which seamlessly integrates with our Management Information System, allowing real-time operational control. We use mobile money technology for all loan and savings transactions in Zambia and Zimbabwe.

Social impact

MicroLoan Foundation works towards achieving a long-term outcome that supports poor rural women to navigate the challenges and stresses that come with living in extreme poverty. We monitor activities and progress towards the social and economic goals of these women using our Social Performance Management systems and processes. Our Social Performance Management model is often cited as an example of best practice and was recognised by TrueLift, a global initiative pushing for accountability and learning in pro-poor programmes.

Data is collected using the Poverty Probability Index®, an innovative poverty measurement tool. This helps us assess if we are reaching those most in need, and if their poverty status is improving over time. Before joining MicroLoan, 86% of the women we support were living below the global poverty line[1].

Moving out of poverty takes time and it is one of the longer term goals for our beneficiaries. Before reaching this crucial milestone we are able to measure and report on a range of positive changes in their lives because of their businesses and increased household income.

When a woman starts a business many aspects of her life and the lives of people around her begin to transform. Her immediate family will benefit as household income increases and she becomes empowered to make financial decisions. In an independent study in Malawi, 92% of our clients report that all their school aged children are in education within one year of the woman joining MicroLoan. She will be able to afford basic medical care when she or her children fall ill. She will make regular savings and create a safety net for her family protecting them against the unpredictability of their living conditions. Her financial independence and intra-household relationships will improve.

A study conducted by The University of Edinburgh shows that 90% of our clients are able to contribute to household income after joining MicroLoan. This leads to increased financial empowerment and 79% of the women report that they are part of the decision making on how household income is spent compared to only 56% before joining MicroLoan.

The wider community also benefits when a woman starts a business. As she grows her business, often with the support from her husband or adult children, employment opportunities are created for others. Her business will feed into the local economy and help her community prosper both financially and socially.

Based on the evaluation of a project funded by the Department for International Development the impact of our work contributes directly to several of the United Nations Sustainable Development Goals including 'No Poverty', 'Zero Hunger' and 'Gender Equality'. The impact of our work also addresses the goals on 'Quality Education', 'Decent Work and Economic Growth', 'Climate Action', 'Life on Land' and 'Partnerships for the Goals'.

1 Defined as US$2.50 per day

200,000
women have received loans and training to go on and start a business.

800,000
children have been given the chance of an education as a result of our work.

2 weeks
food insecurity is reduced to less than two weeks per year compared to nearly three months before.

80%
of women reported saving after joining a MicroLoan group, compared to 11% before.

79%
of our clients report that they are now part of the decision making process for how household income is spent compared to only 56% before.

92%
of our clients in Malawi with school-aged children report they are now all in education.

Our operations in Africa

Angela Phiri from Malawi used her loans and training to start a small village shop.

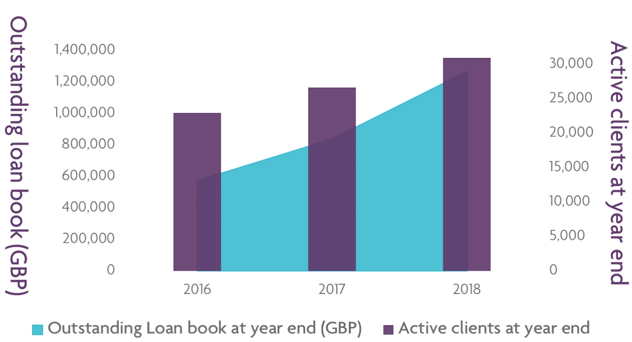
©Peter Caton

MicroLoan Foundation's three subsidiaries in Malawi, Zambia and Zimbabwe recorded strong results for 2018. Combined, the three operations helped over 65,000 women to start or grow their businesses this year. At year end we had achieved an overall increase in loan book of 45% and in active client numbers of 24% compared to 2017. All three operations registered a strong improvement in portfolio quality and operating efficiency, thereby strengthening the operations on the ground and paving the way for further growth and expansion. The overall repayment rate for operations continues to be around 99%, which is largely attributed to our methodology, including our extensive training, systems and controls.

Malawi

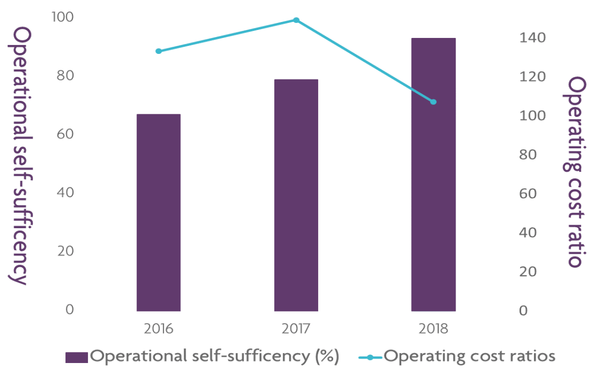
MicroLoan Malawi, the largest of our three operations by client size and loan book, continued its path to sustainability. The Malawian economy remained relatively stable during the year, recording a 3.7% growth in GDP, single digit inflation levels and a relatively stable Malawian Kwacha. This stability enabled the organisation to secure external borrowing from a microfinance specialist social investor, Grameen Credit Agricole. This supplemented by additional equity injection in the second half of 2018 from MicroLoan UK, helped MicroLoan Malawi record a 23% increase in active client numbers and a 45% increase in loan book compared to 2017. MicroLoan Malawi provided training and loans to more than 47,000 women and at year end we had 30,901 active clients.

Malawi active clients and outstanding loan book



During 2018, MicroLoan Malawi completed its roll-out of the Watsopano methodology to all its branches across the country. The methodology is designed to meet the needs of some of our most vulnerable clients. It uses individual clients' savings history to establish client affordability and has proven successful in informing lending decisions for the organisation. The roll-out of this methodology, aided by the functioning of a strong Management Information System, Musoni, have helped maintain an impeccable portfolio quality throughout the year. Further efforts to digitise operations using tablets for capturing data and client assessment purposes, have improved operational efficiency and service delivery.

Malawi operating cost ratios and OSS (%)



MicroLoan Malawi also made great strides in its small but growing agricultural portfolio through a combination of agricultural training and input loans given to smallholder farmers to grow soya in two branches of the country. The project focuses on food security, better nutrition as well as income generation and is funded by the Innocent Foundation for a three year period commencing 2017. It provides a valuable learning opportunity for our team in Malawi as they explore expanding the agricultural portfolio, which also includes loans and training to grow maize, to other regions in the country. We have noted how the effects of climate change are becoming ever more challenging for our clients.

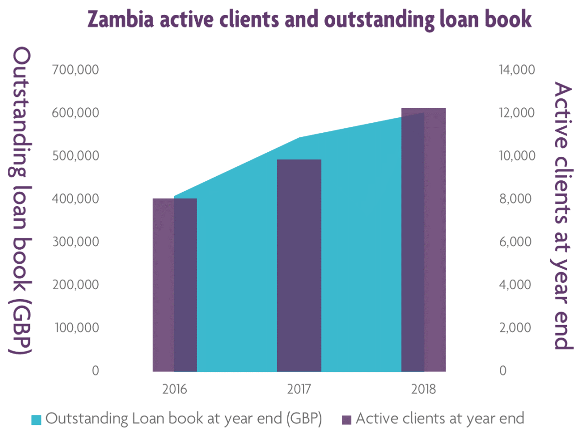
Towards the end of 2018, Malawi was successful in securing a 2019 loan facility from Solidarité Internationale pour le

Développement et l'Investissment, an affiliate organisation of existing social investor Fefisol, to further support its growth and expansion. In the coming year, the focus for Malawi is to increase the number of women we support across existing branches and through new strategic partnerships, many of which have been in the pipeline in 2018. We are also aiming for Malawi to achieve full operational self-sufficiency in 2019, which will be a key milestone in the history and evolution of the organisation.

Zambia

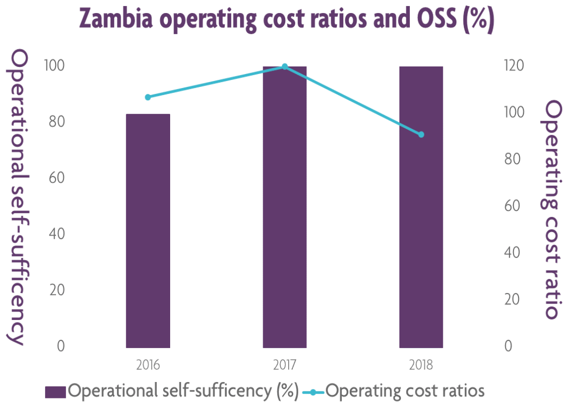
The Zambian economy recorded a growth in GDP of 3.7% with a relatively stable rate of inflation across the year. Despite a challenging external environment in the first half of the year owing to cholera outbreaks and a volatile Zambian Kwacha, MicroLoan Zambia has been successful in achieving a small operating surplus before tax at the end of 2018.

In 2018, our Zambian operations expanded its reach in the southern province to include a branch in Livingston. During the year MicroLoan Zambia helped over 17,000 women with training and business loans. We ended the year with a total of 11 branches and 12,284 active clients across the eastern and southern provinces of the country.



A grant from the Whole Planet Foundation significantly aided in increasing the loan book in the southern province which continues to be one of the fastest growing regions of our operations. Supported by the Government of Zambia's Rural Finance Expansion Programme, MicroLoan Zambia embarked upon its journey to introduce mobile money and was successful in extending loans to its clients and collecting repayments from them through a mobile money platform. This has been an important step towards the digitisation of services and offerings to clients, reducing risks and enabling greater efficiencies in the operations.

MicroLoan Zambia also made further strides in its small agricultural portfolio with the support of the Headley Trust. The three year programme initiated in 2017 supports maize farmers in the eastern province of Zambia with technical training and input loans. Learnings from this programme can provide a significant opportunity for MicroLoan Zambia in furthering its agricultural portfolio to other provinces of the country. As in Malawi, we have made the observation that climate change is affecting our beneficiaries.

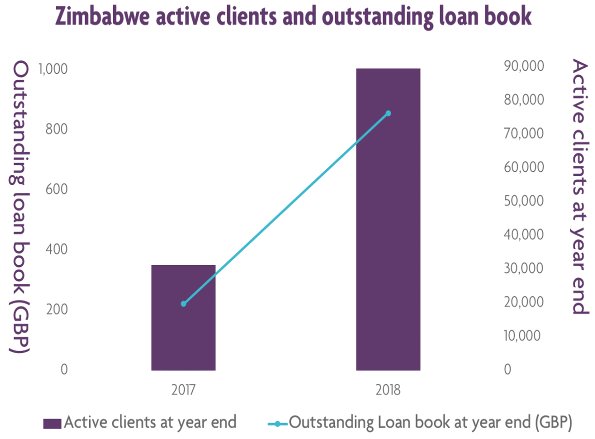


Another key development in 2018 for Zambia was the departure of its CEO, Kenson Chiphaka, who left Zambia to return to his home in Malawi after serving the organisation for nearly 15 years. Jack Ngoma, who served as the CFO, was appointed as the acting CEO in September 2018 and has continued to ensure strong leadership to the organisation following Kenson's departure. With Jack's appointment, the efforts in the second half of the year were focussed on fine tuning the operational methodology, addressing infrastructural challenges with the roll out of mobile money and introducing tighter internal controls, all of which have enabled the company in achieving full operational self-sufficiency before tax in 2018.

In 2019, MicroLoan Zambia will look to reach more women through its existing branches and through a geographical expansion into the northern province of the country. Alongside the donors, who continue to support its work, MicroLoan Zambia will also look to initiate relationships with social investors to further aid its growth and expansion in the coming years.

Zimbabwe

Despite recording a 4% growth in GDP in 2018, the Zimbabwean economy continued to face extremely high levels of inflation amid worsening economic conditions. These were characterised by shortages of fuel, power, food and foreign currency. In the context of what can only be described as a very challenging external environment and the continuing economic uncertainty - particularly in relation to the currency - MicroLoan Zimbabwe managed to end the year with a loan book of just under £82,000 and 1,005 active clients.



The challenging operating environment in the country underpins the importance of the donors who have continued to support our operations in Zimbabwe since its inception in 2017. 2018 saw the extension of commitment from two existing donors - the SDL Foundation and the Paul Foundation, which has ensured that the organisation largely met its operational targets for the year. Management efforts during the year were focussed on strengthening systems and processes, all of which have helped in maintaining an impeccable portfolio quality with PAR 30 at 0% at the end of 2018.

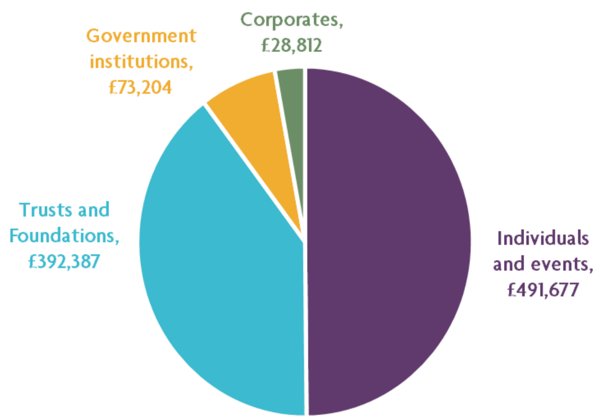
2019 will no doubt bring with it additional challenges owing to the external environment, particularly with regards to macroeconomic implications on currency changes. MicroLoan Zimbabwe will continue to work with its key funders to ensure a carefully planned growth strategy within its existing regions of operations with the objective of helping more women on their journey out of poverty and moving closer to achieving full operational self-sufficieny.

Fundraising overview

In 2018 MicroLoan Foundation raised £986,080 in voluntary income (2017: £1,028,532). Our supporters include trusts, foundations, institutions and corporate partners, as well as individuals who support us through personal donations or by fundraising for us through challenge events or community engagements. We received £73,204 from a government-funded initiative in Zambia and all other donations were made by private and corporate organisations or individuals.

We are truly grateful for the generous gifts from our many donors. It is thanks to your support that we are able to continue our work and help more women and their families find a way out of poverty.

See below a breakdown of voluntary income for 2018.



MicroLoan UK has a dedicated fundraising team in the UK which manages relationships with donors in the UK and internationally. The UK office liaises with our affiliates in the USA and Australia and the operational teams in sub-Saharan Africa to ensure that our donors are informed about the difference their support makes. We are a member of the Fundraising Regulator and adhere to the UK Code of Fundraising Practice.

The Pundutso Group from Zimbabwe received their first loans in 2018.

Group financial review

The Group's financial performance for 2018 is set out in the Consolidated and Charity Statement of Financial Activities, the Balance Sheets and the Consolidated Statement of Cashflows on pages 15 to 18. The Group result includes our operations in Malawi, Zambia and Zimbabwe.

Results in overview

2018 was a year of significant, positive change for MicroLoan Foundation following the completion of a strategic review that began in late 2017. As a result of this review, several actions were taken in order to restructure operations and prepare the charity for our next stage of growth. These included formalising a long-term strategic partnership with WildHearts Foundation (Registered Charity SC037072), redefining certain roles and responsibilities across the Group, strengthening key management positions and relocating the UK head office. We would like to thank Lady Allison and Sir Harvey McGrath for their generous support and guidance during this process.

Net Group expenditure increased to £98,865 compared to £22,014 in 2017. Our African operations made further progress towards sustainability, benefiting from increased contribution from their growing loan books. Nevertheless, additional investment made to expand these operations as well as a number of one-off costs in respect of the strategic review all contributed to the overall increase in net expenditure.

Group reserves decreased to £864,822 (2017: £1,009,552), reflecting a combination of the above result and adverse foreign currency movements. Despite this, we were able to grow our loan book by a further 24% to £1,846,987 (2017: £1,494,533) by securing additional social investment to supplement grants and donations.

Income and Expenditure

Income for the year increased by 12% overall to £2,676,442 (2017: £2,382,104). This was driven by our growing loan book, with interest income rising proportionately to £1,681,685 (2017: £1,336,026). This increasing contribution from our loan book shows that the significant investment in people and infrastructure as well as increased financing is beginning to make a real financial impact. Voluntary income from fundraising remained relatively static compared to 2017 but was generated from a lower cost base.

An analysis of the Group's expenditure is provided in note 5 of the financial statements:

- The cost of our UK based fundraising team decreased to £359,057 (2017: £415,988) reflecting the full year impact of a restructuring and refocussing of this team in 2017.
- The underlying costs of our charitable activities grew to £2,416,250 (2017: £1,988,130), which was due primarily to the increasing scale of activities across all three countries.

Exchange rate movements

We have exposures to soft currencies in Malawi, Zambia and Zimbabwe where exchange rates are volatile and have contributed to significant losses in the past. Although the value of Sterling continues to remain depressed as a result of ongoing Brexit uncertainty, in 2018 we recorded a Group foreign exchange loss of £45,865 (2017: £80,262).

Risk management

Risk management is focused on the risks and opportunities associated with our social mission and inherent in its delivery. MicroLoan Foundation's aim is to use our donations effectively and to recycle as much of our loan funding as possible. Although we operate in some of the poorest regions in sub-Saharan Africa, our net risk appetite is low.

Governance of the Group's risk management ultimately sits with the UK Board. Detailed management and oversight of risk is delegated to the African Boards and the Global Director of Microfinance, who is also a member of each of the local Boards.

Our key risks are:

Fundraising Risk: This is the risk that the level or mix of unrestricted and restricted donations and social investment is insufficient to maintain or expand our social mission. Over recent years we have responded to market changes by targeting organisations with similar interests and forming strategic partnerships where we can work together for mutual benefit.

Sustainability Risk: This is the risk that the expenses from our charitable activities exceed our income and that, in the longer term, this reduces our ability to provide services and grow or maintain our current loan book. During 2018 our operations in Malawi, Zambia and Zimbabwe all made positive progress against our three year plan. Our strategy remains to continue to responsibly increase investment into each country through a combination of donations and social investment with the objective of all three reaching operational self-sufficiency by 2020. Achieving this milestone will provide us with a robust platform from which to expand our reach and enhance the social impact that we deliver. There are no present plans to open up operations in new countries and we would only do so after undertaking comprehensive feasibility studies and preparing detailed financial plans.

Liquidity and Funding Risk: Our expense base is principally staff and associated costs and therefore is stable and recurring. On the other hand, our gross income stream is volatile and therefore our long-term strategic partnership with WildHearts Foundation, which is explained in more detail below, is a key part of our strategy to increase our cash reserves, manage our cost base and maintain UK liquidity.

Credit Risk: Although we operate in some of the poorest areas of sub-Saharan Africa, our credit risk history shows that our methodology works. As mentioned in our review of operations, our loan repayment rate is currently 99%. Our sector-leading Management Information System allow us to identify problems early and work with clients to resolve them.

Foreign Exchange Risk: These can arise on conversion of receipts or payments from one currency to another or revaluation and translation of local currency loans and borrowings into Sterling. As noted in the operational overview we operate where currency rates are volatile and can fluctuate significantly. To mitigate currency risks, we match our assets and liabilities by currency whenever possible and encourage social investors to lend to us in local currencies.

Operational Risk (Including Fraud Risk): We have over 150 staff working across four countries and therefore we have the logistical risks associated with operating over large distances, in rural areas with poor infrastructure and stretched communication networks. This increases the risk of internal failures of controls or systems, including fraud, as well as external disruption. Although no significant new frauds were reported in 2018, we continue to monitor and improve our operational framework, including investing in strengthening our internal audit function. We also review and upgrade our IT infrastructure and computer equipment with the support of key donors on an ongoing basis.

Reserves and going concern

Reserves are needed to cover these risks. We hold unrestricted reserves in each of the countries that we operate and also in the UK. They are freely available to support the activities of the Group and to fund our operational losses. It is difficult to compare our organisation to other UK-based charities in terms of our financials. We manage three businesses in African countries with any profit being funnelled back into the organisation. Because of the nature of the countries in which we work, we need a comfortable cash cushion to be able to deal with any risks that arise. In addition to our cash cushion, a large portion of our unrestricted reserves is needed to support our revolving loan fund for existing clients. Without these, there could be delays in providing loans to clients which would undermine our social mission.

An analysis of the Group's reserves is provided in note 20 of the financial statements. During 2018 they decreased to £864,822 (2017: £1,009,552) made up of unrestricted reserves of £689,362 (2017: £785,135) and restricted funds of £175,460 (2017: £224,417).

As part of the strategic review undertaken during 2018, the Board explored a number of options to develop a financing and operating model that would enable MicroLoan Foundation to increase its outreach and secure the long term future of the charity's social mission. The Board concluded that, as an independent charity, organic growth would be slow and uncertain and so a decision was taken to find a likeminded organisation with which the charity could partner to effect a step-change in the size of our activities. After an extensive period of due diligence, WildHearts Foundation (Registered Charity SC037072) was identified as a suitable partner. On 30 October 2018, an agreement was signed between the two organisations under which WildHearts Foundation would become the sole member of MicroLoan Foundation subject to certain conditions, thereby becoming MicroLoan Foundation's parent charitable company. Strategic and operational integration took effect from 1 January 2019, with legal completion on 1 April 2019. A common Board of Trustees has been put in place.

Whilst there is overlap in the objectives of MicroLoan Foundation and WildHearts Foundation, it is intended that each will continue to operate as separate UK registered charities. The existing activities of MicroLoan Foundation and our operations in Africa will remain unchanged but will benefit from the additional resources and expertise available through the larger group.

Following the partnership being formalised, WildHearts Foundation has advanced significant additional funds to MicroLoan UK in 2019 which has allowed all external UK borrowings to be cleared and has funded further loan book growth within our African operations. Furthermore, as a result of integrating key back office and support functions, significant cost synergies have been achieved that will allow us to increase the proportion of voluntary income that we are able to allocate towards our charitable activities moving forward.

Our entire team are excited by the opportunities that this partnership will bring and the Board is confident that it will secure the long term success of our Group.

In light of the above, and after making appropriate enquiries, the Board has a reasonable expectation that the charity has adequate resources for its operations to continue for the foreseeable future. Therefore, we have adopted the going concern basis in preparing the financial statements for the year ended 31 December 2018.

Governance

MicroLoan Foundation in the UK is a company limited by guarantee. It is subject to Charities Law and Companies Law and is regulated by and registered with the Charity Commission ('CC') and the Office of the Scottish Charity Regulator ('OSCR').

To support its social mission MicroLoan has established a subsidiary in each African country that it operates in. Each subsidiary is licenced as a microfinance provider by the local central bank and is subject to local company law and regulations. Currently MicroLoan has subsidiaries operating in Malawi, Zambia and Zimbabwe. Each subsidiary has a locally appointed Board of Directors and employs training and lending officers, support staff and management.

The UK charity and the African Operations are all part of the MicroLoan Foundation Group.

In addition, MicroLoan has affiliates in the US and Australia to raise funds and awareness of our activities. MicroLoan USA is recognised as a tax exempt section 501(c)(3) non-profit organisation. MicroLoan Australia is registered with the Australian Charities and Not-for-profits Commission.

Our UK Board

The UK Board is responsible for setting the charity's social mission and the MicroLoan Foundation Group's overall strategic direction. Its responsibilities include oversight and monitoring of:

- Implementation of our strategy, social mission, ethics and values.
- Performance compared to key financial indicators, annual business plans and budgets.
- Strategy for raising funds from donors, social investors and others in accordance with our fundraising standards.
- Changes in both the internal and external risks and challenges faced by the group.
- The effectiveness of the governance and control framework.

The Board meets formally at least four times a year with additional meetings arranged when required. From time to time, the Board may also establish sub committees for specific projects.

The charity appoints new trustees by carefully considering the skills and experience needed to discharge the Board's responsibilities, develop the charity's social mission and deliver on its long term objectives. Following the strategic review undertaken during 2018 and the decision to formalise a long term partnership with WildHearts Foundation, it was agreed that existing trustees would step down in order to allow fresh impetus to be injected to take the charity forward. We would like to thank our Chairman Alan Penson and all of the outgoing trustees for their commitment and support. A number of members of the outgoing Board have kindly agreed to remain involved in an informal capacity as advisors to the charity, including our Founder Peter Ryan.

Trustees that served during the year and up to the date of this report were as follows:

Lesley-Anne Alexander	resigned 1 April 2019
Caroline Beck	resigned 1 April 2019
Sally Burton-Graham	resigned 1 April 2019
Bernice Dunsmuir	appointed 1 April 2019
Mick Jackson	appointed 1 April 2019
Robert Jenkins	resigned 1 April 2019
Colin Milne	appointed 1 April 2019
Alan Penson	resigned 1 April 2019
Caroline Ryan	resigned 16 March 2018
Peter Ryan	resigned 31 January 2018
Karen Scholes	appointed 1 April 2019
Dina Shiloh	resigned 1 April 2019
Danny Witter	resigned 1 April 2019

Day to day running of the charity is delegated to a Senior Management Team which we strengthened during the year through the appointment of a new Global Director of Microfinance and a new Group CFO.

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

It is also expected that all trustees and other senior personnel undertake appropriate personal and professional development activities relevant to their position. Opportunities for formal training are offered periodically, including courses, seminars and conferences.

The charity is also fortunate to have attracted several experienced professionals from a variety of backgrounds who provide ongoing support and mentoring. This network enables the charity and the Board to harness the best and most creative minds in their respective disciplines to support our social mission.

Interaction between the UK and Africa

The UK and Africa Boards implement the Group strategy in a way that is appropriate to local conditions and oversee the operations in their country. Each Board has directors with a variety of local and international experience and include both executive and non-executive directors, some of whom are also directors of the UK Board.

During 2018, Peter Ryan, having stepped down from his role as CEO of MicroLoan UK, also stepped down from the boards of Malawi, Zambia and Zimbabwe.

The directors of the Malawi Board are currently Gabriel Mthunzi, Medha Wilson, Charles Mandala, Nick Hall, Robert Phiri, Etta Mmangissa, and Mateo Zanetic.

The directors of the Zambia Board are currently Sally Dean, Medha Wilson, Michael Mee, Kennedy Msekera, Miriam Zimba and Mateo Zanetic. We would like to thank Alex Tweedie who stepped down from the Zambia Board in September 2018.

The directors of the Zimbabwe Board are currently Elias Hwenga, Ngaakudzwe Gumbo, Medha Wilson, Mateo Zanetic and Andre Harriman.

The Global Director of Microfinance, Medha Wilson has overall responsibility and oversight for our operations and reports to the Trustees of the UK charity.

Our Remuneration Policy

UK staff salaries are reviewed and approved by the Board based on performance and benchmarking information. Staff are not paid commission although their contribution to fundraising, where applicable, is a key part of their performance assessment. All staff have written employment contracts outlining their respective responsibilities and obligations.

Peter Ryan previously served as Chief Executive Officer and was remunerated for his services in this role. His remuneration was set by the Chairman in consultation with the Remuneration Committee. Following the strategic review and subsequent reorganisation of roles and responsibilities there are currently no remunerated trustees.

Operational staff salaries are set by local management and approved by local Board Committees. Their salaries are based on performance against objectives linked to social mission and operational objectives and are benchmarked against comparable local occupations. Bonuses may be paid if certain targets are exceeded.

Loan & Training Officer Ester with client Mary and Head of Philanthropy Malin.

Statement of trustees' responsibilities

Public benefit

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

Financial statements

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

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

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

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

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

The trustees confirm that so far as they are aware:

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

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

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

Signed on behalf of the Board
Dr Mick Jackson
Chairman

Independent auditor's report

Opinion

We have audited the financial statements of MicroLoan Foundation (the 'parent charitable company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated and parent charitable company statement of financial activities, the group and parent charitable company balance sheets, the consolidated statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- Give a true and fair view of the state of the group's and of the parent charitable company's affairs as at 31 December 2018 and of the group's and parent charitable company's incoming resources and application of resources, including its income and expenditure, for the year then ended.
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- Have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and regulations 6 and 8 of the Charities Accounts (Scotland) Regulation 2006 (as amended).

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The trustees' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- The trustees have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent charitable company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- The information given in the trustees' annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

- The trustees' annual report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of trustees

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

As part of an audit in accordance with ISAs (UK), 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 group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustees.
- Conclude on the appropriateness of the trustees' 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 group's or

the parent charitable company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent charitable 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

Use of our report

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

Jonathan Orchard
Senior Statutory Auditor
15 August 2019

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

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

Financial statements

Consolidated Statement of Financial Activities (including Consolidated Income and Expenditure Account) for the year ended 31 December 2018

	Note	Unrestricted funds 2018 £	Restricted funds 2018 £	Total 2018 £	Unrestricted funds 2017 £	Restricted funds 2017 £	Total 2017 £
Income from:							
Donations and legacies	2	519,505	466,575	986,080	530,620	497,911	1,028,531
Charitable activities							
- MLF Malawi		1,034,207	-	1,034,207	801,663	-	801,663
- MLF Zambia		563,973	-	563,973	524,788	-	524,788
- MLF Zimbabwe		83,505	-	83,505	9,575	-	9,575
Investment income	3	8,677	-	8,677	2,790	-	2,790
Other income	4	-	-	-	14,757	-	14,757
Total income		2,209,867	466,575	2,676,442	1,884,193	497,911	2,382,104
Expenditure on:							
Raising funds	5	(343,998)	(15,059)	(359,057)	(403,488)	(12,500)	(415,988)
Charitable activities							
- MLF Malawi	5	(1,256,588)	(215,513)	(1,472,101)	(1,107,284)	(175,009)	(1,282,293)
- MLF Zambia	5	(537,711)	(181,499)	(719,210)	(405,443)	(158,727)	(564,170)
- MLF Zimbabwe	5	(121,477)	(102,524)	(224,001)	(14,981)	(120,431)	(135,412)
- PSHF	5	-	(938)	(938)	(842)	(5,413)	(6,255)
Total expenditure		(2,259,774)	(515,533)	(2,775,307)	(1,932,038)	(472,080)	(2,404,118)
Net expenditure		(49,907)	(48,958)	(98,865)	(47,845)	25,831	(22,014)
Transfers between funds	20	(4,699)	4,699	-	(7,578)	7,578	-
Other recognised gains / (losses):							
Exchange losses		(41,167)	(4,698)	(45,865)	(80,262)	-	(80,262)
Net movement in funds		(95,773)	(48,957)	(144,730)	(135,685)	33,409	(102,276)
Reconciliation of funds:							
Total funds brought forward	20	785,135	224,417	1,009,552	920,820	191,008	1,111,828
Total funds carried forward		689,362	175,460	864,822	785,135	224,417	1,009,552

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

The notes on pages 19 to 34 form part of these financial statements.

Charity Statement of Financial Activities (including Income and Expenditure Account) for the year ended 31 December 2018

	Note	Unrestricted funds 2018 £	Restricted funds 2018 £	Total 2018 £	Unrestricted funds 2017 £	Restricted funds 2017 £	Total 2017 £
Income from:							
Donations and legacies		519,505	379,027	898,532	530,712	403,773	934,485
Investment income		360	-	360	149,253	-	149,253
Other income		-	-	-	9,274	-	9,274
Total income		519,865	379,027	898,892	689,239	403,773	1,093,012
Expenditure on:							
Raising funds		(343,998)	(15,059)	(359,057)	(403,488)	(12,500)	(415,988)
Charitable activities		(410,728)	(125,577)	(536,305)	(249,015)	(422,245)	(671,260)
Total expenditure		(754,726)	(140,636)	(895,362)	(652,503)	(434,745)	(1,087,248)
Net income		(234,861)	238,391	3,530	36,736	(30,972)	5,764
Transfers between funds		281,559	(281,559)	-	(7,578)	7,578	-
Net movement in funds		46,698	(43,168)	3,530	29,158	(23,394)	5,764
Reconciliation of funds:							
Total funds brought forward		33,394	167,529	200,923	4,236	190,923	195,159
Total funds carried forward		80,092	124,361	204,453	33,394	167,529	200,923

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

The notes on pages 19 to 34 form part of these financial statements.

Balance sheets as at 31 December 2018

Company registration number: 04828558

	Note	The group 2018 £	The group 2017 £	The charity 2018 £	The charity 2017 £
Fixed assets					
Tangible assets	9	507,312	453,443	54,808	107,480
Investments	10	-	-	628,166	60,590
Deferred Tax asset	11	-	19,979	-	-
		507,312	473,422	682,974	168,070
Current assets					
Stock	12	16,562	12,015	-	-
Debtors	13	2,102,027	1,655,645	272,684	841,308
Cash at bank and in hand		229,237	449,910	188,115	240,397
		2,347,826	2,117,570	460,799	1,081,705
Creditors: Amounts falling due within one year	14	(1,287,614)	(924,511)	(389,320)	(665,648)
Net current assets / (liabilities)		1,060,212	1,193,059	71,479	416,057
Total assets less current liabilities		1,567,524	1,666,481	754,453	584,127
Creditors: Amounts falling due after one year	15	(696,644)	(656,929)	(550,000)	(383,204)
Provisions for liabilities	16	(6,058)	-	-	-
Total net assets		864,822	1,009,552	204,453	200,923
Funds of the charity:					
Unrestricted funds	20	689,362	785,135	80,092	33,394
Restricted funds	20	175,460	224,417	124,361	167,529
Total funds		864,822	1,009,552	204,453	200,923

The financial statements were approved by the Board and authorised for issue on 14 August 2019 and signed on their behalf by:

Dr Mick Jackson
Chairman

The notes on pages 19 to 34 form part of these financial statements.

Consolidated Statement of Cash Flows as at 31 December 2018

	Note	2018 £	2018 £	2017 £	2017 £
Cash flows from operating activities					
Net expenditure per Statement of Financial Activities		(98,865)		(22,014)	
Depreciation charges		135,577		53,896	
Investment income receivable		(8,677)		(2,790)	
Interest on borrowings		72,552		64,302	
Gain on disposal of tangible fixed assets		(10,102)		-	
Decrease in deferred tax provision		25,991		107,064	
(Increase) / decrease in stock		(4,453)		14,769	
Increase in debtors		(678,729)		(475,350)	
Increase in creditors		120,623		36,673	
Net cash flows from operating activities			(446,083)		(223,450)
Cash flows from investing activities					
Interest receivable and similar income		8,677		2,790	
Purchase of tangible fixed assets		(193,475)		(106,968)	
Disposal of tangible fixed assets		10,102		16,667	
Disposal of investments		-		18,346	
Net cash flows from investing activities			(174,696)		(69,165)
Cash flows from financing activities					
New loans obtained during the period		662,999		711,486	
Loans repaid during the period		(180,509)		(334,401)	
Interest paid on borrowings		(72,552)		(64,302)	
Net cash flows from financing activities			409,938		312,783
Net (decrease) / increase in cash and cash equivalents			(210,841)		20,168
Cash and cash equivalents at 1 January 2018			449,910		496,733
Exchange loss on cash and cash equivalents			(9,832)		(66,991)
Cash and cash equivalents at 31 December 2018			229,237		449,910

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

The notes on pages 19 to 34 form part of these financial statements.

1 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation and statement of compliance

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

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

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

These financial statements consolidate the results of the charitable company and its wholly-owned subsidiaries on a line by line basis. The subsidiaries are MicroLoan Foundation Malawi, MicroLoan Foundation Zambia, and, in Zimbabwe, MicroLoan Trust Zimbabwe and MicroLoan Foundation (Private) Limited. Transactions and balances between the charitable company and its subsidiaries have been eliminated from the consolidated financial statements. Balances between the companies are disclosed in the notes to the charitable company's balance sheet.

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

Going concern

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

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

Key sources of estimation uncertainty

Estimation uncertainty exists in respect of the recoverable amount of the charity's microfinance loan portfolio. In determining whether impairment is required, the trustees consider factors such as the contractual terms of the underlying loan agreements, historic rates of loan default in the territory and applicable local macroeconomic factors that could impact the ability to recover amounts advanced. The carrying value of the loan portfolio at the year-end was £1,846,987 (2017: £1,494,533).

Income

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

1 Accounting policies (continued)

Donations and legacies

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

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

Grants receivable

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

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

Income from charitable activities

Income from charitable activities is recognised on an accruals basis net of provision for bad debt.

Other trading activities

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

Investment income

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

Expenditure

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

Raising funds

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

Charitable activities

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

Grant expenditure

Grants and donations made are included in the Statement of Financial Activities at the point there is sufficient evidence that a contractual or constructive obligation exists. In practice, this is usually a legal agreement or formal written offer issued by the charity to the recipient.

In circumstances where the charity makes a grant award that contains performance conditions, expenditure is recognised in the period in which each performance milestone is met. Where there are other conditions associated with the grant, expenditure is recognised to the extent that the future payment is probable.

1 Accounting policies (continued)

Support costs

Support costs include central functions and have been allocated to activity cost categories on a basis consistent with the use of resources, as shown in Note 5.

Governance costs

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

Irrecoverable VAT

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

Taxation

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

Trading subsidiaries are subject to corporation tax in the countries that they operate in. Tax is recognised in the Statement of Financial Activities.

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

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

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

Tangible fixed assets

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

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

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

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

1 Accounting policies (continued)

Investments

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

Investments made by the charity which represent concessionary loans are measured at cost less provision for impairment.

Other investments are measured at fair value through income and expenditure unless fair value cannot be measured reliably. In such circumstances, investments are measured at cost less impairment.

Stocks

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

Trade and other debtors

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

Trade creditors

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

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

Borrowings

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

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

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

1 Accounting policies (continued)

Holiday pay accrual

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

Pension and other post retirement obligations

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

Foreign exchange

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

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

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

Fund accounting

Reserves which can be used at the discretion of the trustees are classified as unrestricted funds.

Designated funds, which are also unrestricted, represent amounts ringfenced or committed by the charity for specific charitable activities.

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

Financial instruments

Classification

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

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

1 Accounting policies (continued)

Recognition and measurement

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

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

Financial assets are derecognised when, and only when:

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

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

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

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

Debt instruments

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

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

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

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

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

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

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

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

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

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

1 Accounting policies (continued)

Derivative financial instruments

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

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

Fair value measurement

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

Hedge accounting

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

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

Fair value hedges

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

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

2 Income from donations and legacies

	Unrestricted 2018 £	Restricted 2018 £	Total 2018 £	Unrestricted 2017 £	Restricted 2017 £	Total 2017 £
Individuals and events	337,738	153,939	491,677	394,475	54,900	449,375
Trusts and institutions	172,955	292,636	465,591	117,697	425,660	543,357
Corporates	8,812	20,000	28,812	18,448	17,351	35,799
	519,505	466,575	986,080	530,620	497,911	1,028,531

3 Investment income

	Unrestricted 2018 £	Restricted 2018 £	Total 2018 £	Unrestricted 2017 £	Restricted 2017 £	Total 2017 £
Interest receivable	8,677	-	8,677	2,790	-	2,790

4 Other income

	Unrestricted 2018 £	Restricted 2018 £	Total 2018 £	Unrestricted 2017 £	Restricted 2017 £	Total 2017 £
Other sundry income	-	-	-	14,757	-	14,757

5 Expenditure analysis

	Charitable activities									
	MLF Malawi 2018 £	MLF Zambia 2018 £	MLF Zimbabwe 2018 £	PSHF 2018 £	Subtotal 2018 £	Cost of raising funds 2018 £	Governance costs 2018 £	Support costs 2018 £	Total 2018 £	Total 2017 £
Staff costs	490,304	324,541	20,639	-	835,484	183,347	39,256	17,141	1,075,228	932,513
Travel and subsistence	153,029	61,656	16,586	-	231,271	2,779	8,840	2	242,892	305,973
Premises costs	133,497	-	3,664	-	137,161	-	-	43,304	180,465	88,753
Legal and professional fees	56,738	33,445	34,100	-	124,283	15,000	93,813	34,852	267,948	48,295
Interest costs	69,254	-	-	-	69,254	-	-	3,298	72,552	64,302
Grants	-	-	-	938	938	-	-	-	938	5,412
Other costs	504,623	260,774	123,150	-	888,547	21,507	1,771	23,459	935,284	958,870
	1,407,445	680,416	198,139	938	2,286,938	222,633	143,680	122,056	2,775,307	2,404,118
Support costs	-	-	-	-	-	122,056	-	(122,056)	-	-
Governance costs	64,656	38,794	25,862	-	129,312	14,368	(143,680)	-	-	-
Total expenditure	1,472,101	719,210	224,001	938	2,416,250	359,057	-	-	2,775,307	2,404,118
2017 expenditure analysis	1,282,293	564,170	135,412	6,255	1,988,130	415,988	-	-	-	2,404,118

Prior year charitable activities includes allocation of governance costs totalling £221,038.

6 Net income / (expenditure) for the year

	2018	2017
	£	£
This is stated after charging:		
Depreciation	135,577	25,979
Auditor's remuneration - audit	15,464	20,530
Auditor's remuneration - other services	3,120	-
Operating lease expenses - property	81,663	71,833

7 Staff costs

	2018	2017
	£	£
The aggregate payroll costs were as follows:		
Wages and salaries	1,068,877	959,395
Social security costs	44,600	47,737
Pension costs	76,894	80,912
	1,190,371	1,088,044

Included in total wages and salaries were redundancy costs totalling £38,152 (2017: £nil).

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

	2018	2017
	£	£
£60,000 - £69,999	3	2

Pension contributions made on behalf of these employees totalled £3,200 (2017: £36,022).

Following the group reorganisation, the trustees consider key management personnel during 2018 to comprise the Board of Trustees, the Director of Microfinance, the Chief Financial Officer and the Chief Executive Officers of the African subsidiaries. In the prior year, Key Management Personnel was considered to be the Board of Trustees and the African Regional Director. The only remunerated trustee in both the current and prior year was the Chief Executive Officer.

Emoluments totalling £316,793 (2017: £163,249) were paid to key management personnel inclusive of Employer's National Insurance and pension contributions.

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

	2018	2017
	No.	No.
Malawi	101	106
Zambia	49	46
Zimbabwe	8	3
Raising funds	5	5
Governance and administration	3	4
	166	164

8 Trustee remuneration and expenses

	2018 £	2017 £
Trustees' emoluments	44,658	63,423
Contributions to money purchase pension schemes	4,478	36,022
Trustees' emoluments	49,136	99,445

Expenses reimbursed to trustees, which comprised principally of travel, subsistence and external meetings costs, were as follows:

	2018 £	2017 £
Chief Executive	235	11,485
Other trustees	4,061	9,262
	4,296	20,747

9 Tangible Fixed Assets

The group

	Buildings £	Office equipment £	Computer equipment £	Motor vehicles £	Website costs £	Total £
Cost						
At 1 January 2018	100,363	85,871	259,007	338,918	22,645	806,804
Forex adjustment	665	16,063	(18,257)	(6,949)	-	(8,478)
Additions	-	35,915	19,695	137,865	-	193,475
Disposals	-	(4,219)	(48,979)	(38,201)	-	(91,399)
At 31 December 2018	101,028	133,630	211,466	431,633	22,645	900,402
Depreciation						
At 1 January 2018	(10,588)	(32,157)	(105,498)	(182,473)	(22,645)	(353,361)
Forex adjustment	(70)	(8,044)	9,044	3,519	-	4,449
Charge for the year	(1,860)	(16,593)	(63,484)	(53,640)	-	(135,577)
On disposals	-	4,219	48,979	38,201	-	91,399
At 31 December 2018	(12,518)	(52,575)	(110,959)	(194,393)	(22,645)	(393,090)
Net book value						
At 31 December 2018	88,510	81,055	100,507	237,240	-	507,312
At 31 December 2017	89,775	53,714	153,509	156,445	-	453,443

9 Tangible Fixed Assets (continued)

The charity

	Office equipment £	Computer equipment £	Website costs £	Total £
Cost				
At 1 January 2018	4,219	165,803	22,645	192,667
Disposals	(4,219)	(47,737)	-	(51,956)
At 31 December 2018	-	118,066	22,645	140,711
Depreciation				
At 1 January 2018	(4,219)	(58,323)	(22,645)	(85,187)
Charge for the year	-	(52,672)	-	(52,672)
On disposals	4,219	47,737	-	51,956
At 31 December 2018	-	(63,258)	(22,645)	(85,903)
Net book value				
At 31 December 2018	-	54,808	-	54,808
At 31 December 2017	-	107,480	-	107,480

10 Investments

The charity

	Investments in subsidiaries £	Total £
Cost		
At 1 January 2018	60,590	60,590
Additions	567,576	567,576
At 31 December 2018	628,166	628,166
Provision		
At 1 January 2018	-	-
Charge for the year	-	-
At 31 December 2018	-	-
Net book value		
At 31 December 2018	628,166	628,166
At 31 December 2017	60,590	60,590

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

10 Investments (continued)

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

	Income	Expenditure	Result for the year £	Aggregate of share capital and reserves £
MLF Malawi	1,121,239	(1,206,526)	(85,287)	760,807
MLF Zambia	632,773	(636,954)	(4,181)	421,023
MLF Zimbabwe	96,079	(92,521)	3,558	31,918
	1,850,091	(1,936,001)	(85,910)	1,213,748

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

11 Deferred tax asset

	The group 2018 £	The group 2017 £	The charity 2018 £	The charity 2017 £
Amounts recoverable from Malawi Revenue Authorities	-	19,979	-	-

In addition to the above, at 31 December 2018 there was an unrecognised deferred tax asset of £19,456 (2017: £nil) in respect of Malawi, £nil (2017: £7,482) in respect of Zambia and £28,893 (2017: £19,546) in respect of Zimbabwe.

12 Stock

	The group 2018 £	The group 2017 £	The charity 2018 £	The charity 2017 £
Consumables held	16,562	12,015	-	-

13 Debtors

	The group 2018 £	The group 2017 £	The charity 2018 £	The charity 2017 £
Amounts due from group undertakings	-	-	194,817	821,354
Microcredit loans	1,846,987	1,494,533	-	-
Other debtors and prepayments	255,040	161,112	77,867	19,954
	2,102,027	1,655,645	272,684	841,308

14 Creditors: amounts falling due within one year

	The group		The charity	
	2018	2017	2018	2017
	£	£	£	£
Trade creditors	23,370	-	11,850	-
Taxation and social security	25,889	-	4,791	-
Other creditors and accruals	92,368	315,943	19,475	57,080
Loans	1,145,987	608,568	353,204	608,568
	1,287,614	924,511	389,320	665,648

Further information in respect of loans outstanding is provided at note 15.

15 Creditors: amounts falling due after one year

	The group		The charity	
	2018	2017	2018	2017
	£	£	£	£
Loan repayments due:				
In 1 - 2 years	91,796	555,145	-	383,204
In 2 - 5 years	604,848	101,784	550,000	-
	696,644	656,929	550,000	383,204

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

Loan provider	Outstanding £	Borrower	Currency	Interest rate
CAF Venturesome *	103,204	UK	GBP	6.5%
WildHearts Foundation	550,000	UK	GBP	Nil
Sir Harvey and Lady Allison McGrath	250,000	UK	GBP	Nil
Fonds European Financement Solidaire ('FEFISOL')	52,509	Malawi	MKW	27.0%
KIVA Microfunds	188,570	Malawi	USD	Nil
Whole Planet Foundation	69,186	Malawi	USD	Nil
Grameen	238,439	Malawi	MKW	18.0%
Lend with Care	165,449	Malawi	USD	Nil
Lend with Care	184,288	Zambia	USD	Nil
Lend with Care	40,986	Zimbabwe	USD	Nil
	1,842,631			

* This loan is secured by a fixed and floating registered charge over the assets of the Charity.

16 Provisions for liabilities

	The group 2018 £	The group 2017 £	The charity 2018 £	The charity 2017 £
Deferred Tax				
Amounts payable to the Zambian Revenue Authorities	6,058	-	-	-

17 Pension and other schemes

The charity makes contributions to various defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the charity to the scheme and amounted to £76,894 (2017: £80,912).

18 Operating lease commitments

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

	The group 2018 £	The group 2017 £	The charity 2018 £	The charity 2017 £
In less than one year	35,040	34,023	20,648	24,600
In one to five years	-	18,991	-	18,450
	35,040	53,014	20,648	43,050

19 Analysis of group net assets between funds

	Unrestricted 2018 £	Restricted 2018 £	Total 2018 £	Unrestricted 2017 £	Restricted 2017 £	Total 2017 £
Tangible fixed assets	507,312	-	507,312	453,443	-	453,443
Deferred tax asset	-	-	-	19,979	-	19,979
Net current assets	884,752	175,460	1,060,212	968,642	224,417	1,193,059
Long term liabilities	(696,644)	-	(696,644)	(656,929)	-	(656,929)
Deferred tax liability	(6,058)	-	(6,058)	-	-	-
	689,362	175,460	864,822	785,135	224,417	1,009,552

20 Funds

	Balance at 1 January 2018 £	Income £	Expenditure £	Foreign exchange gains / (losses) £	Transfers £	Balance at 31 December 2018 £
Unrestricted funds						
General fund	785,135	2,209,867	(2,259,774)	(41,167)	(4,699)	689,362
	785,135	2,209,867	(2,259,774)	(41,167)	(4,699)	689,362
Restricted funds						
Malawi	48,183	167,328	(215,511)	(1,083)	1,083	-
Zambia	160,736	100,862	(168,269)	(3,615)	3,616	93,330
Zimbabwe	-	134,713	(102,524)	-	-	32,189
PSHF	266	672	(938)	-	-	-
UK infrastructure	2,000	63,000	(15,059)	-	-	49,941
Group infrastructure	13,232	-	(13,232)	-	-	-
	224,417	466,575	(515,533)	(4,698)	4,699	175,460
Total funds	1,009,552	2,676,442	(2,775,307)	(45,865)	-	864,822

Restricted funds represent the total of individual fund balances received for activities within the charity's countries of operation. The trustees do not consider there to be any individually material amounts within each aggregated fund balance that would require separate disclosure.

21 Charity status

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

22 Post Balance Sheet events

MicroLoan Foundation has worked with WildHearts Foundation (Registered Charity SC037072) for a number of years, with WildHearts Foundation being a major funder of our operations in Africa. On 30 October 2018, an agreement was signed between the two organisations under which WildHearts Foundation would become the sole member of MicroLoan Foundation subject to certain conditions, thereby becoming MicroLoan Foundation's parent charitable company. Strategic and operational integration took effect from 1 January 2019, with legal completion on 1 April 2019. A common Board of Trustees has been put in place that comprises of the existing trustees of WildHearts Foundation.

Whilst there is overlap in the objectives of MicroLoan Foundation and WildHearts Foundation, it is intended that each will continue to operate as separate UK registered charities. The existing activities of MicroLoan Foundation and its subsidiaries will remain unchanged but will benefit from the additional resources and expertise available through the larger group.

MicroLoan Foundation's companies and advisors

United Kingdom

London

Registered Office and Operational HQ
1-2 Paris Garden
London, SE1 8ND

Africa

MicroLoan Foundation Malawi

Registered Office
P.O. Box 2292, Area 6
Lilongwe

MicroLoan Foundation Zimbabwe

Registered Office
c/o Scanlen & Holderness, 13th Floor
Cabs Centre
74 Jason Moyo Avenue
Harare

MicroLoan Foundation Zambia

Registered Office
P.O. Box 310082
Plot 346, 4th Street Chelstone Green
Salama Park
Lusaka

International

MicroLoan Foundation USA

237 Bonad Road
Chestnut Hill
MA 02467

MicroLoan Foundation Australia

101 John Lund Drive
Hope Island
Queensland 4212

Group Auditors

Sayer Vincent

Invicta House
108-114 Golden Lane
London, EC1Y 0TL

UK Bankers

Barclays

Barclays Bank Plc
Leicester
LE87 2BB

Solicitors

Allen & Overy

Bishops Square
London, E1 6AD

Simmons & Simmons

CityPoint, 1 Ropemaker St
London, EC2Y 9SS

https://www.microloanfoundation.org.uk

www.twitter.com/MicroLoan

www.instagram.com/microloanfoundation

www.linkedin.com/company/microloan-foundation

www.facebook.com/MicroLoanFoundation

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