FUNDACJA "MICROFINANCE CENTRE"

Consolidated Financial Statements

as of and for the year ended 31 December 2019

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Consolidated Statement of Comprehensive Income for the year ended 31 December 2019
(All amounts are stated in PLN rounded to nearest zł)

	Note	12 months ended 31 December 2019	12 months ended 31 December 2018
Earned revenue			
Membership fees		147 664	146 389
Program revenue	6	3 373 428	2 314 626
Other operating income	5	23 661	40 014
Total revenue		**3 544 753**	**2 501 029**
Program expenses			
Staff expenses	11	301 630	290 147
Non-staff expenses		1 634 889	1 012 588
Total program expenses	7	**1 936 519**	**1 302 735**
Administrative expenses			
Staff expenses	11	301 776	342 451
Non-staff expenses		454 716	336 453
Other operating expenses	9	10 897	10 581
Total administrative expenses	8	**767 389**	**689 485**
Total expenses		**2 703 908**	**1 992 220**
RESULT FROM OPERATING ACTIVITIES		**840 845**	**508 809**
Finance income	10	78 811	534 427
Finance costs	10	(12 245)	(5 977)
Net finance income		**66 566**	**528 450**
Profit before income tax		**907 411**	**1 037 259**
Income tax expense	12	(81 249)	(97 511)
Net result after tax		**826 162**	**939 748**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**826 162**	**939 748**

Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 25

Fundacja "Microfinance Centre"

Consolidated Statement of Financial Position as at 31 December 2019

(All amounts are stated in PLN rounded to nearest zł)

		2019	2018
ASSETS			
Non-current assets			
Property, plant and equipment	13	-	-
Right-of-use assets	27	93 011	-
Deferred tax assets	16	-	-
Total non-current assets		**93 011**	**-**
Current Assets			
Accounts receivable	15	829 433	511 736
Cash and cash equivalents	14	13 859 179	13 684 854
Total current assets		**14 688 612**	**14 196 590**
TOTAL ASSETS		**14 781 623**	**14 196 590**
Equity			
Own Funds			
Founding capital	20	2 100	2 100
Retained earnings		13 833 509	13 007 347
Total own funds		**13 835 609**	**13 009 447**
Total Funds attributable to equity holders of the Fundation		**13 835 609**	**13 009 447**
Liabilities			
Accounts payable	18	133 713	121 316
Accruals	19	719 282	1 060 456
Lease liabilities	27	93 011	-
Deferred tax liabilities	16	8	5 371
Total Accounts Payable and Accruals		**946 014**	**1 187 143**
TOTAL LIABILITIES		**14 781 623**	**14 196 590**

Consolidated Statement of Financial Position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 25

Fundacja "Microfinance Centre"
Consolidated Statement of Cash Flow for the year ended 31 December 2019
(All amounts are stated in PLN rounded to nearest zł)

	12 months ended 31 December 2019	12 months ended 31 December 2018
Cash flow from operating activities		
Net profit	826 162	939 748
Adjustments:		
Depreciation and amortisation	-	-
Exchange rate differences	(66 960)	(178 683)
Interest income	(78 811)	(57 726)
Income tax expense	124 153	10 569
	804 544	713 908
Change in receivables and deferred tax assets	(317 697)	539 612
Change in accounts payable and accruals	(334 140)	232 293
	152 707	1 485 813
Interest received	78 811	57 726
Income tax received / (paid)	(124 153)	(10 569)
Net cash flow from operating activities	**107 365**	**1 532 970**
Cash flow from investing activities		
Purchase of fixed assets	-	-
Net cash flow from investing activities	**-**	**-**
Net cash flow from financing activities	**-**	**-**
Net inflow (outflow) of cash	**107 365**	**1 532 970**
Cash and cash equivalents at the beginning of the financial year	**13 684 854**	**11 973 201**
Effect of exchange rate fluctuations on cash held	**66 960**	**178 683**
Cash and cash equivalents at the end of the financial year	**13 859 179**	**13 684 854**
- restricted cash	**-**	**-**

Consolidated statement of Cash Flow is to be read in conjunction with the notes to and forming part of financial statements set out on pages 7 to 25

Fundacja "Microfinance Centre"

Consolidated Statement of Changes in Fund Balances for the year ended 31 December 2019

(All amounts are stated in PLN rounded to nearest zł)

	2019	2018
OWN FUNDS		
Founding capital opening balance	2 100	2 100
- increases in funding capital	-	-
- decreases in funding capital	-	-
Founding capital closing balance	**2 100**	**2 100**
Retained earnings opening balance	13 007 347	12 067 599
Net profit of the year	826 162	939 748
Retained earnings closing balance	**13 833 509**	**13 007 347**
Total own funds	**13 835 609**	**13 009 447**

Consolidated Statement of Changes in Fund Balances is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 7 to 25

1. GENERAL INFORMATION

Fundacja "Microfinance Centre" (the "Parent Entity" or "Foundation") was established pursuant to a notarial deed from 8 December 1997. The address of the Foundation's registered office is Noakowskiego 10/38, 00-666 Warsaw, Poland.

The Foundation was registered in the XII Commercial Department of the National Court Register (KRS) under the number KRS 0000101471 on 5 April 2002.
The legal name of the Foundation was changed from Fundacja Centrum Organizacji Pożyczkowych (Microfinance Centre) to Fundacja "Microfinance Centre" according to the decision of Council of the Foundation made on October 9, 2011. On July 6, 2012 the updated charter of the Foundation was registered.

The consolidated financial statements as at 31 December 2019 include the accounts of the Foundation and MFC Sp. z o. o., a wholly owned subsidiary (the "Subsidiary").

The Foundation serves as access to finance resource centre and a membership-based network in Europe and Central Asia and provider – through wholly owned subsidiary - of training and consulting services. The Foundation's mission is to maximize access to effective financial services for low income people by facilitating stakeholder partnerships and promoting innovative and highly valued solutions as a recognized knowledge leader. The subsidiary provides training and consulting services.

In accordance with the statute of the Foundation the Founders of the Foundation are represented by: Mrs. Rosalind Sarah Copisarow, Mrs. Maria Nowak-Przygodzka and Mr. Kenneth Dan Vander Weele.

Board of Directors of the Foundation are represented as at 31.12.2019 by: Mr. Cristian Jurma, Mrs. Lucija Popovska, Mrs. Izabela Norek, Mrs. Sanavbar Sharipova, Mr. Alisher Akbaraliev Mr. Paul Kalinauckas and Mr. Samir Bajrovic.

The average number of employees in the Foundation and its subsidiary during the year ended 31 December 2018 amounted to 10 while during the year ended 31 December 2019 amounted to 9.

2. BASIS OF PREPARATION

The Foundation and its subsidiary maintain their accounting records in Polish Zloty in accordance with the accounting principles and practices employed by foundations and enterprises in Poland as required by the Accounting Act of 29 September 1994 (Journal of Law of 2019, item 351 with subsequent amendments) and Act on Foundations dated 6 April 1984 (Official Journal no. 21, item 97 with subsequent amendments).
The accounting policies have been consistently applied by the Group.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with the group accounting principles.

The consolidated financial statements were authorized for issue by the directors of the Foundation on 28 September 2020.

(b) Changes in accounting policies

In these consolidated financial statements "Microfinance" Group for the first time applied changed policy of recognition of leases. The Group recognised in its statement of financial position assets and liabilities related to leases for which the Group acts as a lessee.

Previously, the Group recognised operating lease expenses on a straight-line basis over the time of the lease and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense recognised.
The Group applied new policy from 1 January 2019 using the modified retrospective approach. Therefore the Group recognized new assets and liabilities for its lease of office as of the 1 January 2019 in the amount of 190 066 PLN. The Group recognised a depreciation charge for right-of-use assets and payments due under the lease in lease liability in the amount of 8 088 PLN per month.
When defining the lease period and estimating the length of the lease period, the Group uses the definition of the contract and specifies the duration of the contract. The Group assumed end date of the lease as of the 18 December 2020.

(c) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(d) Functional and presentation currency

These consolidated financial statements are presented in Polish Zloty (PLN), rounded to the nearest Zloty, which is the Parent Entity's functional currency.

(e) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the note 3 (k) "Revenue Recognition".

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. The accounting principles adopted in the preparation of these consolidated financial statements were consistent with the principles adopted for the preparation of the consolidated financial statements for 2019, except for accounting principles changes described in p. "Changes in accounting policies" .

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Foundation. Control exists when the Foundation has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency transactions

Foreign currency transactions are translated to PLN at exchange rates prevailing at the date of the transactions, set by the National Bank of Poland ("NBP"). Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to PLN at exchange rate set by the National Bank of Poland ("NBP") at that date. Gains and losses arising on translation are recognised in the consolidated statement of comprehensive income.

(c) Financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables. Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.
A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.
Cash and cash equivalents comprise cash balances and call deposits. Accounting for finance income and expense is discussed in note (j).
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(d) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer policy note f).

(ii) Depreciation

Depreciation is charged to the consolidated statement of comprehensive income using the straight line method to write off the cost of each asset over its estimated useful life. Low-value assets which are written off when brought into use. Depreciation commences from the first day of the month following the month in which a fixed asset is brought into use.
The estimated range of useful lives is as follows:

Computer software	2 years
Computer equipment	3 years
Other office equipment	5 years
Other furniture and fixtures	5 years

(e) Contributed materials and services

The work of the Foundation is dependent on the voluntary service of many members and others. Since these services are not normally purchased by the Foundation and because of the difficulty of determining their fair value, contributed services are not recognized in these consolidated financial statements.

(f) Impairment

Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.
An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.
Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.
All impairment losses are recognised in profit or loss.
An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.
An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.
The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.
A provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(h) Provisions

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

(i) Accruals

An accruals are expenses for which invoices have not been received at the end of an accounting year and expenses or assets recognized before they are paid.

(j) Finance income and expenses

Finance income comprises interest income and foreign currency gains. Interest income is recognised as it accrues, using the effective interest rate method.
Finance expenses comprise interest expense on borrowings, foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest rate method.

(k) Revenue recognition

The main sources of MFC income include the fees from the annual conference for Microfinance Institutions, training courses and consulting as well as grants for various research and policy projects financed by donors. Foundation's revenue constitutes also annual membership fees paid by Microfinance Institutions.

Revenue from services rendered are recognised in the statement of comprehensive income at a point of time, when the control of the service is transferred to the customer (e.g. when the agreed upon services have been provided).

The grants are recognised in the statement of comprehensive income when there is reasonable assurance that such grant will be received and all related conditions are complied with. Income from government grants are recognized net of expenses. Income from non-government grants and related expenses are presented separately.

Dedicated contributions are recognised as revenues of the appropriate dedicated fund in the year when qualifying cost where incurred up to the level such costs if the amount receivable can be reasonable estimated and collection is reasonably assured. In cases where contribution agreements assume additional surplus of contribution to be received over qualifying costs incurred, this surplus is recognised as revenues in accordance with a stage of completion of particular programme realised.
Non-dedicated (core) contributions, which are designated to cover operational expenses not relating to specific program, are recognised as revenue of the General Fund in the year when received or receivable if the amount to be received can be reasonable estimated and collection is reasonably assured. In cases

when expenses incurred are lower than contribution received, revenue from contribution is recognised up to level of cost and surplus is carried forward to the next year.

Interest income is recognised as it accrues unless the collectability is in doubt.

(l) Fund summary

The consolidated financial statements separately disclose the activities of the following funds maintained by the Group:

Own and General funds - reflects the activities associated with the Foundation's day-to-day operations including its short and long-term capital requirements.

E*aSI Technical Assistance* *(EaSI project)* – the project aims at providing capacity building to European microcredit providers (MCPs) as part of a large initiative to support the development of the microfinance sector in Europe. The EaSI Technical Assistance is part of the Employment and Social Innovation (EaSI) Programme which is an EU level financing instrument for social and microenterprises. As part of the Programme, microfinance providers in the EU, EU candidate and EU pre-candidate countries, as well as Switzerland, Liechtenstein, Norway and Iceland, may respond to dedicated calls for expression of interest to request operational technical assistance.
Microfinance Centre as part of the consortium (together with Frankfurt School of Finance & Management – leading partner and European Microfinance Network) implements this capacity building programme in areas such as good governance (including social performance), Management Information Systems (MIS), Strategic Planning, and Risk Management. MFC also assists MCPs with the implementation of self-regulation guidelines in form of the "European Code of Good Conduct for Microcredit Provision". These training, advisory and coaching activities make up the operational support the project will be providing. The project also calls for the provision of horizontal support, in the form of a help desk, events, conferences, seminars, to share and disseminate best practices throughout the sector and to increase awareness of microfinance in Europe.
In 2019 MFC organized 5 workshops on microfinance management and regulation in 3 countries (2 workshops in Poland, 2 workshops in Romania, 1 workshop in North Macedonia), 7 conference workshops carried out in Istanbul, Turkey at the MFC annual conference 29 May – 1st June 2019, 2 investment readiness trainings in Austria and Turkey, 3 study visits to different MFIs in 3 countries (Belgium, Germany, Poland), 1 Peer-to-Peer Training in Italy, technical assistance related to the Code of Good Conduct implementation for 13 MFIs in 7 countries: Bulgaria(3), Hungary (2), Latvia (1), North Macedonia (1), Poland (3), Romania (2), Serbia (1), a total of 132 days of tailored trainings for 12 MFIs in 8 countries: Bulgaria (2), Croatia (1), Greece (1), Hungary (2), North Macedonia (1), Poland (2), Romania (1), Serbia (2).

Taking Financial Health Tools to the Customer in Eastern Europe and Central Asia *(ACCION/MetLife project)* - the project seeks to develop and test practical applications to assist consumers to better understand their financial health status and offer behaviorally-informed nudges, reminders and suggestions on how to improve it.
Additionally, the project will work to optimize and embed these applications into the practices of financial institutions and NGOs carrying out financial education work to increase their programs' cost-effectiveness and create knowledge about the financial health of their clientele that can be used to tailor and refine products to address the needs of specific client groups.
In 2019 MFC with its partner Accion conducted research among beneficiaries/clients of OBS, Serbia and FIIW, Poland (in depth interviews) in order to understand better their needs, challenges, their financial habits. This research helped to create first ideas/prototypes of potential app. This was further tested among clients/beneficiaries (in depth interviews in Poland and Serbia) as well as discussed among microfinance institutions to find out if these prototypes respond to their needs as well.
Based in those findings Accion prepared revised prototype.

Furthermore at the end of 2019 MFC with the help of local consultant, and based on the data collected created another prototype to be tested in 2020.

Migrant Acceleration for Growth Network for Enterpreneurship *(MAGNET project)* – the project focuses on networking and bringing together various stakeholders capable of providing holistic support for migrant entrepreneurs in Europe: this includes humanitarian aid organisations, migrants' training providers, financial institutions and policymakers. In 2019, MFC actively participated in networking forum (in April in Spain), facilitated the cooperation with other similar projects and European level stakeholders, as well as coordinated a series of 9 national level networking events, organized by partners in line with the guidelines developed by MFC. As a result of these meetings, a report summarizing the state of art in migrant entrepreneurship in Europe was drafted. MFC also continued to work on training curriculum on access to finance for migrant entrepreneurs.

***Financial Inclusion for Inclusive Growth in Europe* II 2018-2021** *(EU II Y2 project)* – The overall objective of the program is to widen and deepen financial inclusion of the European citizens. To achieve this, the MFC program encompasses advocacy and capacity building for EU practitioners and policymakers. The specific objectives of the program are: to increase MFI awareness of the current EU policies and programmes existing (e.g.: the EaSI Programme) that support improvements in providing finance to excluded groups, and engaging with policy-makers on improvements to legal and regulatory frameworks for inclusive finance. To develop the capacity of MFC members and non-members to overcome barriers in access to finance for micro-entrepreneurs and social enterprises. To deliver relevant data and analysis on important themes to practitioners and EC stakeholders.
The 2019 activities included:

- intensifying communication with the EU representatives in Brussels resulting with 41 meetings attended, including 7 meetings with EC representatives
- Publishing following tools and notes:
    - 1 Guidelines on measuring clients digital footprint developed
    - MFC Barometer of European Microfinance developed
    - 1 Methodological Note SMALL BUSINESS FINANCIAL HEALTH SCORECARD published
- Organizing annual conference on 30-31 May in Istanbul, Turkey which brought together almost 500 persons mainly from Europe and Central Asia.
- MFC staff participated in 4 working meetings set up by the European Commission to revise the EU Code resulted with submitting final recommendations to SG ECoGS. MFC continued also to serve on the Steering Group (SG) of the ECoGC by the EC and participated across the year in the SG meetings. It provided feedback on the necessary short and longer term revisions to the Code's self-assessment tool.
- Holding ten country meetings/visits in Turkey, Serbia (two visits), UK, North Macedonia, Croatia, Poland, Romania, Germany, France to discuss with local stakeholders topics related to financial inclusion, exchange practices and plans.
- Continue supporting national working groups in Albania and Romania and creating two new groups in Poland and Serbia to strengthen their advocacy efforts on access to finance
- Organizing financial education campaign Borrow Wisely Campaign organized in 8 EaSI countries: Albania, Bulgaria, Greece, Macedonia, Montenegro, Poland, Romania, Serbia and supporting European Microfinance Network in organizing European Microfinance Day
- Several capacity building activities were conducted including 23 peer to peer mentoring sessions and 4 digitalization WG meetings/webinars on topics related to digitalization in microfinance sector

The project is funded by the European Commission.

Innovation in Social Finance *(Rockefeller Foundation project)* - The mapping study of alternative solutions for addressing the issues of financial inclusion and financial health was carried out in four countries - Czechia, the Netherlands, Turkey, the UK. Additionally, a series of interviews with microfinance funders, investors, donors and development agencies active in Europe and Central Asia was conducted with the objective to understand the current and planned engagement to stimulate digitalization of microfinance and to support the alternative social finance sector.

Two thematic reviews were prepared, first focusing on the technological advancements in microfinance and the second on regulatory and legislative changes in the EU.
Nine publications were prepared and disseminated: 7 papers presenting the findings of country mappings conducted in six countries in 2018 and 2018 and the summative paper plus 2 publications presenting the conclusions from thematic reviews.
The results of the mapping studies were presented during the country meetings with alternative finance providers, traditional sector players, facilitators of the financial market as well as the institutions and individuals active in the area of financial inclusion.
EIB Institute CEO Forum & CEO Summit - The CEO Forum is an alternative approach to building capacity of CEOs of the MFC member institutions. It offers a common platform for interactions between the executives, share their challenges and get help from the peers. In 2019 the CEO Forum received financial support from the European Investment Bank Institute. The overall objectives are to:

- Assist member MFIs in developing appropriate strategies for sustainability and applying best practices
- Facilitate an effective and efficient exchange of knowledge and experience between the MFIs
- Enable MFIs to enhance their institutional development as result of the project
- Enable MFIs to transfer skills and strategies among themselves and to assist each other in finding solutions to common issues.

The CEO Forum events and workshops follow a structured dialogue and knowledge sharing format to engage the participants in learning using their professional experience enhanced by a series of short technical presentations. CEO Forum activities consist of webinars, monthly mailings, CEO Forum Peer Exchange Workshops and the CEO Forum Annual Summit. In 2019 the MFC offered the following CEO Forum activities:

1. webinars
   - Pricing Challenges in Microfinance
   - Managing Change in Microfinance Institutions
   - GDPR unpacked with Allen & Overy
   - PSD 2 - the Future of Payments with Allen & Overy
2. CEO Forum monthly mailings which consisted of the CEO Forum library (cutting edge business leadership readings) and CEO Talk (featuring interviews and talks with business leaders)
3. Annual CEO Summit The Annual took place on 31 May and on 1 June in Istanbul, Turkey at tail-end of the 21st MFC Annual Conference. The meeting focused on a select number of topics of high importance to the CEOs which were chosen by popular vote, including human resource challenges, strategy development and digital transformation
4. Workshop for Chief HR Officers Peer Exchange Workshop Staff Recruitment and Retention, 7–8 October 2019, Warsaw, Poland
5. Research: MFC wrote a review paper on the application of block-chain technology in microfinance

(m) Lease payments

The Group recognises new assets and liabilities for its lease of office. The Group recognises a depreciation charge for right-of-use assets. The Group includes payments due under the lease in lease liability.
Previously, the Group recognised operating lease expenses on a straight-line basis over the time of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between the actual lease payments and the expense recognised

(n) Taxation

The Foundation is exempt from income taxation under Article 17 of the local Corporate Taxation Act dated 15 February 1992.
Income tax for the year in the statement of comprehensive income comprises current and deferred tax and relates solely to MFC Sp. z o. o.

(All amounts are stated in PLN rounded to nearest zloty)

Current tax is the tax payable on the taxable income for the year, using tax rate applicable for the reporting period.
Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. DETERMINATION OF FAIR VALUES

Fair values have been determined for measurement and / or disclosure purposes based on the following method.

5. OTHER OPERATING INCOME

	2019	2018
Unutilized bonus provision	20 018	39 139
Other operating income	3 643	875
	23 661	**40 014**

6. PROGRAM REVENUE

	2019	2018
Governments grants (*EU projects*)	1 009 125	1 055 915
Net income of governments grants	(1 009 125)	(1 055 915)
Non-governments grants	1 225 144	913 590
Trainings	1 575 244	352 283
Consultings	28 535	479 781
Annual Conference	540 880	568 135
Other	3 625	837
	3 373 428	**2 314 626**

7. PROGRAM EXPENSES

	2019	2018
Marketing, web page, newsletters, other publications	6 648	55 117
SP-Fund *(Ford Foundation III project)*	-	139 628
ACCION International project	86 302	114 517
Rockefeller Foundation	513 525	165 226
EIB Institute	204 154	-
Governments grants	250 591	260 111
Annual Conference expenses	83 299	82 001
Training expenses	781 897	223 551
Consulting expenses	6 478	261 747
Other projects	3 625	837
	1 936 519	**1 302 735**

(All amounts are stated in PLN rounded to nearest zloty)

8. ADMINISTRATIVE EXPENSES

	2019	**2018**
Staff salaries, bonuses and benefits	301 776	342 451
Travel and conferences	29 718	12 427
Office and administrative	113 606	116 177
Amortisation	21 445	-
Accounting and auditors services	200 603	194 215
Other	89 344	13 634
Other operating expenses	10 897	10 581
	767 389	**689 485**

9. OTHER OPERATING EXPENSES

	2019	**2018**
Withholding tax (WHT)	-	-
Other operating expenses	10 897	10 581
	10 897	**10 581**

10. FINANCE INCOME AND FINANCE EXPENSES

	2019	**2018**
Interest income	78 811	57 726
Foreign exchange rate income	438 896	748 281
Foreign exchange rate expense	(448 025)	(271 580)
Finance income	**69 682**	**534 427**
Interest expenses	(3 116)	(5 977)
Finance expenses	**(3 116)**	**(5 977)**
Net finance income/expenses	**66 566**	**528 450**

11. PERSONNEL EXPENSES

	2019	**2018**
Program staff expenses	1 187 147	1 158 292
Program staff expenses – government grants	(885 517)	(868 145)
Administrative staff expenses	301 776	342 451
	603 406	**632 598**

12. INCOME TAX EXPENSE

Recognized in the Consolidated Statement of Comprehensive Income

Current tax expense	**2019**	**2018**
Current year	86 612	72 355
	86 612	**72 355**
Deferred tax expense		
Origination and reversal of temporary differences	(5 363)	25 156
	81 249	**97 511**

(All amounts are stated in PLN rounded to nearest zloty)

Total income tax expense in the consolidated statement of comprehensive income		

Reconciliation of effective tax rate

	2019	**2018**
Pre-tax result	907 411	1 037 259
Without the Parent Entity result and eliminations made for consolidation purposes	(74 966)	(369 464)
Pre-tax result of subsidiary (MFC)	832 445	667 795
Income tax using the Group's domestic tax rate (9%)	74 920	100 169
Permanent differences	6 329	(2 658)
	81 249	**97 511**
Effective tax rate	9,76%	14,60%

Deferred tax expense relates solely to wholly owned subsidiary MFC Sp. z o. o. and presented effective tax rate is calculated on the basis of the pre-tax result of the subsidiary.
Regulations regarding VAT, corporate income tax, personal income tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between government bodies, and between government bodies and companies. Tax and other settlements (e.g. customs or foreign currency settlements) may be subject to inspection by administrative bodies authorised to impose significant penalties and fines, and any additional taxation liabilities calculated as a result must be paid together with interest. The above circumstances mean that tax exposure is significantly greater in Poland than in countries that have a more established taxation system.
Tax settlements may become subject to inspection by the tax authorities for a period of five years. Accordingly, the amounts shown in the financial statements may change at a later date as a result of the final decision of the tax authorities.

13. PROPERTY, PLANT AND EQUIPMENT

Cost	
As at 1 January 2018	**297 587**
Additions	-
Disposals	-
As at 31 December 2018	**297 587**
As at 1 January 2019	**297 587**
Leasing impact	**190 066**
Additions	21 445
Disposals	-
As at 31 December 2019	**509 098**
Depreciation	
As at 1 January 2018	**297 587**
Depreciation charge	-
Disposals	-
As at 31 December 2018	**297 587**

(All amounts are stated in PLN rounded to nearest zloty)

As at 1 January 2019	**297 587**
Leasing impact	**97 055**
Depreciation charge	21 445
Disposals	-
As at 31 December 2019	**416 087**

Carrying amount	
As at 1 January 2018	-
As at 31 December 2018	-

Carrying amount	
As at 1 January 2019	190 066
As at 31 December 2019	**93 011**

Fixed assets don't have any restrictions on ownership title.

14. CASH AND CASH EQUIVALENTS

	2019	**2018**
Cash in hand	27 697	41 609
Cash at bank	13 831 482	13 643 245
Cash and cash equivalents	**13 859 179**	**13 684 854**
Restricted cash	**-**	**-**

The balance of restricted cash represents restricted funds, which are included in the non-current deferred grants and deferred income related to dedicated funds.

15. ACCOUNTS RECEIVABLE

	2019	**2018**
Trade receivables	596 073	173 010
Amounts receivable from European Commission	165 418	294 295
Tax receivables	13 148	11 601
Other receivables	28 691	28 691
Prepayments	21 403	4 139
Advance paid	4 700	-
	829 433	**511 736**

The Group has no past due amounts in respect of such receivables. The Group has no receivables due more than 3 years. As of 31 March 2020, 97% of "Trade receivables" were paid by the recipients of services.
The gross value of receivables is equal to its net value as there is no impaired receivables as of 31 December 2019 and 31 December 2018.

16. DEFERRED TAX

Recognised deferred tax assets
Deferred tax assets are attributable to the following items:

(All amounts are stated in PLN rounded to nearest zloty)

	Assets	
	2019	**2018**
Reserve for staff holidays compensation	351	584
Staff annual bonus reserve	1 830	2 956
Temporary foreign exchange gain	13	18
Reserve for annual audit	2 295	3 578
Reserve for trade payables	2 669	810
Assets	**7 158**	**7 946**

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following items:

	Liabilities	
	2019	**2018**
Temporary foreign exchange loss	7 166	13 216
Other items	-	101
Liabilities	**7 166**	**13 317**
Net tax liabilities	**8**	**5 371**

17. CONSOLIDATED SATEMENT OF CHANGES IN DEFERRED INCOME RELATED TO DEDICATED FUNDS BALANCES AND GENERAL FUNDS FOR THE YEAR ENDED 31 DECEMBER 2019

As of 31 December 2019 and 31 December 2018 there were no dedicated funds.

18. ACCOUNTS PAYABLE

	2019	**2018**
Trade payables	58 331	16 490
Social Security	24 918	20 980
Current income tax liabilities	28 192	65 733
Tax liabilities	22 272	18 113
	133 713	**121 316**

	2019	**2018**
Accounts payable up to 3 months	133 713	121 316
Accounts payable 3-6 months	-	-
Accounts payable 6-12 months	-	-
Accounts payable over 12 months	-	-
	133 713	**121 316**

The Group has no past due amounts in respect of payables as of 31 December 2019.

19. ACCRUAL

	2019	**2018**
Prepayments received for future services	-	16 253
Prepayments received for HC HFHI project	18 989	18 799
Prepayments received for Rockefeller Foundation project	-	660 632
Prepayments received for Magnet project	22 409	45 717

(All amounts are stated in PLN rounded to nearest zloty)

Prepayments received for AEIDL/YMCB project	12 580	-
Prepayments received for Erasmus + project	291 925	-
Staff holidays compensation	69 998	65 238
Staff bonus fund	158 750	163 750
Provision for audits	83 925	77 785
Provisions for other expenses	60 706	12 282
	719 282	**1 060 456**

	2019
Balance at 1st January	**1 060 456**
Accrual for the period	612 835
Reversal of provisions for the period	20 018
Utilisation for the period	933 991
Balance at 31st December	**719 282**

20. OWN FUNDS

The founding capital of PLN 2 100 represents own funds received from the Founders of the Foundation which has been contributed in equal parts, i.e. PLN 700 each.
In accordance with the statute of the Foundation the Founders of the Foundation are represented by: Mrs. Rosalind Sarah Copisarow, Mrs. Maria Nowak-Przygodzka and Mr. Kenneth Dan Vander Weele.
Retained earnings will be used for the statutory purposes of the Foundation and increased reserve capital of the subsidiary.

21. REMUNERATION OF KEY MANAGEMENT

Total remuneration paid to Management Board amounted to PLN 615 thousand (in 2018 PLN 573 thousand).
No loans have been granted and no other transactions settled with Key Management Personnel during the financial year.

22. TRANSACTIONS WITH RELATED PARTIES

During the year ended 31 December 2019 and 31 December 2018 the Group has not had any transaction with related parties.

23. FINANCIAL RISK MANAGEMENT

Primary policies for managing risk
Management has overall responsibility for the establishment and oversight of the Company's risk management framework, including identification and analysis of the risks faced by the Company, setting appropriate limits and controls, and monitoring the risks and their adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from debt instruments. The objective of risk management is to maintain a stable and sustainable, in terms of quality and value,

portfolio of loans granted and other investments in debt instruments, achieved by the policy of setting credit limits for contract parties.
Financial assets which expose the Group to concentrations of credit risk consist principally of trade receivables and cash. Cash is placed with high credit quality financial institutions. Trade receivables are not significant. Accordingly, the Group has no significant concentration of credit risk.

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial instrument. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses, or risking damage to the Company's reputation.
The Group is not subjected to liquidity risk because the costs are covered by grants received from donator in advance. The cash flows and the liquidity of the Group are monitored and managed by the Management Board, in order to guarantee an effective and efficient management of its financial resources.

(c) Operational risk

Operational risk is the possibility of achieving the losses resulting from the inadequacy or failure of internal processes, people and systems or external events. Operational risk applies to all business processes undertaken by the Group, including activities carried out by external contractors under outsourcing and executed with third parties.
Objective of operational risk management is to minimize the likelihood of the occurrence and/or reduce the effects of unexpected adverse events. The Group identifies ongoing risks existing processes and risk estimates for the probability and consequences of potential threats. As part of the self-assessment analysis of potential risks affecting the activities of the Group is carried out periodically.

(d) Interest rate risk

Interest rate risk is the risk that changes in market prices, such as interest rates will affect the Company's income or the value of its financial instruments.
The Group has no borrowing or significant interest bearing loans. Therefore the Group does not hedge against interest rate risk.

(e) Foreign currency risk and sensivity analysis

Currency risk is the risk that changes in market prices, such as exchange rates will affect the Company's income or the value of its financial instruments. The objective of currency risk management is to manage and control currency risk exposures within acceptable parameters, while optimizing return.
A considerable part of cash contributions are received in other than PLN currencies (mostly USD and EUR). Some expenses are also denominated in foreign currencies. Thus to some extend a natural hedge exists. Group is not using any instruments to hedge against exchange rate risk.

Appreciation of PLN against EURO as of 31 December 2019 by 5% would result in decrease in net profit and equity by PLN 475 thousand. Depreciation of PLN against EURO as of 31 December 2019 by 5% would result in increase in net profit and equity by PLN 475 thousand.
Appreciation of PLN against USD as of 31 December 2019 by 5% would result in decrease in net profit and equity by PLN 172 thousand. Depreciation of PLN against USD as of 31 December 2019 by 5% would result in increase in net profit and equity by PLN 172 thousand.

(All amounts are stated in PLN rounded to nearest zloty)

	2019			2018		
	USD	*EUR*	*GBP*	*USD*	*EUR*	*GBP*
Current Assets						
Trade receivables	39 637	555 664	-	80 230	92 499	-
Other receivables	-	-	-	-	-	-
Prepayments	-	-	-	-	-	-
Tax receivebles	-	-	-	-	-	-
Amounts receivable from EC grants	-	165 418	-	-	294 295	-
Cash and cash equivalents	3 414 652	9 166 741	2 309	3 557 859	8 613 779	3 803
Total current assets	**3 454 289**	**9 887 823**	**2 309**	**3 638 089**	**9 000 573**	**3 803**
Liabilities						
Trade liabilities	-	(58 152)	-	-	(4 720)	-
Tax liabilities	-	-	-	-	-	-
Social Security	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Prepayments received for grants	(18 989)	(326 914)	-	(679 430)	(45 717)	-
Other liabilities	-	-	-	-	(15 923)	-
Total Accounts Payable and Accruals	**(18 989)**	**(385 066)**	**-**	**(679 430)**	**(66 360)**	**-**
NET STATEMENT OF FINANCIAL POSITION EXPOSURE	**3 435 300**	**9 502 757**	**2 309**	**2 958 659**	**8 934 213**	**3 803**

(f) Effective interest rates

In respect of income-earning financial assets the following tables indicates their average effective interest rates at the reporting date and the periods in which they mature.

2019

	Average effective interest rate	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Cash and cash equivalents	0,16%	13 859 179	13 859 179	-	-	-	-

2018

	Average effective interest rate	**Total**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Cash and cash equivalents	0,21%	13 684 854	13 684 854	-	-	-	-

(All amounts are stated in PLN rounded to nearest zloty)

24. EVENTS AFTER THE BALANCE SHEET DATE

The pandemic which broke out at the beginning of 2020 will have a limited impact on the financial and programmatic status of the Foundation. However, it will probably influence the business model of the MFC Sp. z o.o. So far a number of income generating events organized by the Company, have been cancelled, including the annual conference, which for years has been the main income generating activity. As for the Foundation, all of the grantmakers have remained committed to continuing support for both legal entities constituting the Group.

At the beginning of 2020 the Group's Supervisory Council initiated discussions with EMN (European Microfinance Network - Brussels based international association of microfinance institutions) about potential integration. However, the negotiation process has been suspended during the Summer of 2020 owing to legal uncertainties regarding the potential merger. As of September 2020 it is not clear if both parties return to the negotiation table. If the integration takes place, it is expected that the Group would continue its activities in the current legal set up.

25. FAIR VALUES

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2019		**2018**	
	Carrying amount	Fair value	Carrying amount	Fair value
Accounts receivable	829 433	829 433	511 736	511 736
Cash and cash equivalents	13 859 179	13 859 179	13 684 854	13 684 854
Accounts payable	133 713	133 713	121 316	121 316

26. GOING CONCERN

These consolidated financial statements have been prepared on a going concern basis. The Group's Management is not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

27. FINANCE LEASES

Basic lease information	
Lease period in months	23,50
Number of instalments per year	12,00
Lease start date	01-Jan-2019
Lease end date	18-Dec-2020
Lease value opening balance	**0**
New lease	190 066
Lease paid	97 055
Revaluation of ROU lease liabilities	0
Lease value closing balance	**93 011**

The Group leased one apartment as its shared office at Noakowskiego 10 Street apt. 38 and the lease agreement expires 18 December 2020.
The monthly charge remains at rate PLN 8 088 (ca. USD 2 130) per month.

28. CONTINGENT LIABILITIES

As of 31 December 2019 and 31 December 2018 there were no contingent liabilities.

Signature Not Verified
Dokument podpisany przez Grzegorz Galusek
Data: 2020.09.28 12:17:24 CEST

Grzegorz Galusek
Executive Director

Signature Not Verified
Dokument podpisany przez Katarzyna Pawlak
Data: 2020.09.28 12:08:42 CEST

Katarzyna Pawlak
Deputy Director

Report prepared by:

Signature Not Verified
Dokument podpisany przez Grzegorz Galusek
Data: 2020.09.28 12:18:20 CEST

Grzegorz Galusek

Warsaw, 28 September 2020