

DCB COMMERCIAL BANK PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

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DCB COMMERCIAL BANK PLC

ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

CORPORATE INFORMATION

REGISTERED OFFICE	DCB House Plot No. 182 Block R Magomeni Mwembechai P.O Box 19798 Dar es Salaam
MAIN BANKERS	Bank of Tanzania P.O Box 2939 Dar es Salaam NMB Bank Plc P.O Box 9213 Dar es Salaam CRDB Bank Plc P.O Box 268 Dar es Salaam Diamond Trust Bank P.O Box 115 Dar es Salaam
COMPANY SECRETARY	Ms Regina Mduma DCB House Plot No. 182 Block R Magomeni Area P.O Box 19798 Dar es Salaam
AUDITORS	PricewaterhouseCoopers Limited Certified Public Accountants (Tanzania) 369 Toure Drive, Oysterbay, P.O. Box 45 Dar es Salaam

DCB COMMERCIAL BANK PLC

ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

LIST OF ABBREVIATIONS

AGM	Annual General Meeting
ALCO	Asset and Liability Committee
BOT	Bank of Tanzania
DSE	Dar es Salaam Stock Exchange
EAD	Exposure at time of default
ECL	Expected Credit Losses
EPS	Earnings per Share
FTE	Full Time Employees
FVOCI	Fair Value through Other Comprehensive Income
IASB	International Accounting Standards Board
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
LC	Letters of credit
LDR	Loan to Deposit Ratio
LGD	Loss Given Default
OCI	Other Comprehensive Income
PD	Probability of Default
POCI	Purchased or originated credit-impaired
SICR	Significant Increase in Credit Risk
SGL	Solidarity Group Lending
SME	Small and Medium Enterprises
SMR	Statutory Minimum Reserve
SPPI	Solely Payments of Principal and Interest
SPV	Special Purpose Vehicles
TMRC	Tanzania Mortgage Refinance Company Limited
TZS	Tanzanian Shillings
USD	United States Dollars
ROUA	Right of Use Assets

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors submit their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of DCB Commercial Bank Plc ('the Bank').

1. INCORPORATION

The Bank was incorporated in 2001 under the Companies Ordinance, Cap 212 (later repealed by the Companies Act, 2002) and is listed at the Dar es Salaam Stock Exchange. The Bank of Tanzania under the Banking and Financial Institutions Act, 2006, licenses the bank.

2. VISION

The vision of DCB Commercial Bank Plc is to be the preferred financial services provider in Tanzania.

3. MISSION

The mission of DCB Commercial Bank Plc is to provide convenient, excellent, and innovative financial services to our esteemed customers, while contributing to the social and economic development and generating value to shareholders.

4. PRINCIPAL ACTIVITIES

The principal activities of the Bank are taking deposits on demand, providing short term and medium-term credit facilities and other banking services allowed under Banking and Financial Institutions Act, 2006.

5. CAPITAL STRUCTURE

The Bank's capital structure for the year under review is as below:

Authorized	400,000,000 ordinary shares of TZS 250 each.
Called up and fully paid	92,363,896 ordinary shares of TZS 250 each.
Advance towards share capital	5,600,000 ordinary shares of TZS 250 each.
*Call in arrears	6,499,932 ordinary shares of TZS 250 each.

The above is before considering rights issue expenses

**Call in arrears represent shares which have been subscribed for but have not been paid for as 31st December 2020.*

DCB COMMERCIAL BANK PLC**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020****6. THE SHAREHOLDERS OF THE BANK**

The total number of shareholders as at 31 December 2020 was 7,281 (2019: 7,239 shareholders). The shares of the Bank are as follows:

Name	No. of shares	Value of shares TZS	% holding
UTT-AMIS	23,211,479	5,802,869,750	25.13
Dar es Salaam City Council	6,832,094	1,708,023,500	7.40
Ilala Municipal Council	6,357,426	1,589,356,500	6.88
National Health Insurance Fund	6,000,000	1,500,000,000	6.50
Kinondoni Municipal Council	5,625,019	1,406,254,750	6.09
Temeke Municipal Council	3,422,252	855,563,000	3.71
Ubungo Municipal Council	2,500,009	625,002,250	2.71
Kigamboni Municipal Council	2,281,502	570,375,500	2.47
Other 7,273 members	36,134,115	9,033,528,750	39.12
Total share capital	92,363,896	23,090,974,000	100.00

As at 31 December 2019

Name	No. of shares	Value of shares TZS	% holding
UTT-AMIS	23,111,479	5,777,869,750	25.02
Dar es Salaam City Council	6,832,094	1,708,023,500	7.40
Ilala Municipal Council	6,357,426	1,589,356,500	6.88
National Health Insurance Fund	6,000,000	1,500,000,000	6.50
Kinondoni Municipal Council	5,625,019	1,406,254,750	6.09
Temeke Municipal Council	3,422,252	855,563,000	3.71
Ubungo Municipal Council	2,500,009	625,002,250	2.71
Kigamboni Municipal Council	2,281,502	570,375,500	2.47
Other 7,231 members	36,234,115	9,058,528,750	39.23
Total share capital	92,363,896	23,090,974,000	100.00

Note

The bank has received Advance payment toward share capital as follows.

1. Dar es Salaam City Council TZS. 900,000,000
2. Ilala Municipal Council TZS. 400,000,000
3. Ubungo Municipal Council TZS. 100,000,000

Subsequently the bank shareholding structure will change after dissolution of the then Dar es Salaam City Council. Its shares will be transferred to the Ilala Municipal Council (the now Dar es Salaam City Council).

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

7. DIRECTORS

The Directors of the Bank at the date of this report, who have served in office since 1 January 2020, except where otherwise stated, are

Name	Position	Age	Nationality	Qualification/ discipline	Date of appointment/ resignation
Prof. Lucian A. Msambichaka	Ex-Chairman	78	Tanzanian	B.Sc. in Agriculture, M.Sc. in Agricultural Economics and Ph.D. in Agricultural Economics.	Retired on 27 th June 2020
*Mr. Maharage A. Chande	Chairman	45	Tanzanian	Masters in Business Leadership and B.Sc Electronic and Communications.	Appointed on 28 May 2016
Ms. Zawadia J. Nanyaro	Vice Chairman	48	Tanzanian	MBA (Finance), B.Com (Hons) in Accounting, holder of CPA (T) in Public Practice (CPA –PP) and Certified Information System Auditor –CISA.	Appointed on 20 October 2016
Ms. Sipora J. Liana	Member	57	Tanzanian	Masters in Community Economic Development and Bachelor of Agriculture Education and Extension.	Appointed on 28 May 2016
Mr. Aron T. Kagurumjuli	Member	57	Tanzanian	Masters Degree in Education Administration, Planning and Policy Studies, Bachelor of Education in Political Science and Public Administration and Diploma in Adult Education.	Appointed on 28 May 2016
Ms. Pamela F. Nchimbi	Member	39	Tanzanian	MBA, Bachelor of Commerce (Corporate Finance), holder of ACI dealing certificate, Authorized Dealer's Representative, Level 1 Candidate in the Chartered Financial Analyst program, Fundamental Securities Certificate.	Appointed on 27 May 2017
Mr. Alexander Sanga	Member	42	Tanzanian	Masters of Business Administration, Bachelor of Science in Computer Science, Certified Information Systems Audit (CISA) – ISACA, Certified Information Manager (CISM) – ISACA, Agile Expert Certified Credential (AEC), Scrum Master Certified Credential (SMC), Balance Score Card Professional (BSP), Certified and Information Systems Control (CRISC) – ISACA and Certified in Governance of Enterprise IT (CGEIT) – ISACA	Appointed on 17 th April 2020
**Mr. Francis Kafuku	Alternate Member	40	Tanzanian	Postgraduate Diploma in Accountancy, Advanced Diploma in Accountancy, Advanced Tally Accounting Package, CPA(T), Certified in Accountancy (CA) and Accountant Technician Level One (ATEC)	Appointed on 12 th June 2019
Mr. Godfrey Ndalawa	Managing Director	44	Tanzanian	CPA (T), Bachelor of Commerce (in Accounting)	Appointed on 1 January 2018

*Mr. Maharage A. Chande who was the vice chairman appointed on 5th December 2020 as chairman of the board **Mr. Francis Kafuku represents Temeke municipal council in the capacity of alternate member

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REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

7. DIRECTORS (CONTINUED)

Directors' interest in the Bank's shares

Name of the director	Number of shares held 2020	Number of shares held 2019
Prof. Lucian A. Msambichaka	138,449	138,449
Mr. Maharage A. Chande	243,883	243,879
Ms. Zawadia J. Nanyaro	21,832	21,832
Ms. Pamela F. Nchimbi	4,885	4,885
Mr. Godfrey P. Ndalawwa	113,208	113,208
Ms. Sipora J. Liana	10,000	10,000
Total shares held by directors	532,257	532,253

8. COMPANY SECRETARY

The Bank's Secretary as at 31 December 2020 was Ms. Regina Mduma.

9. CORPORATE GOVERNANCE

The Bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. The Bank had 8 Directors including the Managing Director. Apart from the Managing Director no other Director holds an executive position in the Bank.

The Board takes overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board delegates the day-to-day management of the business to the Managing Director assisted by the management team. The management team is invited to attend board meetings and facilitate the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

The Board of Directors

During the year the Board held five (5) ordinary meetings and two (2) extra ordinary meetings. The attendance is as shown in the table below:

No	Name	Position	Total Meeting	No. of meetings attended
1.	Prof. Lucian A. Msambichaka	Chairman	7	4
2.	Mr. Maharage A. Chande	Vice chairman	7	7
3.	Ms. Zawadia J. Nanyaro	Member	7	7
4.	Ms. Sipora J. Liana	Member	7	7
5.	Mr. Aron T. Kagurumujuli	Member	7	0
6.	Ms. Pamela F. Nchimbi	Member	7	6
7.	Mr. Alexander M. Sanga	Member	7	3
8.	Mr. Godfrey P. Ndalawwa	Member	7	7

Note

Prof. Lucian Msambichaka attended all the Board meetings during his tenure before his retirement in June 2020. Mr. Alexander Sanga attended all the Board meeting from the time of his appointment to the Board.

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REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

9. CORPORATE GOVERNANCE (CONTINUED)

Board Committees

Each Committee has a charter to govern the roles and responsibilities as well as the efficiency and effectiveness of board performance. During the year, the Board had the following Board sub-committees to ensure a high standard of corporate governance.

a. Board Audit, Risk and Compliance Committee (BARCC)

The BARCC held four (4) ordinary meeting and two (2) extra ordinary meetings whose attendance is as shown in the table below

No	Name	Position	Total Meetings	No. of meetings attended
1.	Ms. Zawadia J. Nanyaro	Chairperson	6	6
2.	Mr. Maharage A. Chande	Member	6	6
3.	Mr. Aron T. Kagurumujuli	Member	6	0
4.	Ms. Pamela F. Nchimbi	Member	6	5

b. Board Nomination and Human Resources Committee (BNHRC)

The BNHR Committee held four (4) ordinary meetings and three (3) extra ordinary meeting. The attendance is as shown in the table below:

No	Name	Position	Total Meetings	No. of meetings attended
1.	Mr. Maharage A. Chande	Chairman	7	7
2.	Ms. Sipora J. Liana	Member	7	7
3.	Ms. Zawadia J. Nanyaro	Member	7	7
4.	Mr. Francis G. Kafuku	Member	7	4
5.	Prof. Lucian A. Msambichaka	Member	1	1
6.	Mr. Godfrey P. Ndalalwa	Member	2	2

c. Board Strategy & Credit Committee

The BSC Committee held four (4) ordinary meetings and one (1) extra ordinary meeting. The attendance is as shown below:

No	Name	Position	Total Meetings	No. of meetings attended
1.	Mr. Maharage A. Chande	Chairman	5	5
2.	Ms. Zawadia J. Nanyaro	Member	5	5
3.	Ms. Pamela F. Nchimbi	Member	5	4
4.	Mr. Alexander M. Sanga	Member	5	3

Note

Mr. Alexander M. Sanga Sanga attended all the Board meetings from the time of his appointment to the board

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

10. MANAGEMENT TEAM

As at 31 December 2020, the management of the Bank was under the Managing Director, assisted by the following: -

Position	Name
Managing Director	Mr. Godfrey Ndalawwa
Ag. Chief Manager – Finance	Ms. Ester Bgoya
Chief Manager – Operations	Mr. Nelson Swai
Chief Manager – Credit	Mr. Isidori Msaki
Chief Manager - Risk & Compliance	Ms. Doreen Joseph
Chief Internal Auditor	Mr. Deogratius Thadei
Chief Manager - Human Resources	Ms. Evelyn Rugambo
Chief Manager - Legal Affairs & Company Secretary	Ms. Regina Mduma
Chief Manager - Commerce	Mr. Zacharia Kapama
Chief Manager – Microfinance	Ms. Haika Machaku

11. STOCK EXCHANGE INFORMATION

The Bank's shares are listed at the Dar es Salaam Stock Exchange and were actively trading. In the year 2020, the performance of the Bank's shares in the secondary market was as follows: Market capitalization as at 31 December 2020 was TZS 24.48 billion (2019: TZS 27.25 billion); Average price per Bank's share was TZS 283.33 (2019: TZS 329.16) and the closing share price was TZS 265 (2019: TZS 295) per share.

12. PERFORMANCE FOR THE YEAR

The Bank has managed to record a profit before tax of TZS 1.02 billion for the year ended 31 December 2020 (2019: Profit before tax - TZS 2.11 billion) which translates to the total comprehensive income after tax of TZS 617 million (2019: TZS 2.04 billion). Due to Covid-19 pandemic, the bank's profitability dropped because of missed business opportunities and special relief granted to customers. During the spike of the pandemic the loans monitoring, and recovery was enhanced to contain credit risk.

The remained profitable due to 17 percent growth in customer deposits, 16 percent growth in loans to customers, 27 percent growth in fees and commissions, 83 percent increase in forex trading as well as improvement of the portfolio quality and an aggressive recovery, lowering the non-performing loan ratio to 12 percent from the 2019 level of 14 percent. The overall net interest margin increased by 4 percent during the year (2019: decreased by 21 percent), with the bank growing its non-funded income by 10 percent compared to 2019 while the portion of Non funded income to Gross income remained constant 17 percent (2019:18 percent), as part of the incumbent measures to curb the impact of the overall decrease in the industry average lending margins.

Customer deposits grew from 85.2 billion to TZS 99.5 billion, a reflection of the improved liquidity environment in the banking industry, coupled with the bank's measures in mobilizing stable and long-term funding options to fuel the predicted balance sheet growth. The bank has continued to strengthen its deposit base by launching new and innovative digital products that are tailored to the customer needs.

Loans and Advances to customers have grown from TZS 84.3 billion to TZS 98.1 billion, reflecting the bank's initiatives to strengthen the business ties it has with the customers by providing credit related solutions. The level of disbursements to the SME, Mortgage and housing, microfinance sector and personal loans has increased during the year, reaching TZS 61.5 billion, from TZS 49.6 billion in 2019.

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

13. BRANCH NETWORK AND OUTREACH

The Bank had eight branches as at 31 December 2020 (2019: eight branches), seven of which are in Dar es Salaam and one branch located in Dodoma. As at the year end, the Bank's total number of depositors and borrowers were as follows:

	2020	2019
Current accounts	4,267	3,795
Savings accounts	193,994	190,288
Time deposits	647	448
Deposit accounts	200,928	194,531
Loan accounts	37,137	35,220

14. DIVIDEND

Due change in regulatory requirement for the bank to pay dividend, the Directors do not propose payment of dividend for the year 2020 (2019: 500m).

15. OPERATING ENVIRONMENT

The Central Bank's accommodative monetary policy continued to prevail throughout the year 2020, but with much more improved measures that ensured the banking sector liquidity is stable and the envisaged economic growth attained. Fiscal operations remained streamlined to facilitate sustainable growth, through commendable efforts to enhance revenue collection and spending on development projects.

GDP growth averaged 4.7 percent during 2020, hovering from 5.7 in half quarter 2020, courtesy of Covid 19 Outbreak and slight decline in economic activities. Key growing activities were construction, which grew by 42.6 percent, Agriculture (24.6 percent), and Transport and Storage (14.7 percent)

Construction activity recorded the most consistent growth rate, followed by Agriculture, Transport and Storage, Mining and Quarrying. The sustained high growth in construction activity was associated with the ongoing investments in infrastructure, including construction of standard gauge railway, Julius Nyerere hydropower station, roads, bridges, water supply facilities and buildings. Growth in mining and quarrying activity was due to higher production of gold, silver, and natural gas. The observed increase in the volume of gold produced is also supported by improvements in data capturing following establishment of mineral trading centers.

Annual headline inflation averaged 3.1 percent, remaining below the country medium-term target of 5.0 percent and EAC and SADC convergence benchmarks of 8.0 percent (ceiling) and 3.0-7.0 percent, respectively. During the year, however, inflation levels have been under a consistent downward pressure, hovering from 3.8 percent in the first quarter to around 3.1 percent in December. Adequate food supply during beginning of the year and stable fuel prices have sustained the levels of inflation. Food inflation averaged 3.1 percent in 2020, compared with 5.8 percent in 2019, while non-food inflation increased to an average of 3.2 percent from 2.4 percent, largely due to decline in price of housing, water, electricity, gas and other.

Bank of Tanzania introduced regulatory requirements for bank and financial institution operating in Tanzania to have cost to Income ratio of less than 55 percent and Non-performing loans of less than 5 percent. The financial institution required to comply by 31 December 2022 and effectively from 22nd January 2021 all financial institution with ratio above acceptable limits are restricted from paying dividends and bonuses. DCB Commercial Bank plc cost to income ratio and Non-performing loans as at 31 December 2020 is 96 percent and 12 percent respectively.

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

16. FUTURE PROSPECTS

DCB Commercial Bank shall continue to harness its balance sheet growth while serving her customers via investment in technology, new product development and enhancement of its service levels to match the ever evolutionary customer demands.

While relieving the bank's vision, the bank will continue to support the financial inclusion agenda by ensuring customers are receiving up to date financial solutions that meet their needs, in line with the bank's strategic plan. The bank will continue to focus on community banking, Mortgage, SME and Micro Lending by leveraging into its strong agency network, service centers and digital channels.

The bank has launched community banking products and special saving account (The Skonga) as cheap and stable funding plan to boost the balance sheet growth. The community banking segment is the basis for establishment of the bank, these new products are currently receiving a very high uptake in the market and are envisaged to attract the deposit level of circa TZS 12 billion in the year 2021. In addition, the bank has also revived the other saving accounts such as WAHI and Call accounts, which have been flexed to ensure value is well entrenched on the customer end. The bank aim to have current and saving deposit mix of 60 percent of total deposits before year 2025

Having successfully recapitalized, DCB Bank can only improve its performance levels by growing its asset margins and maximizing its revenues. The Bank's profitability streak is expected to continue at a similar annual growth rate in the year 2021, while we strengthen our portfolio quality via expedited levels of monitoring. The non-performing loans expected to continue dropping during the year, reaching a single digit in December 2021, in line with the regulatory appetite of 5 percent as emphasized in 2021 Bank of Tanzania circular regarding non-performing loans ratio and cost to income ratio.

The Bank shall continue with the strategic cost management approach via investment in technology and improve its operational efficiency levels. In the longer term, the Bank shall continue to leverage on its strategic expansion of delivery channels through digital platform, agency banking, strategic partnerships, and branch expansion, while consciously expanding its brick-and-mortar branches to areas that we believe will create a strong found presence and add value. To comply with newly introduced cost to income ratio of 55 percent the bank initiatives include Branches optimization, established clear measure of staff productivity, maintain headcount at the existing level to accommodate expansion strategy for five years and re-negotiate down other operating expenses.

The board of directors and management pledge to comply with new regulation of Cost to income ratio of 55 percent and Non-performing loans of below 5 percent before year 2022.

The bank continues to monitor the progress of the COVID -19 pandemic and is aware of the effects it may have on the bank's strategic plan. The bank continuous with measures include, protecting employees and customers through different education programs and continues to emphasize on the use of mobile/digital transactions for their daily cash demand and loan repayments.

DCB COMMERCIAL BANK PLC**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020****17. KEY PERFORMANCE INDICATORS**

The following Key Performance Indicators (KPIs) are effective in measuring the delivery of the Bank's strategy and managing the business.

Performance indicator	Definition and calculation method	2020	2019
Return on equity	Net income/Total equity	2%	6%
Return on assets	Net income/Total assets	0.3%	1%
Cost to income ratio	Operating costs/Net income	96%	95%
Interest margin on earning assets	Total interest income/(Government securities + inter-Bank loan receivables + investments in other securities + net loans, advances and overdrafts)	17%	18%
Non - interest income to Gross income	Non - interest income/total income	17%	18%
Earnings per share	Basic earnings/number of ordinary shares in issue	5	22
Non - performing loans to gross loans	Non-performing loans/gross loans and advances	12%	14%
Earning assets Ratio	Earning assets/Total assets	79%	75%
Growth on total assets	(Current year total assets/ prior year total assets) - 1*100%	22%	7%
Growth on loans and advances to customers	(Current year net loans and advances/prior year net loans and advances) - 1*100%	16%	10%
Growth on total deposits	(Current year total deposits/prior year total deposits) - 1*100%	17%	13%
Capital adequacy			
Tier 1 Capital	Risk Weighted assets including off-statement of financial position items/Core Capital	16%	19%
Tier 1+Tier 2 Capital	Risk Weighted assets including off-statement of financial position items/Total Capital	17%	20%

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

18. RISK MANAGEMENT AND INTERNAL

CONTROL Risk management framework

The management of risk lies at the heart of business. The Bank's major risks arise from extending credit to customers through our trading and lending operations. The Bank is also exposed to a range of other risk types such as market, liquidity, operational, reputational, and other risks that are inherent to Bank's strategy, product range and geographical coverage. Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus an integral part of the financial and Bank's operational management.

Risk governance

The ultimate responsibility for setting our risk appetite and for the effective management of risk rests with the Board. Acting within an authority delegated by the Board, The Board Audit, Risk and Compliance Committee (BARCC) has responsibility for oversight and review of prudential risks including but not limited to credit, market, capital, liquidity and operational. It reviews the bank's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Bank's risk management systems and controls, considering the implications of material regulatory change proposals, ensuring effective due diligence on material transactions. The BARCC reviews regular reports on risk management, policies, stress testing, liquidity and capital adequacy, and is authorized to investigate or seek any information relating to an activity within its terms of reference.

The Board accepts final responsibility for the risk management and internal control systems of the Bank. It is the task of the Directors to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis. The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against miss-statement or losses, the Bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2020 and is of the opinion that they met accepted criteria. The Board carries out risk and internal control assessment through the Board Audit, Risk and Compliance Committee.

Risk Management Culture

The Bank is cognizant of the fact that people are its most asset and are core to the establishment of a positive and responsible risk management culture. To that end, the Bank continues to invest in the capability of its people through carefully designed initiatives and programs towards embedding a positive risk management culture in the Bank. Roles and responsibilities for risk management are defined under a two lines of defense model. Each line of defense describes a specific set of responsibilities for risk management and control:

First line of defense: This compose of management and internal controls; operational managers own and manage risks. They also are responsible for implementing corrective actions to address process and control deficiencies.

Second line of defense: this comprises the independent risk function and is responsible for ensuring that the risks remain within the Bank's risk appetite.

Third line of defense the independent assurance provided by the Internal Audit Department. Its role is defined and overseen by the Board Audit Committee.

19. SERIOUS PREJUDICIAL MATTERS

In the opinion of the Directors, there are no serious prejudicial matters that can affect the Bank.

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2020

20. EMPLOYEES' WELFARE

Management and employees' relationship

The Bank has adequate number of employees with pre-requisite competency and experience in key positions to manage the banking operations as well as pursuing the business objectives. As at 31 December 2020, the number of employees were 232, of which full time employees were 206. (2019: 212).

There has been a good working relationship between management and employees as well as employees and their supervisor's/line managers. Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. During the year, there were no new cases referred to the Commission for Mediation and Arbitration (CMA), however there were 4 ongoing cases from 2015 of which 2 have since been closed.

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

Training

During the year, the Bank spent TZS 32.5 million for training of its staff (2019: TZS 44.5 million). Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees received training to upgrade skills and enhance productivity.

Staff loans and advances

The Bank provides mortgage and personal loans to staff as well as salary advances to enable them to overcome financial needs and promote their personal development. Staff loans and advances are based on specific terms and conditions approved by the Board of Directors. During the year, the Bank issued staff loans of TZS 4.07 billion to 168 employees (2019: TZS 5.2 billion to 164 employees) and the outstanding staff loans balance at year end was TZS 6.71 billion (2019: TZS 6.08 billion).

Medical and group life insurance benefits

The Bank pays medical expenses for all members of staff and their family dependents as part of the bank's policy through medical insurance arrangement.

Retirement benefits

The Bank makes contributions in respect of staff retirement benefits to statutory pension schemes namely Public Service Social Security Fund (PSSSF). The Bank's obligations in respect of these contributions are limited to 15% of the employees' monthly salary while the employee contributes 5% making a total of 20% contribution as per The Public Service Social Security Fund Act, 2018. Total contribution of TZS 1.22 billion in years 2020 (2019: TZS 1.06 billion).

21. GENDER PARITY

The Bank is an equal opportunity employer. As at 31 December 2020, the Bank had the following distribution of employees by gender.

Gender	2020	%	2019	%
Female	120	48.3	101	47.6
Male	112	51.7	111	52.4
Total	232	100	212	100

DCB COMMERCIAL BANK PLC

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2020**

22. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 39 to these financial statements.

23. POLITICAL DONATIONS

The Bank did not make any political donations during the year.

24. RELATIONSHIP WITH STAKEHOLDERS

The Bank continued to maintain a good relationship with all stakeholders including the regulators.

25. CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CHARITABLE DONATIONS

The Bank participates actively in community activities and development programs; contribution through corporate Social responsibility for the year ended 31 December 2020 reached TZS 20 million (2019: TZS 2 million) and the amount was directed to government to fight against covid 19 pandemic.

26. AUDITORS

The auditors, PricewaterhouseCoopers have expressed their willingness to continue in office. A resolution proposing the appointment of auditor of the Bank for financial year 2021 will be tabled at the Annual General Meeting.

BY ORDER OF THE BOARD


Mr. Maharage A. Chande
Chairman


Ms. Zawadia J. Nanyaro
Vice Chairperson

.....2021

DCB COMMERCIAL BANK PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2020

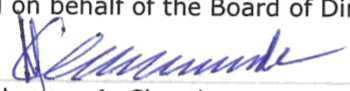
The Companies Act, No.12 of 2002 requires Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the profit or loss for the year. It also requires the Directors to ensure that the Bank and its subsidiary keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of the profit in accordance with International Financial Reporting Standards (IFRS). The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

The going concern basis of preparing financial statements is adopted based on the explanations in note 5 (e) to the financial statements.

Signed on behalf of the Board of Directors by:


Mr. Maharage A. Chande
Chairman


Ms. Zawadia J. Nanyaro
Vice Chairperson

21 April.....2021

**DECLARATION OF THE HEAD OF FINANCE
FOR THE YEAR ENDED 31 DECEMBER 2020**

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

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing a true and fair view of the entity's financial position and performance in accordance with applicable International Financial Reporting Standards (IFRS) and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors' as per the Statement of Directors' Responsibility on page 15.

I, Constantine Mtumbuka, being the Head of Finance of DCB Commercial Bank Plc hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2020 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002 and Banking and Financial Institutions Act (BFIA), 2006 and its regulations.

I thus confirm that the financial statements give a true and fair view of the financial performance of DCB Commercial Bank Plc for the year ended on 31 December 2020 and its financial position as on that date and that they have been prepared based on properly maintained financial records.

Constantine Mtumbuka

Chief Manager – Finance

NBAA Membership No.: GA 8267

Constantine Mtumbuka 21.04.2021

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of DCB Commercial Bank Plc (the Company) as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002.

What we have audited

The financial statements of DCB Commercial Bank Plc as set out on pages 22 to 96 comprise:

- statement of financial position as at 31 December 2020;
- statement of profit or loss and other comprehensive income for the year then ended;
- statement of changes in equity for the year then ended;
- statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the National Board of Accountants and Auditors (NBAA) that are relevant to our audit of the financial statements in Tanzania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the NBAA.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the Key audit matter
<u>Impairment of loans and advances to customers</u> Management exercises judgement when determining both when and how much to record as loan impairment provisions. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provisions in the following areas: - Quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default; - Determination of the probability of defaults (both 12 months and lifetime); - Determination of the forward-looking parameters to be incorporated in the estimation of expected credit losses; and - Estimation of the expected cash flows (including from collateral realization) used in the determination of the loss given default. The current year has however been further complicated by the impact of the Covid-19 pandemic. This adds further uncertainty particularly around the incorporation of forward-looking information to predict the impact on default rates and the realisation of collateral. These judgements together with the value of gross loans and advances to customers (TZS 104,809 million) and impairment provision (TZS 6,737 million) make this a key audit matter. Further detail on loans and advances have been disclosed in the Note 5 (a), Note 6.1.3 and Note 23 of the financial statements.	- We tested the reasonableness of the quantitative and qualitative criteria used in the classification of loans and advances. - As the quantitative basis of classification of loans and advances is reliant on information systems, we understood and tested key information technology general and application controls including the accurate calculation of the number of days past due. - We tested management's application of the qualitative criteria in classification of loans and advances. - We tested the reliability of information used for estimating probability of default and loss given default. - We tested the reasonability of the forward-looking parameters considered by management. - We challenged management's basis for establishing the correlation between forward looking parameters and the bank's non-performing loan trends. - We agreed the collateral values used in the impairment model to valuation reports. - We challenged management assumptions regarding recovery periods used to estimate the recoverable amount of collateral for secured facilities.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC

Report on the audit of the financial statements (continued)

Other information

The directors are responsible for the other information. The other information comprises corporate information, list of abbreviations, report of the directors, statement of directors' responsibilities and declaration of head of finance to the financial statements but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC

Report on other legal and regulatory requirements

This report, including the opinion, has been prepared for, and only for, the company's members as a body in accordance with the Companies Act, No. 12 of 2002 and for no other purposes. As required by the Companies Act, No. 12 of 2002 we are also required to report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed. In respect of the foregoing requirements, we have no matter to report.


Cletus Kiyuga ACPA-PP 1981
For and on behalf of PricewaterhouseCoopers
Certified Public Accountants

Dar es Salaam

Date 21 April 2021

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2020 TZS'000	2019 TZS'000
Interest income	8	22,665,249	19,585,711
Interest expense	9	(9,638,493)	(7,059,073)
Net interest income		13,026,756	12,526,638
Impairment charge	23	264,727	1,193,094
Net interest income after loan impairment		13,291,483	13,719,732
Fees and commission income	10	3,736,713	2,938,306
Foreign exchange income	11	151,697	82,950
Other operating income	12	747,231	1,191,380
Total non-interest income		4,635,641	4,212,636
Total operating income		17,927,124	17,932,368
Operating expenses			
Staff costs	13	(9,547,652)	(8,560,168)
General administrative expenses	14	(4,986,355)	(4,814,210)
Depreciation and amortization	15	(2,376,540)	(2,450,308)
Total operating expenses		(16,910,547)	(15,824,686)
Profit before income tax		1,016,577	2,107,682
Income tax charge	19	(563,271)	(69,493)
Profit for the year		453,306	2,038,189
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Fair value gain on FVOCI debt instrument net of tax		163,681	-
Total comprehensive income for the year		616,987	2,038,189
Earnings per share (basic and diluted)	35	5	22

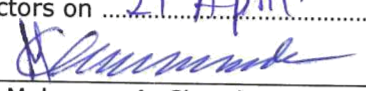
DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Notes	2020 TZS'000	2019 TZS'000
Assets			
Cash and balances with Bank of Tanzania	20	13,419,633	12,218,789
Loans and advances to Banks	21	3,179,930	6,340,933
Government securities – Amortized cost	22	24,089,738	13,869,506
Government securities – FVOCI	22	9,619,053	-
Loans and advances to customers	23	98,071,452	84,325,296
Equity investment at FVOCI	24	1,823,200	1,804,200
Other assets	27	1,890,220	971,507
Property and Equipment	25	3,719,268	4,895,942
Intangible assets	26	4,635,848	4,124,507
Corporation tax recoverable	28	1,939,384	1,958,826
Right of use asset	38	6,079,060	6,870,925
Deferred income tax asset	30	4,421,346	4,813,686
Total assets		172,888,132	142,194,117
Liabilities			
Due to other banks	29.a	27,513,654	11,624,267
Deposits from customers	29.b	99,503,846	85,188,856
Borrowings	31	10,920,248	10,253,881
Other liabilities	32	2,162,805	2,541,153
Lease liabilities	38	3,172,621	3,737,989
Total liabilities		143,273,174	113,346,146
Equity			
Share capital	33	22,741,149	22,741,149
Share premium	34(a)	4,104,046	4,104,046
Advance toward share capital	34(b)	1,400,000	750,000
Accumulated losses		(2,217,315)	(580,333)
General banking risk reserve		2,944,457	1,354,169
Fair valuation reserve		642,621	478,940
Total equity		29,614,958	28,847,971
Total liabilities and equity		172,888,132	142,194,117

The financial statements on pages 22 to 96 were approved and authorized for issue by the Board of Directors on 21 April 2021 and signed on its behalf by:


Mr. Maharage A. Chande
Chairman


Ms. Zawadia J. Nanyaro
Vice Chairperson

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020	Share capital	Share premium	Advance toward share capital	Accumulated losses	**General banking risk reserve	Fair valuation reserve	Total equity
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
At 01 January 2020	22,741,149	4,104,046	750,000	(580,333)	1,354,169	478,940	28,847,971
Fair value gain on FVOCI debt instrument	-	-	-	-	-	233,830	233,830
Deferred tax on fair value gain	-	-	-	-	-	(70,149)	(70,149)
Profit for the year	-	-	-	453,306	-	-	453,306
Total comprehensive income	-	-	-	453,306	-	163,681	616,987
Transfer to general risk reserve**	-	-	-	(1,590,288)	1,590,288	-	-
<i>Transaction with owners</i>							
Dividend paid	-	-	-	(500,000)	-	-	(500,000)
Advance toward share capital	-	-	650,000	-	-	-	650,000
At 31 December 2020	22,741,149	4,104,046	1,400,000	(2,217,315)	2,944,457	642,621	29,614,958

**General Banking Risk Reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of the Bank of Tanzania prudential guidelines. This reserve is not available for distribution

DCB COMMERCIAL BANK PLC
**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**
STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 31 December 2019	Share capital	Share premium	Advance toward share capital	Accumulated losses	**General banking risk reserve	* General reserve	Fair valuation reserve	Total equity
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS '000'	TZS'000	TZS'000
Year ended 31 December 2019								
At 01 January 2019								
As previously stated	16,956,974	4,104,046	-	(1,607,366)	-	704,362	478,940	20,636,956
Prior year adjustment (note 42)	-	-	-	(361,349)	-	-	-	(361,349)
As restated	16,956,974	4,104,046	-	(1,968,715)	-	704,362	478,940	20,275,607
<i>Other comprehensive income</i>								
Profit for the year	-	-	-	2,038,189	-	-	-	2,038,189
Total comprehensive income	-	-	-	2,038,189	-	-	-	2,038,189
Transfer from general reserve*	-	-	-	704,362	-	(704,362)	-	-
Transfer to general risk reserve**	-	-	-	(1,354,169)	1,354,169	-	-	-
<i>Transaction with owners</i>								
Capital injection	5,784,175	-	-	-	-	-	-	5,784,175
Advance toward share capital	-	-	750,000	-	-	-	-	750,000
At 31 December 2019	22,741,149	4,104,046	750,000	(580,333)	1,354,169	-	478,940	28,847,971

* General reserve is made up of 1% general provision on unclassified loans (current book) as required by the revised Bank of Tanzania regulations, 2014. The bank of Tanzania lifted the requirement to report general reserve for unclassified loans in May 2019.

**General Banking Risk Reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of the Bank of Tanzania prudential guidelines. This reserve is not available for distribution

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

STATEMENT OF CASH FLOWS

	Notes	2020 TZS'000	2019 TZS'000
Cash flows from operating activities			
Profit before income tax		1,016,577	2,107,682
<i>Adjusted for:</i>			
Depreciation and amortization	15	2,376,540	2,450,308
Interest expense on borrowings		1,071,573	857,759
Finance cost on Lease liability	9	276,712	310,819
Dividend income		-	(18,960)
Cash flow from operating activities before changes in operating assets and liabilities		4,741,402	5,707,608
<i>Changes in operating assets and liabilities:</i>			
Change in statutory minimum reserve	20	(443,485)	559,614
Change in loans and advances to customers		(13,746,156)	(7,973,542)
Change in other assets		(918,713)	2,081,798
Change in deposits from banks		15,889,387	(7,647,214)
Change in deposits from customers		14,314,990	10,033,315
Change in other liabilities		(378,348)	(6,920,517)
Change in government securities		(19,605,455)	(1,596,009)
Cash used in operations		(4,887,780)	(11,462,555)
Income tax paid		(221,639)	(97,470)
Net cash used in operating activities		(368,017)	(5,852,417)
Cash flows from investing activities			
Purchase of property and equipment	25	(913,956)	(876,747)
Purchases of intangible assets	26	-	-
Investment in shares		(19,000)	-
Dividend received		-	18,960
Net cash used in investing activities		(932,956)	(857,787)
Cash flows from financing activities			
Dividend Paid		(500,000)	-
Proceeds from borrowing		2,500,000	3,000,000
Capital received		650,000	6,534,175
Rental payment	38	(842,080)	(874,062)
Principal repayments		(1,871,911)	(1,458,661)
Interest repayments		(1,038,680)	(735,278)
Net cash (used in) generated from financing activities		(1,102,671)	6,466,174
Decrease in cash and cash equivalents		(2,403,644)	(244,030)
Cash and cash equivalents at the beginning of the year		11,914,492	12,158,522
Cash and cash equivalents at the end of the year	36	9,510,848	11,914,492

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

DCB Commercial Bank Plc is a Public Limited Company and is incorporated and domiciled in the United Republic of Tanzania. The Bank is listed on the Dar es Salaam Stock Exchange (DSE). The address of its registered office and principal place of business are disclosed in the corporate information on page 1 of this report. The principal activities of the Bank are described in the report of the Directors.

2. BASIS OF PREPARATION

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

The Bank's financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2002; the Banking and Financial Institutions Act, 2006 and National Board of Accountants and Auditors Technical Pronouncements.

The financial statements comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the notes. The measurement basis applied in the preparation of these financial statements is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania shillings (TZS).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. CHANGES IN ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below.

i) New and amended standards adopted by the Bank

Amendment to IAS 1, 'Presentation of financial statements' and IAS 8, 'Accounting policies, changes in accounting estimates and errors' on the definition of material. Annual periods beginning on or after 1 January 2020 (Published October 2018)

These amendments to IAS 1 and IAS 8 and consequential amendments to other IFRSs:

- use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting;
- clarify the explanation of the definition of material; and
- incorporate some of the guidance in IAS 1 about immaterial information.

The amended definition is:

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

Amendments to IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement' and IFRS 7, 'Financial Instruments: Disclosure' – Interest rate benchmark reform (Phase 1) - Annual periods beginning on or after 1 January 2020 (early adoption is permitted) (Published September 2019)

These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

The adoption of the amended standards did not have an impact to the Bank.

ii) New and revised standards and interpretation which have been issued but are not effective.

Certain new accounting standards and interpretations have been published that are not mandatory for this reporting period and have not been early adopted by the Bank. The Bank's assessment of the impact of these new standards and interpretations is set out below:

IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment - Annual periods beginning on or after 1 June 2020 (early adoption is permitted) (Published June 2020)

The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. Lessees can elect to account for qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment.

Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' – interest rate benchmark (IBOR) reform (Phase 2) - Annual periods beginning on or after 1 January 2021 (Published August 2020)

The Phase 2 amendments address issues that arise from the implementation of the reform of an interest rate benchmark, including the replacement of one benchmark with an alternative one.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

- ii) *New and revised standards and interpretation which have been issued but are not effective.
(continued)*

Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current - Annual periods beginning on or after 1 January 2022 (Published January 2020)

The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant).

Amendments to IAS 16 'Property, Plant and Equipment' on Proceeds before Intended Use - Annual periods beginning on or after 1 January 2022 (Published May 2020)

The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognized in profit or loss.

Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract - Annual periods beginning on or after 1 January 2022 (Published May 2020)

The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.

Annual improvements cycle 2018-2019 - Annual periods beginning on or after 1 January 2022 (published May 2020).

These amendments include minor changes to:

- IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS.
- IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation
- IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.
- IAS 41, 'Agriculture' has been amended to align the requirements for measuring fair value with those of IFRS 13. The amendment removes the requirement for entities to exclude cash flows for taxation when measuring fair value.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. CHANGES IN ACCOUNTING POLICIES (Continued)

- ii) *New and revised standards and interpretation which have been issued but are not effective (continued)*

IFRS 17, 'Insurance contracts' Annual periods beginning on or after 1 January 2023 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17.(Published May 2017)

The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. Consequently, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

IFRS 17, 'Insurance contracts' Amendments - Annual periods beginning on or after 1 January 2023 (Published June 2020)

In response to some of the concerns and challenges raised, the Board developed targeted amendments and several proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Tanzania shillings (TZS), rounded to the nearest thousands, which is the Bank's functional currency.

(ii) Transactions and balances

Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rate as at the end of the reporting period. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

(b) Interest income and expense

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

i) Purchased or originated credit-impaired (POCI) financial assets, for which the original credit – adjusted effective is applied to the amortised cost of the financial asset.

ii) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(c) Fee and commission income and expense

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Bank to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Bank does not designate loan commitments as financial liabilities at fair value through profit or loss.

Fees and commission are generally recognized on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on the loan. Commissions and fees arising from various services offered by the Bank are recognized upon completion of underlying transaction on which the bank will have satisfied the performance obligation.

(d) Financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instruments. Regular way purchases and sales of financial assets are recognised on trade – date on which the Bank commits to purchase or sell the asset.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities (continued)

At initial recognition, the Bank measure a financial asset or financial liability at its fair value plus or minus in the case of a financial asset or financial liability not a fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debts instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred, and the timing or recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement

Financial Assets

(i) Classification and subsequent measurement

The Bank classifies its financial assets in accordance to IFRS 9 and in the following measurement categories:

- Fair Value through other comprehensive income (FVOCI); or
- Amortised cost.

Classification and subsequent measurement of debt instruments depend on:

- (i) The Bank's business model for managing the asset; and
- (ii) The cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three categories:

- Amortised cost: Assets that are held for collection for contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 6. Interest income from these financial assets is included in 'Interest and similar income' using effective interest rate method. Loans and advances to customers, financial assets held to collect (such as government securities), cash and balances with BOT, placement with other banks and other assets fall under this classification.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principals and interest, and that are not designated at FVPL, re measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit and loss. When the financial asset is derecognised in 'Net Investment income'. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities

(continued) Financial Assets (Continued)

(i) *Classification and subsequent measurement (continued)*

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model for a Bank of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and

Reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows, with sales of loans only being made internally to a consolidated SPV for the purpose of collateralising notes issued, with no resulting derecognition by the Bank.

Another example is the liquidity portfolio of assets, which held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purposes of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of Short-term profit taking. These securities are classified in the 'other' business model and measured at FVPL

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments or principals and interest (the SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposures to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets are classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principals and interest.

The Bank reclassifies debts investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Example of equity instruments include basic ordinary shares.

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designated an equity investment at fair value through other comprehensive Income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established. Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement of profit or loss.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities

(continued) Financial assets (Continued)

(ii) *Impairment*

The Bank assesses on a forward –looking basis the expected credit losses ('ECL') associated with its debt instruments assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability – weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or efforts at the reporting date about past events, current conditions and forecast of future economic conditions

(iii) *Modification of loans*

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantially new terms are introduced, such as a profit share/equity- based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant changes in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affects the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of the initial recognition for impairment calculation purposes, including for the purposes of determining whether a significant increase in credit risk has occurred. However, the Bank also assessed whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as gains or loss on derecognition. If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(iv) *Derecognition other than on a modification*

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities

(continued) Financial Assets (Continued)

(iv) *Derecognition other than on a modification (continued)*

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- i) Has no obligation to make payments unless it collects equivalent amounts from the assets.
- ii) Is prohibited from selling or pledging the assets; and
- iii) Has an obligation to remit any cash it collects from the assets without material delay

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a subordinated residual interest

Financial Liabilities

(i) *Classification and subsequent measurement*

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to Changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments
- Lease liabilities: Financial obligations to make payments arising from a lease, measured on a discounted basis. Lease liability is calculated using the present value of the lease payments over the lease term discounted, typically, using the lessee's incremental borrowing rate.

(ii) *Derecognition*

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and financial liabilities

(continued) Financial liabilities (continued)

(ii) *Derecognition (continued)*

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions, and others on behalf of customers to secure loans, overdraft and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as provision.

(e) Income tax

Income tax expense is the aggregate of the charge to the statement of profit or loss comprehensive income in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Tanzanian Income Tax Act.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss, it is tax not accounted for.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(e) Income tax (Continued)**

Deferred income tax is determined using rates and laws that have been enacted or substantively enacted at the end of reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(f) Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

(g) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and any accumulated impairment in value. Depreciation is calculated on the straight-line basis at annual rates estimated to write down the carrying values of the assets to their residual value over their expected useful lives. The annual rates in use are:

	Year 2020	Year 2019
Office machinery and equipment	20.0%	20.0%
Furniture, fixtures, and fittings	20.0%	20.0%
Computers and IT equipment	25.0%	25.0%
Generator	12.5%	12.5%
Motor vehicles	25.0%	25.0%
Leasehold improvements	10.0%	10.0%
Computer software	10.0%	10.0%

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at the end of the reporting period. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

(h) Leases -Lease liability and Right of use Asset

The Bank leases office space in various parts of the region. Rental contracts are typically made for fixed periods of 5 to 10 years but may have extension options. Lease terms are negotiated on an individual basis, but lease agreements do not impose any covenants, and leased assets may not be used as security for borrowing purposes.

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component. Until the 2019 financial year, leases of office space were classified as operating leases. From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost.

The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases -Lease liability and Right of use Asset (Continued)

For measurement of the lease liabilities, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by DCB Bank, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability.
- any lease payment made at or before the commencement date less any lease incentive received
- any initial direct costs and or restoration costs

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Extension and termination options are included in several property leases contracts. These terms are used to maximize operational flexibility in terms of managing contracts.

(i) Intangible assets

Acquired computer software licenses are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets are amortized over the useful economic life of 10 years.

(j) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand, deposits held at call with Banks and investments in money market instruments with maturity periods of three months. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and all cash equivalent items original maturing within 90 days from the date of acquisition including non-restricted balances with the Bank of Tanzania, treasury bills, loans and advances to Banks, amounts due from other Banks and short-term investment securities. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Tanzania

(k) Employees' benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognized in profit or loss when they fall due.

(i) Post retirement benefits

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 5% and 15% respectively, of the employees' monthly salaries to the Managed Statutory Fund, namely the Public Service Social Security Fund (PSSSF). The Bank has no further commitments or obligations to the Funds, and it has no other post-retirement benefit scheme. The contributions are charged to profit or loss in the year to which they relate.

(ii) Other employee benefits

The Bank provides free medical treatment to staff and their eligible dependents. The cost is charged to profit or loss. The estimated monetary liability for employees' accrued leave entitlement at the statement of financial position date is recognized as an expense accrual. The Bank provides severance pay which is 14 days pay per year to maximum of 10 years.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

(m) Share capital

The Bank has only one class of ordinary shares which is classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Dividends on shares

Dividend payable is recognized as liability in the period in which it is declared. Proposed dividends are disclosed as a separate component of equity. Before recommending any dividend, the Board of Directors may set aside out of the profits of the Bank, such sums as they think proper, to a reserve fund or reserve account, which shall at the discretion of the Board, be applicable for any purpose for which the profits of the Bank may lawfully be applied. Whenever dividend is declared, the amount shall not exceed 50% of the annual profit after tax.

(n) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) in the consolidated and Bank financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares.

(o) Segment reporting

The Bank has the following operating segments: Treasury, Retail Banking and other. Following the management approach to IFRS 8, operating segments are reported in a manner consistent with the internal reporting to the Bank's management team, which is responsible for allocating resources to the reportable segments and assessing their performances. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

(p) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where necessary, the comparative amount aligned with current year for presentation.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

a) Measurement of the expected credit loss allowance

The Bank measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). The Bank uses several significant judgements in applying the accounting requirements for measuring ECL, such as:

- Determination criteria for significant increase in credit risk.
 - Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
 - Estimating Probability of default, Exposure at Default and Loss Given Default
- Detailed information about the judgement and estimates made by the Bank are explained under note 6.1.

b) Property and equipment, leased premises refurbishments and intangible assets

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

c) Taxes

The Bank is subjected to several taxes and levies by various government and quasi- government regulatory bodies. As a rule of thumb, the Bank recognizes liabilities for the anticipated tax /levies payable with utmost care and diligence.

However, significant judgment is usually required in the interpretation and applicability of those taxes /levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

The recognition of deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profit, future reversals of existing taxable temporary differences and ongoing tax planning and strategies. The deferred tax recognized in the Bank's statement of financial position as of 31 December 2020 was TZS 4.4 billion (2019: TZS 4.8 billion). The judgment takes into consideration the effect of both positive and negative evidence, including historical financial performance, projections of future taxable income and future reversals of existing taxable temporary differences

d) Provisions and Contingent liabilities

The Bank has contingent liabilities arising out of pending legal cases. Professional expert advice is taken on establishing litigation provisions. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgements than other types of provisions. When cases are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists because of a past event, estimating the probability of outflows and making estimates of the amount of any outflows that may arise. As matters progress through various stages of the cases, Management together with legal advisers evaluate on an ongoing basis whether provisions should be recognized, and the estimated amounts of any such provisions, revising previous judgements and estimates as appropriate. At the year-end not legal cases that amount for recognition.

e) Going concern

The strong regulatory capital base of TZS 21.3 billion as at 31st December 2020 (2019: TZS 22.2 billion) against the regulatory minimum capital requirement of TZS 15 billion, consistent profitability and balance sheet growth in the past two years with a steady decline in Non-performing loans cast no doubt on the going concern of bank for unforeseeable future.

The financial statements are prepared based on accounting policies applicable to a going concern. This basis presumes that the Bank will continue being profitable and will have adequate resources to meet its liabilities as and when they fall due, and it will realize its assets and discharge its liabilities in the ordinary course of business.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

f) Leases

For the leases of office space, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options in offices and vehicles leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

In applying IFRS 16 the Bank has used the following permitted practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics for which TZS leases rate use is 11 percent and USD leases rate use is 4 percent
- the accounting for operating leases with a lease term of less than 12 months and lease of small value.
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the leases term where the contract contains options to extend or terminate the lease.

DCB Commercial Bank has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an arrangement contains a Lease.

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors

The Bank's risk management policies are established to identify and analyses the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign-exchange risk, interest-rate risk, credit risk, and liquidity risk. Risk management is carried out by the Risk and Compliance Department under policies approved by the Board of Directors. The risk and compliance department evaluate financial risk in close co-operation with the operating units.

6.1. Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Management, therefore, carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralized in the credit risk management team of the Bank and reported to the Board of Directors and heads of department regularly.

6.1.1 Credit risk measurement

Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Risk portfolios

The segmentation into risk portfolios is based on Bank's segments at industry and product levels. To impairment assessment, the Bank's total exposure are segmented along product lines. The Bank is of the opinion that these segmentations share similar credit risk characteristics and can be monitored collectively for credit risk. These segments are:

- Corporate and SME Loans
- Housing and Mortgage loans
- Salaried loans
- Microfinance (SGL) loans

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.1 Credit risk measurement

(continued) Risk portfolios (continued)

The Bank uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Bank use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data applied in forward looking scenarios. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Each risk portfolio is further divided into risk groups based on:

- Days Past Due (DPD) intervals (applicable only for non-defaulted exposures and defaulted exposures),
- Internal client rating.

On the default identification approach, days past due (DPD) are examined at the transaction for retail portfolio and at the client level for corporates where the following conditions are considered:

- DPD at the transaction level is counted from the date, on which any part of the exposure becomes due, regardless of the amount of due exposure.
- DPD at the client level is the maximum DPD out of all exposures to the client.

The bank segment of Risk Groups (RGs) by categories in the ECL model is as shown below:

	Salaried, Corporate and SME, Housing and Mortgage loans	Microfinance (SGL)
Risk Group	Number of days past due	Number of days past due
Risk Group 1 (RG1)	Not due	Not due
Risk Group 2 (RG2)	1-30 days	1-5 days
Risk Group 3 (RG3)	31 - 60 days	6-15 days
Risk Group 4 (RG4)	61-90 days	16 - 30 days
Default Risk Group (RG5)	Above 90 days	Above 30 days

Exposure at Default for term loans is estimated as contractual rundown on the loans. For the off-balance sheet items, the exposure at default is estimated by determining a credit conversion factor (CCF). For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all the customers are segmented into five rating classes as shown below:

Bank's rating	Risk Group	Description of the grade
1	RG1	Current
2	RG2	Current
3	RG3	Current
4	RG4	Especially mentioned
5	RG5	Sub-standard, Doubtful and Loss

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.1 Credit risk measurement (continued) Treasury products

For debt securities in the treasury portfolio, balances with central bank, balances due from other banks and other assets, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realized default rates over the prior 12 months, as published by the rating agency.

6.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or Banks of borrowers.

The Board has delegated responsibility for the management of credit risk to the Board Audit and Risk Compliance Committee responsible for overseeing of the Bank's credit risk including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure of the approval and renewal of the credit facilities. Authorization limits are allocated to various officers at different levels. Larger facilities require approval by Board of Directors.
- Reviewing and assessing credit risk. Credit department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process
- Reviewing compliance of business units with agreed exposure limits. Regular reports are provided to Board through Board Audit and Compliance Committee in respect of the quality of loan portfolio; and
- Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

Regular audits of credit department processes are undertaken by internal audit department. The internal rating scale assists Directors to determine whether there is significant increase in credit risk, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest.
- Cash flow difficulties experienced by the borrower.
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets regularly and monitoring is on weekly basis for SGL product, while for the remaining portfolio which is largely made up of salaried loans is on monthly basis.

The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:

- Mortgages over residential properties
- Charges over business assets such as inventory and accounts receivable
- Charges over financial instruments such as debt securities and equities and
- Cash Covers

Corporate and SME, Housing and Mortgage and Microfinance (SGL) are generally secured while Salaried (Workers) loans are unsecured

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FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.2 Risk limit control and mitigation policies

(continued) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate.

Undrawn commitments represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on undrawn commitments, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most undrawn commitments are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

6.1.3 Expected credit loss measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired. Refer to note 6.1.3.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 6.1.3.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 6.1.3.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 6.1.3.4 includes an explanation of how the Bank has incorporated this in its ECL models.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition, their ECL is always measured on a lifetime basis (Stage 3).

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 6.1.3.5).

The following diagram summarizes the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

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FOR THE YEAR ENDED 31 DECEMBER 2020****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6. FINANCIAL RISK MANAGEMENT (CONTINUED)****6.1 Credit risk (continued)****6.1.3 Expected credit loss measurement (Continued)**

Change in credit quality since initial recognition		
Stage 1	Stage 2	Stage 3
Initial recognition	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12 month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

6.1.3.1: Significant increase in credit risk (SICR)

The Bank decision on whether expected credit losses are based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk since initial recognition. An assessment of whether credit risk has increased significantly is made at each reporting date. When making the assessment, the Bank uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. This forms the basis of stage 1, 2 and 3 classification and subsequent migration.

The Bank applies qualitative and quantitative criteria for stage classification and for its forward and backward migration.

Quantitative factors:

The bank monitors the performance based on aging and therefore uses days past due criteria in line with the Bank on Tanzania. The table below shows the stages assigned to various risk groups depending on the number of days past due which is a measure of the significant increase in credit risk: The bank also uses 30 days' rebuttable presumption that credit risk has increased significantly when repayment is on monthly basis and 5 days when repayment is on weekly basis.

	Salaried, Corporate and SME, Housing and Mortgage loans	Microfinance (SGL)	
Risk Group	Number of days past due	Number of days past due	Staging based on IFRS 9
Risk Group 1 (RG1)	Not due	Not due	Stage 1
Risk Group 2 (RG2)	1-30 days	1-5 days	Stage 1
Risk Group 3 (RG3)	31 - 60 days	6-15 days	Stage 2
Risk Group 4 (RG4)	61-90 days	16 - 30 days	Stage 2
Default Risk Group (RG5)	Above 90 days	Above 30 days	Stage 3

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT

(CONTINUED) 6.1 Credit risk (continued)

6.1.3 Expected credit loss measurement (continued)

6.1.3.1: Significant increase in credit risk (SICR) (continued)

Qualitative factors

There are other factors that are considered by the bank policies in the determination of significant increase in credit risk. They include but not limited to the following:

Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g. increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.

Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), E.g. credit spread; credit default swap prices; length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).

Changes in the Bank's credit management approach in relation to the financial instrument (e.g. based on emerging indicators of changes in the credit risk of the financial instrument, the bank's credit risk management practice is expected to become more active or focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the bank specifically intervening with the borrower).

Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations (e.g. increase in interest rates or unemployment rates); operating results of the borrower e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organizational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations; or regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology).

Significant changes in the value of collateral or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to pay or otherwise effect the probability of default (e.g. if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages); or quality of a guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.

Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).

Significant changes in the expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group (e.g. increase in delayed contractual payments or number of credit card borrowers expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.3 Expected credit loss measurement (continued)

6.1.3.2: Definition of default and credit impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative

The Bank considers a term loan to be in default if the repayments on the loan are more than 90 days past due for all Corporate Loans, Housing and Mortgage, Salaried loans and SME Loans. Term loans under the SGL are in default if the repayments on the loans are more than 30 days past due. See the table in section 6.1.3.1 above.

Qualitative criteria

The borrower meets unlikeliness to pay criteria, which indicates he is in significant financial difficulty. These are instances where the borrower is in long-term forbearance, deceased, insolvent, in breach of financial covenant(s), an active market for that financial asset has disappeared because of financial difficulties, Concessions have been made by the lender relating to the borrower's financial difficulty, or it is becoming probable that the borrower will enter bankruptcy.

6.1.3.3: Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.3 Expected credit loss measurement (continued)

6.1.3.4: Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

In the expected credit losses models, the Bank relies on a broad range of forward-looking information as economic factors, which includes:

- Interest rate.
- Gross domestic product GDP.
- Population.
- Employment, Labor force.
- Money supply.
- Exchange rate.
- Household spending.
- Foreign reserve.
- Inflation.

The bank tested correction between macroeconomic variables and Historical data per segments, the highest correction selected and applied to a specific segment to forecast the future probability of default, recovery rate and cure rate. The Historical and forecasted economic variables have been adopted from among of the big three credit rating agencies in the world with the most recent forecast made in 2020.

Sensitivity Analysis

The bank has sensitized the assumptions affecting the ECL allowance based on weightings and macro-economic variables applied.

Weightings assigned to each economic scenario into Base line (50%), Best Case (25%) and worst case (25%), by taking Base line (80%), Best Case (10%) and worst case (10%) the bank ECL would change as indicated below:

Year ended 31 December 2020			
Segment	Base line (50%), Best Case (25%) and worst case (25%)	Base line (80%), Best Case (10%) and worst case (10%)	Impact of changing weightings
Corporate and SME	260,290,106	260,290,106	-
Housing and Mortgage loans	15,553,710	15,553,710	-
Microfinance (SGL)	1,231,333,478	1,241,864,770	(10,531,292)
Salaried loans	5,230,299,935	5,000,110,702	230,189,233
Total	6,737,477,229	6,517,819,288	219,657,941

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.3 Expected credit loss measurement (continued)

6.1.3.4: Forward-looking information incorporated in the ECL models (continued)

Year ended 31 December 2019			
Segment	Base line (50%), Best Case (25%) and worst case (25%)	Base line (80%), Best Case (10%) and worst case (10%)	Impact of changing weightings
Corporate and SME	242,143,669	252,434,586	10,290,917
Housing and Mortgage loans	122,627,348	123,205,901	578,553
Microfinance (SGL)	2,751,484,232	2,751,779,007	294,775
Salaried loans	5,927,279,442	5,962,387,331	35,107,889
Total	9,043,534,691	9,089,806,825	46,272,134

The bank tested correction between macroeconomic variables and historical data per segments, the highest correction selected and applied to a specific segment to forecast the future probability of default, recovery rate and cure rate. The following table indicates the impact of increasing each macroeconomic variable selected per segment by 5% per annual

Segment	ECL at 31 December 2020	ECL after increase of 5% for each highest correlated variable per segment	Impact of Changing each Macroecono mic variable by 5% pa
Corporate and SME	260,290,106	260,290,106	-
Housing and Mortgage loans	15,553,710	15,553,710	-
Microfinance (SGL)	1,231,333,478	1,231,071,724	261,754
Salaried loans	5,230,299,935	5,238,515,295	(8,215,360)
Total	6,737,477,229	6,745,430,835	(7,953,606)

Segment	ECL at 31 December 2019	ECL after increase of 5% for each highest correlated variable per segment	Impact of Changing each Macroecono mic variable by 5% pa
Corporate and SME	242,143,669	247,789,738	5,646,069
Housing and Mortgage loans	122,627,348	120,712,488	(1,914,860)
Microfinance (SGL)	2,751,484,232	2,757,451,973	5,967,741
Salaried loans	5,927,279,442	5,940,802,677	13,523,235
Total	9,043,534,691	9,066,756,875	23,222,185

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FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.3 Expected credit loss measurement (continued)

6.1.3.5 Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. According to IFRS, the Bank shall group its financial assets into homogenous groups with similar credit risk characteristics for the purpose of credit risk parameters calculation. In the Methodology the process of grouping the portfolio is further referred to as portfolio segmentation.

For the purpose of practical implementation, it is assumed that exposures with similar risk profile are allocated to the same *risk portfolio*, and further to the same *risk group* within the portfolio. A single risk group within is assumed to be the homogenous group of assets according to the IFRS definition.

The segmentation criteria used by the Bank are primarily based on expert judgment and experience of the Bank's employees, supported by statistical verification of historical data where necessary. The general segmentation criteria are presented below:

- **Corporates and SME Loans** - The corporate loans include all overdraft, and all commercial loans granted for duration not exceeding three years for working capital purposes as revolving line of credit, expansion or modernization of the plant and facilities. Except overdraft, Corporate loans & SME loans duration is to a maximum of three years, the corporate commercial loans are for working capital and investment. Both overdraft and corporate commercial loans are secured by legal mortgage or against own fund. These Loans have monthly, quarterly, or semiannual repayment of both principal and interest unlike overdraft where repayment depends on account operations.
- **Housing and Mortgage loans** - The loans are granted for the purpose of house purchase, renovation, and construction. The house finance by the bank is pledged as security. Loans tenure up to 5 years for housing microfinance and 15 years for mortgage with monthly instalment of principal and interest. All housing microfinance is for residential purposes and mortgage for both commercial and residential purposes.
- **Salaried Loans** - This Credit scheme intends to cater for salaried employees' financial needs and in particular to assist salaried employees to gain financial home needs for both public and private sectors employees. A Collective Guarantee Agreement between the bank and the employer shall act as a security for the loan, for loans above TZS 30 million the borrower should pledge security. Employers deduct loans instalment on monthly basis from employees monthly earning. This loan has maximum of 7 years' tenures. The maximum loans amount for government employees is TZS 100 Million and TZS 50 million for private sector employees.
- **Microfinance (SGL)** - These loans granted to self-employed households and youth, small amount which security is based on group guarantee with weekly regular re-payments and deposits. Loan amounts range from TZS 350,000 to TZS 4,000,000 with loan tenure to maximum of 1 year (12 months). Weekly cash deposit and Group guarantee are the main collateral for this product.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.4 Credit risk exposure (continued)

6.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognized. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets

(a) Corporates and SME Loans

2020	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Amounts in TZS'000				
Credit grade (Risk Group)				
RG 1	16,988,152	-	-	16,988,152
RG 2	2,028,223	-	-	2,028,223
RG 3	-	92,696	-	92,696
RG 4	-	651,277	-	651,277
RG Default	-	-	3,238,535	3,238,535
Gross Carrying amount	19,016,375	743,973	3,238,535	22,998,883
Loss allowance	-	-	(260,290)	(260,290)
Carrying amount	19,016,375	743,973	2,978,245	22,738,593

2019	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Amounts in TZS'000				
Credit grade (Risk Group)				
RG 1	7,213,012	-	-	7,213,012
RG 2	1,821,849	-	-	1,821,849
RG 3	-	1,109,826	-	1,109,826
RG 4	-	430,487	-	430,487
RG Default	-	-	2,930,832	2,930,832
Gross Carrying amount	9,034,861	1,540,313	2,930,832	13,506,006
Loss allowance	(2,489)	(2,430)	(237,224)	(242,143)
Carrying amount	9,032,372	1,537,883	2,693,608	13,263,863

(b) Housing and Mortgage loans

2020	ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Amounts in TZS'000				
Credit grade (Risk Group)				
RG 1	7,353,544	-	-	7,353,544
RG 2	1,170,841	-	-	1,170,841
RG 3	-	483,205	-	483,205
RG 4	-	223,110	-	223,110
RG Default	-	-	1,147,432	1,147,432
Gross Carrying amount	8,524,385	706,315	1,147,432	10,378,132
Loss allowance	-	-	(15,554)	(15,554)
Carrying amount	8,524,385	706,314	1,131,878	10,362,578

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.4 Credit risk exposure (continued)

6.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment (Continued)

(b) Housing and Mortgage loans (continuous)

2019	ECL Staging			
Amounts in TZS'000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade (Risk Group)				
RG 1	6,007,218	-	-	6,007,218
RG 2	978,864	-	-	978,864
RG 3	-	262,620	-	262,620
RG 4	-	414,930	-	414,930
RG Default	-	-	1,353,533	1,353,533
Gross Carrying amount	6,986,082	677,550	1,353,533	9,017,165
Loss allowance	(17,834)	(36,291)	(68,503)	(122,628)
Carrying amount	6,968,248	641,259	1,285,030	8,894,537

(c) Salaried loans

2020	ECL Staging			
Amounts in TZS'000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade (Risk Group)				
RG 1	53,941,511	-	-	53,941,511
RG 2	914,223	-	-	914,223
RG 3	-	255,984	-	255,984
RG 4	-	498,577	-	498,577
RG Default	-	-	4,675,392	4,675,392
Gross Carrying amount	54,855,734	754,561	4,675,392	60,285,687
Loss allowance	(1,761,426)	(433,822)	(3,035,052)	(5,230,300)
Carrying amount	53,094,308	320,739	1,640,340	55,055,387

2019	ECL Staging			
Amounts in TZS'000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade (Risk Group)				
RG 1	53,318,905	-	-	53,318,905
RG 2	513,919	-	-	513,919
RG 3	-	427,277	-	427,277
RG 4	-	185,129	-	185,129
RG Default	-	-	5,590,096	5,590,096
Gross Carrying amount	53,832,824	612,406	5,590,096	60,035,326
Loss allowance	(1,035,625)	(187,159)	(4,704,495)	(5,927,279)
Carrying amount	52,797,199	425,247	885,601	54,108,047

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.4 Credit risk exposure (continued)

**6.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment
(continued)**

(d) Microfinance

2020	ECL Staging			
Amounts in TZS'000	Stage 1	Stage 2	Stage 3	Total
Credit grade (Risk Group)	12-month ECL	Lifetime ECL	Lifetime ECL	
RG 1	6,728,899	-	-	6,728,899
RG 2	553,225	-	-	553,225
RG 3	-	548,240	-	548,240
RG 4	-	153,101	-	153,101
RG Default	-	-	3,162,817	3,162,817
Gross Carrying amount	7,282,124	701,341	3,162,817	11,146,282
Loss allowance	(12,252)	(6,335)	(1,212,747)	(1,231,333)
Carrying amount	7,269,872	695,006	1,950,070	9,914,949

2019	ECL Staging			
Amounts in TZS'000	Stage 1	Stage 2	Stage 3	Total
Credit grade (Risk Group)	12-month ECL	Lifetime ECL	Lifetime ECL	
RG 1	6,904,092	-	-	6,904,092
RG 2	341,279	-	-	341,279
RG 3	-	187,971	-	187,971
RG 4	-	28,961	-	28,961
RG Default	-	-	3,348,030	3,348,030
Gross Carrying amount	7,245,371	216,932	3,348,030	10,810,333
Loss allowance	(17,464)	(3,116)	(2,730,904)	(2,751,484)
Carrying amount	7,227,907	213,816	617,126	8,058,849

(e) Off balance sheet exposures

2020	ECL Staging			
Amounts in TZS'000	Stage 1	Stage 2	Stage 3	Total
Credit grade (Risk Group)	12-month ECL	Lifetime ECL	Lifetime ECL	
RG 1	3,584,723	-	-	3,584,723
Gross Carrying amount	3,584,723	-	-	3,584,723
Carrying amount	3,584,723	-	-	3,584,723

2019	ECL Staging			
Amounts in TZS'000	Stage 1	Stage 2	Stage 3	Total
Credit grade (Risk Group)	12-month ECL	Lifetime ECL	Lifetime ECL	
RG 1	2,410,552	-	-	2,410,552
Gross Carrying amount	2,410,552	-	-	2,410,552
Loss allowance	-	-	-	-
Carrying amount	2,410,552	-	-	2,410,552

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(continued)****(f) Other financial instruments**

Other financial assets are in stage 1. ECL was determined to be immaterial and therefore has not been recorded. See the summary of the maximum exposures below.

	2020	2019
Amounts in TZS'000	Total	Total
Financial Asset	12-month ECL	12-month ECL
Cash balances with Bank of Tanzania	13,419,633	12,218,789
Amounts due from other Banks	3,179,930	6,340,933
Other assets	570,021	186,871
Government securities	33,708,791	13,869,506
Equity investments at FVOCI	1,804,200	1,804,200
Gross carrying amount	52,682,575	34,420,299
Loss allowance	-	-
Carrying amount	52,682,575	34,420,299

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.4 Credit risk exposure (continued)

6.1.4.2 Collateral and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated when the loan is up for renewal or when the loan is individually assessed as impaired.

For loans and advances to customers, the amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For SGL, the security is group guarantee, cash cover as well as movable assets.
- For micro and small medium enterprises (MSME); collateral over residential properties.
- For salaried loans; employers' guarantees.
- For housing micro finance and mortgages; over residential properties.
- For Corporate loans, collateral over residential properties.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, except for asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period. The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below

As at 31 December 2020	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets (stage 3)	TZS'000	TZS'000	TZS'000	TZS'000
Corporates and SME Loans	3,238,535	260,290	2,978,245	5,660,064
Housing and Mortgage loans	1,147,432	15,554	1,131,878	2,918,638
Salaried loans	4,675,392	3,035,052	1,640,340	155,125
Microfinance (SGL)	3,162,817	1,212,747	1,950,069	24,263
Total credit impaired assets	12,224,176	4,523,643	7,700,532	8,758,090

As at 31 December 2019	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets (stage 3)	TZS'000	TZS'000	TZS'000	TZS'000
Corporates and SME Loans	2,930,832	237,224	2,693,608	7,270,317
Housing and Mortgage loans	1,353,533	68,503	1,285,030	3,542,710
Salaried loans	5,590,096	4,704,495	885,601	230,881
Microfinance (SGL)	3,348,030	2,730,904	617,126	51,277
Total credit impaired assets	13,222,491	7,741,126	5,481,365	11,095,185

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.5: Gross carrying amount

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance was as follows.

- New loans booking/Disbursements which increases stage 1, the bank do not have purchased credit impaired.
- Write off loans gross caring amount which resulted to decrease in impairment for stage 3 and
- Restructuring of credit accommodation/ Modification of contractual cash flows of financial assets.

The following table further explains changes in the gross carrying amount of each segmented portfolio to help explain their significance to the changes in the loss allowance for the same portfolio.

(a) Corporates and SME Loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2020	9,034,861	1,540,314	2,930,832	13,506,007
Movements				
Financial assets derecognized during the period other than write-offs	(6,947,767)	(1,152,210)	(421,866)	(8,521,843)
Transfer from stage 1 to stage 2	(321,183)	321,183	-	-
Transfer from stage 1 to stage 3	(384,720)	-	384,720	-
Transfer from stage 2 to stage 1	-	-	-	-
Transfers from stage 2 to stage 3	-	(34,555)	34,555	-
Transfer from stage 3 to stage 1	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
New financial assets originated or purchased	17,635,184	69,241	456,738	18,161,163
Write-offs	-	-	(146,444)	(146,444)
Gross carrying amount as at 31 December 2020	19,016,375	743,973	3,238,535	22,998,883

	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	6,480,580	967,916	2,555,761	10,004,257
Movements	-	-	-	-
Financial assets derecognized during the period other than write-offs	(3,253,519)	(455,932)	(93,971)	(3,803,422)
Transfer from stage 1 to stage 2	(107,540)	107,540	-	-
Transfer from stage 1 to stage 3	(254,498)	-	254,498	-
Transfer from stage 2 to stage 1	-	-	-	-
Transfers from stage 2 to stage 3	-	(193,813)	193,813	-
Transfer from stage 3 to stage 1	76,299	-	(76,299)	-
Transfer from stage 3 to stage 2	-	145,115	(145,115)	-
New financial assets originated or purchased	6,093,539	969,489	483,100	7,546,128
Write-offs	-	-	(240,957)	(240,957)
Gross carrying amount as at 31 December 2019	9,034,861	1,540,315	2,930,830	13,506,006

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
6. FINANCIAL RISK MANAGEMENT
(CONTINUED) 6.1 Credit risk (continued)
6.1.5: Gross carrying amount (continued)

(b) Housing and Mortgage loans	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2020	6,986,082	677,551	1,353,533	9,017,165
Movements	-	-	-	-
Transfer from stage 1 to stage 2	(111,425)	111,425	-	-
Transfer from stage 1 to stage 3	(188,574)	-	188,574	-
Transfer from stage 2 to stage 1	74,093	(74,093)	-	-
Transfers from stage 2 to stage 3	-	(337,022)	337,022	-
Transfer from stage 3 to stage 1	25,599	-	(25,599)	-
Transfer from stage 3 to stage 2	-	53,329	(53,329)	-
New financial assets originated or purchased	4,398,842	534,012	195,576	5,128,430
Financial assets derecognized during the period other than write-offs	(2,660,232)	(258,888)	(755,962)	(3,675,082)
Write-offs	-	-	(92,381)	(92,381)
Gross carrying amount as at 31 December 2020	8,524,385	706,314	1,147,434	10,378,132

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
As at 1 January 2019	7,011,492	603,541	1,084,126	8,699,158
Movements	-	-	-	-
Transfer from stage 1 to stage 2	(403,813)	403,813	-	-
Transfer from stage 1 to stage 3	(679,411)	-	679,411	-
Transfer from stage 2 to stage 1	236,549	(236,549)	-	-
Transfers from stage 2 to stage 3	-	(117,664)	117,664	-
Transfer from stage 3 to stage 1	76,299	-	(76,299)	-
Transfer from stage 3 to stage 2	-	1,674	(1,674)	-
Financial assets derecognized during the period other than write-offs	(2,350,085)	(294,731)	(333,597)	(2,978,413)
New financial assets originated/purchased	3,095,051	317,466	-	3,412,517
Write-offs	-	-	(116,098)	(116,098)
Gross carrying amount as at 31 December 2019	6,986,082	677,550	1,353,533	9,017,164

(c) Salaried loans	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Amounts in TZS'000				
As at 1 January 2020	53,832,823	612,406	5,590,096	60,035,325
Movements				
Transfer from stage 1 to stage 2	(499,294)	499,294	-	-
Transfer from stage 1 to stage 3	(1,301,260)	-	1,301,260	-
Transfer from stage 2 to stage 1	235,987	(235,987)	-	-
Transfers from stage 2 to stage 3	-	(293,344)	293,344	-
Transfer from stage 3 to stage 1	243,037	-	(243,037)	-
Transfer from stage 3 to stage 2	-	240,336	(240,336)	-
New financial assets originated	23,045,692	144,427	64,964	23,255,084
Financial assets derecognized during the period other than write-offs	(20,701,251)	(212,571)	(503,121)	(21,416,943)
Write-offs	-	-	(1,587,778)	(1,587,778)
Gross carrying amount 31 Dec 2020	54,855,734	754,561	4,675,392	60,285,688

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**6. FINANCIAL RISK MANAGEMENT
(CONTINUED) 6.1 Credit risk (continued)
6.1.5: Gross carrying amount (continued)**

	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	50,425,050	1,211,520	9,421,321	61,057,891
Movements	-	-	-	-
Transfer from stage 1 to stage 2	(341,643)	341,643	-	-
Transfer from stage 1 to stage 3	(1,173,483)	-	1,173,483	-
Transfer from stage 2 to stage 1	532,335	(532,335)	-	-
Transfers from stage 2 to stage 3	-	(451,748)	451,748	-
Transfer from stage 3 to stage 1	1,386,986	-	(1,386,986)	-
Transfer from stage 3 to stage 2	-	170,779	(170,779)	-
Financial assets derecognized during the period other than write-offs	(8,539,063)	(359,268)	(761,045)	(9,659,377)
Financial asset originated/purchased	11,542,646	231,817	3,365	11,777,828
Write-offs	(4)	(3)	(3,141,010)	(3,141,016)
Gross carrying amount 31 Dec 2019	53,832,824	612,405	5,590,097	60,035,326

(d) Microfinance (SGL)	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2020	7,245,370	216,933	3,348,030	10,810,333
Movements	-	-	-	-
Transfer from stage 1 to stage 2	(22,056)	22,056	-	-
Transfer from stage 1 to stage 3	(216,944)	-	216,944	-
Transfer from stage 2 to stage 1	1,116	(1,116)	-	-
Transfers from stage 2 to stage 3	-	(23,615)	23,615	-
Transfer from stage 3 to stage 1	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
New financial assets originated or purchased	7,226,937	691,997	163,689	8,082,623
Financial assets derecognized during the period other than write-offs	(6,952,356)	(204,912)	(374,736)	(7,532,003)
Write-offs	-	-	(214,726)	(214,726)
Gross carrying amount 31 Dec 2020	7,282,067	701,343	3,162,816	11,146,227

As at 1 January 2019	4,950,624	1,762,082	4,119,594	10,832,300
Movements	-	-	-	-
Transfer from stage 1 to stage 2	(119,082)	119,082	-	-
Transfer from stage 1 to stage 3	(588,580)	-	588,580	-
Transfer from stage 2 to stage 1	551,871	(551,871)	-	-
Transfers from stage 2 to stage 3	-	(485,200)	485,200	-
Transfer from stage 3 to stage 1	53,996	-	(53,996)	-
Transfer from stage 3 to stage 2	-	4,306	(4,306)	-
Financial assets derecognized during the period other than write-offs	(410,802)	(698,238)	(1,342,044)	(2,451,084)
New financial assets originated/purchased	2,807,343	66,771	12,530	2,886,645
Write-offs	-	-	(457,528)	(457,528)
Gross carrying amount as at 31 December 2019	7,245,370	216,932	3,348,030	10,810,333

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 Credit risk (continued)

6.1.6: Loss allowance

The loss allowance recognized in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period.
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models.
- Impacts on the measurement of ECL due to changes made to models and assumptions.
- Discounts unwind within ECL due to the passage of time, as ECL is measured on a present value basis.
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period).

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

(a) Corporates and SME Loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2020	2,489	2,430	237,224	242,144
Movements				
Transfer from stage 2 to stage 1	-	-	-	-
Write-offs	-	-	(146,444)	(146,444)
Changes to assumptions and impact of other movements	(2,489)	(2,430)	169,510	164,590
Net (release)/charge to profit or loss	(2,489)	(2,430)	169,510	164,590
As at 31 December 2020	-	-	260,290	260,290

As at 1 January 2019	28,729	89	335,587	364,404
Movements				
Transfer from stage 2 to stage 3	-	(89)	89	-
Changes to assumptions and impact of other movements	(26,240)	2,430	142,505	118,696
Net charge/(release) to profit or loss	(26,240)	2,341	142,594	118,696
Write-offs	-	-	(240,957)	(240,957)
As at 31 December 2019	2,489	2,430	237,224	242,144

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT

(CONTINUED) 6.1 Credit risk (continued)

6.1.6: Loss allowance (continued)

(b) Housing and Mortgage loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2020	17,834	36,291	68,503	122,627
Movements				
Transfer from stage 1 to stage 2	(8)	8	-	-
Transfer from stage 1 to stage 3	(105)	-	105	-
Transfer from stage 2 to stage 1	323	(323)	-	-
Transfers from stage 2 to stage 3	-	(21,866)	21,866	-
Transfer from stage 3 to stage 1	339	-	(339)	-
Transfer from stage 3 to stage 2	-	1,711	(1,711)	-
Changes to assumptions and impact of other movements	(18,384)	(15,820)	19,512	(14,692)
Net (release)/charge to profit or loss	(17,834)	(36,291)	39,432	(14,692)
Write-offs	-	-	(92,381)	(92,381)
As at 31 December 2020	-	-	15,554	15,554

	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	73,284	16,761	51,270	141,315
Movements				
Transfer from stage 1 to stage 2	(9,788)	9,788	-	-
Transfer from stage 1 to stage 3	(2,299)	-	2,299	-
Transfer from stage 2 to stage 1	12,314	(12,314)	-	-
Transfers from stage 2 to stage 3	-	(2,865)	2,865	-
Transfer from stage 3 to stage 1	4,790	-	(4,790)	-
Transfer from stage 3 to stage 2	-	-	-	-
Write-offs	-	-	(116,098)	(116,098)
Changes to assumptions and impact of other movements	(60,466)	24,919	132,957	97,410
Net charge/(release) to profit or loss	(55,450)	19,530	133,331	97,410
As at 31 December 2019	17,835	36,289	68,503	122,628

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
**6. FINANCIAL RISK MANAGEMENT
(CONTINUED) 6.1 Credit risk (continued)
6.1.6: Loss allowance (continued)**

(c) Salaried loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2020	1,035,625	187,159	4,704,495	5,927,279
Movements				
Transfer from stage 1 to stage 2	(7,300)	7,300	-	-
Transfer from stage 1 to stage 3	(14,515)	-	14,515	-
Transfer from stage 2 to stage 1	79,669	(79,669)	-	-
Transfers from stage 2 to stage 3	-	(88,754)	88,754	-
Transfer from stage 3 to stage 1	146,842	-	(146,842)	-
Transfer from stage 3 to stage 2	-	207,740	(207,740)	-
Changes to assumptions and impact of other movements	521,105	200,045	169,648	890,799
Net charge (release) to profit or loss	725,801	246,663	(81,665)	890,799
Write-offs	-	-	(1,587,778)	(1,587,778)
As at 31 December 2020	1,761,426	433,821	3,035,052	5,230,300

	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	1,991,123	323,364	8,045,404	10,359,891
Movements				
Transfer from stage 1 to stage 2	(10,563)	10,563	-	-
Transfer from stage 1 to stage 3	(41,603)	-	41,603	-
Transfer from stage 2 to stage 1	167,404	(167,404)	-	-
Transfers from stage 2 to stage 3	-	(102,076)	102,076	-
Transfer from stage 3 to stage 1	1,168,042	-	(1,168,042)	-
Transfer from stage 3 to stage 2	-	148,321	(148,321)	-
Write-offs	(4)	(3)	(3,141,010)	(3,141,016)
Changes to assumptions and impact of other movements	(2,238,774)	(25,607)	972,785	(1,291,596)
Net charge/(release) to profit or loss	(955,495)	(136,202)	(199,899)	(1,291,596)
As at 31 December 2019	1,035,625	187,158	4,704,495	5,927,279

(d) Microfinance (SGL)	Stage 1	Stage 2	Stage 3	
Amounts in TZS' 000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2020	17,464	3,116	2,730,904	2,751,484
Movements				
Transfer from stage 1 to stage 2	(69)	69	-	-
Transfer from stage 1 to stage 3	(914)	-	914	-
Transfer from stage 2 to stage 1	1	(1)	-	-
Transfers from stage 2 to stage 3	-	(478)	478	-
Transfer from stage 3 to stage 1	-	-	-	-
Write-offs	-	-	(214,726)	(214,726)
Changes to assumptions and impact of other movements	(4,230)	3,629	(1,304,823)	(1,305,425)
Net charge/(release) to profit or loss	(5,213)	3,218	(1,303,430)	(1,305,425)
As at 31 December 2020	12,252	6,335	1,212,747	1,231,333

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT

(CONTINUED) 6.1 Credit risk (continued)

6.1.6: Loss allowance (continued)

(d)Microfinance (SGL)	Stage 1	Stage 2	Stage 3	
Amounts in TZS' 000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2019	31,453	21,968	3,274,685	3,328,106
Movements				
Transfer from stage 1 to stage 2	(608)	608	-	-
Transfer from stage 1 to stage 3	(6,407)	-	6,407	-
Transfer from stage 2 to stage 1	5,701	(5,701)	-	-
Transfers from stage 2 to stage 3	-	(11,186)	11,186	-
Transfer from stage 3 to stage 1	30,551	-	(30,551)	-
Transfer from stage 3 to stage 2	-	2,669	(2,669)	-
Changes to assumptions and impact of other movements	(43,226)	(5,241)	(70,625)	(119,092)
Net (release)/charge to profit or loss	(13,989)	(18,851)	(86,253)	(119,093)
Write-offs	-	-	(457,528)	(457,528)
As at 31 December 2019	17,464	3,117	2,730,905	2,751,486

6.1.7 Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's credit exposure at carrying amounts, as categorized by the industry sectors of the Bank's counterparties. The bank's financial assets are all confined within Tanzania and therefore no separate disclosure for geographical segmentation was considered necessary.

	<u>Financial institution</u>	<u>Wholesale and retail trade</u>	<u>Individual</u>	<u>Other</u>	<u>Total</u>
2020 (TZS'000)					
Balances with Bank of Tanzania	10,399,650	-	-	-	10,399,650
Loans and advances to banks	3,179,930	-	-	-	3,179,930
Government securities	33,708,791	-	-	-	33,708,791
Other assets	-			570,021	570,021
Equity investments at FVOCI	1,823,200	-	-	-	1,823,200
Loans and advances to customers	-	33,115,898	64,955,554	-	98,071,452
Total	49,111,571	33,115,898	64,955,554	570,021	147,753,044

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FOR THE YEAR ENDED 31 DECEMBER 2020****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****6. FINANCIAL RISK MANAGEMENT****(CONTINUED) 6.1 Credit risk (continued)****6.1.7 Concentration of risks of financial assets with credit risk exposure (continued)**

2019 (TZS'000)	Financial institution	Wholesale and retail trade	Individual	Other	Total
Balances with Bank of Tanzania	10,411,756	-	-	-	10,411,756
Loans and advances to banks	6,340,933	-	-	-	6,340,933
Government securities	13,869,506	-	-	-	13,869,506
Other assets	-	-	-	186,871	186,871
Equity investments at FVOCI	1,804,200	-	-	-	1,804,200
Loans and advances to customers	745,453	13,587,257	54,299,918	15,692,668	84,325,296
Total	33,171,848	13,587,257	54,299,918	15,879,539	116,938,562

6.1.8 Repossessed collateral

During the year, the Bank did not obtain assets by taking possession of collateral held as security. Repossessed properties are usually sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

6.1.9 Write-off policy

The Bank writes off loans as and when the Board of Directors approves after accepting the recommendations by the management that the loans are irrecoverable. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

6.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates. The Bank separates exposures to market risk into either trading or non-trading portfolios. The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and heads of department.

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimizing the return on risk. The principal measurement technique used to measure and control market risk is the stress tests as outlined below.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 Market risk (continued)

6.2.1 Foreign exchange risk

Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank covers: interest rate, credit, foreign exchange, and liquidity risks, where stress movements are applied to each risk category to assess the overall impact and the Bank's capital resilience to different market risk factor shocks. The results of the stress tests are reviewed by the Asset and Liability Management Committee (ALCO) and reported to the Board of Directors. Below are the results of stress test in relation to foreign exchange, interest rate, credit and liquidity risks as at 31 December 2020.

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency which is monitored daily. The Bank's net foreign currency exposure as at 31 December 2020 was TZS 1.2 billion (2019: TZS 327 million). The bank stress test for forex exchange fluctuation is shown in the below table

Year	Risk category	Impact on statement of profit or loss and other comprehensive income	Impact on core capital
2020	Exchange rate: fluctuate by 10%	decrease/increase profit by TZS 117 million.	Reduce/increase profit by TZS 117 million
2019	Exchange rate: fluctuate by 10%	decrease/increase profit by TZS 32 million.	Reduce/increase profit by TZS 32 million

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 Market risk (continued)

6.2.1 Foreign exchange risk (continued)

The Bank is exposed mainly to USD currency for which as at 31 December 2020 the exposure is summarized in the table below (All amounts expressed in equivalent Tanzanian Shillings).

2020	TZS'000	USD '000	GBP '000	EURO '000	ZAR '000	Total '000
Assets						
Cash and balances with Bank of Tanzania	10,355,117	2,863,041	15,575	64,988	120,912	13,419,633
Loans and advances to banks	818,272	2,339,828	9,331	10,336	2,163	3,179,930
Government securities held to maturity	33,708,791	-	-	-	-	33,708,791
Equity investment	1,823,200	-	-	-	-	1,823,200
Loans and advances to customers	98,071,452	-	-	-	-	98,071,452
Other assets exclude prepayment and stationaries	570,021	-	-	-	-	570,021
Right of use asset	5,312,661	766,399	-	-	-	6,079,060
Total financial assets	150,666,157	5,969,268	24,906	75,324	123,075	156,852,087

Liabilities						
Deposits due to banks	23,571,831	3,941,823	-	-	-	27,513,654
Deposits due to customers	96,920,713	2,582,512	-	280	342	99,503,846
Borrowings	10,920,248	-	-	-	-	10,920,248
Lease liability	2,340,353	832,268	-	-	-	3,172,621
Other liabilities	614,737	5,383	-	-	-	620,120
Total financial liabilities	134,367,882	7,361,986	-	280	342	141,730,489
Net gap of foreign exchange risk	16,291,632	(1,392,718)	24,906	75,044	122,734	15,121,598

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 Market risk (continued)

6.2.1 Foreign exchange risk (continued)

2019	TZS'000	USD '000	GBP '000	EURO '000	ZAR '000	Total '000
Assets						
Cash and balances with Bank of Tanzania	11,623,369	541,716	3,859	49,845	-	12,218,789
Loans and advances to banks	2,102,425	4,204,645	9,502	23,608	753	6,340,933
Government securities held to maturity	13,869,506	-	-	-	-	13,869,506
Equity investment	1,804,200	-	-	-	-	1,804,200
Loans and advances to customers	84,325,296	-	-	-	-	84,325,296
Other assets exclude prepayment and stationaries	186,871	-	-	-	-	186,871
Right of use asset	5,695,963	1,174,927	-	-	-	6,870,890
Total financial assets	119,607,630	5,921,288	13,361	73,453	753	125,616,485
Liabilities						
Deposits due to banks	8,863,071	2,761,196	-	-	-	11,624,267
Deposits due to customers	82,926,095	2,262,149	-	257	355	85,188,856
Borrowings	10,253,881	-	-	-	-	10,253,881
Lease liabilities	2,530,207	1,207,782	-	-	-	3,737,989
Other liabilities	843,879	97,466	-	-	-	941,345
Total financial liabilities	105,417,133	6,328,593	-	257	355	111,746,338
Net gap of foreign exchange risk	14,190,497	(407,305)	13,361	73,196	398	13,870,147

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 Market risk (continued)

6.2.2 Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest margins may increase because of changes in the prevailing levels of market rates but may also decrease or create losses if unexpected movements arise. The Board sets limits on the level of mismatch of interest re-pricing that may be undertaken. Consequently, the interest sensitivity effects on profit or loss would not be significant given the re-pricing frequency.

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market rates on its financial position and cash flows. The table below summarizes the exposure to interest rates risks. Included in the table are the Bank's assets and liabilities at carrying amounts categorized by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items. The stress test for interest rate risk summaries below.

Year	Risk category	Impact on statement of profit or loss and other comprehensive income	Impact on core capital
2020	Interest rate risk: stress reduce interest margin by 5%	Reduce profit by TZS 187 million	Reduce profit by TZS 187 million
2019	Interest rate risk: stress reduce interest margin by 5%	Reduce profit by TZS 226 million	Reduce profit by TZS 226 million

The table presented here in shows the exposure to interest rate risks.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Market risk (continued)

6.2.2 Interest rate risk (continued)

	Up to	1 - 3	3-12	Over	Non-interest	
As at 31 December 2020	1 Month	Months	Months	1 year	Bearing	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets						
Cash and Bank balances with Bank of Tanzania	-	-	-	-	13,419,633	13,419,633
Loans and balance to banks	-	3,179,930	-	-	-	3,179,930
Government securities	-	-	2,035,919	31,672,872	-	33,708,791
Loans and advances to customers	8,357,409	1,909,252	16,818,765	70,986,027	-	98,071,452
Equity investment	-	-	-	-	1,823,200	1,823,200
Other assets	-	-	-	-	570,021	570,021
Total assets	8,357,409	5,089,182	18,854,684	102,658,899	15,812,854	150,773,027
Liabilities						
Due to other banks	17,141,602	500,267	9,265,657	-	606,128	27,513,654
Deposit from customers	22,788,086	19,305,762	35,258,429	12,860,408	9,291,162	99,503,846
Borrowings	-	3,160,759	-	7,759,489	-	10,920,248
Lease liability	-	-	640,886	2,531,735	-	3,172,621
Other liabilities	-	-	-	-	620,120	620,120
Total liabilities and equity	39,929,687	22,966,788	45,164,971	23,151,632	10,517,410	141,730,489
Interest sensitivity gap	(31,572,278)	(17,877,606)	(26,310,288)	79,507,267	5,295,444	9,042,538

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Market risk (continued)

6.2.2 Interest rate risk (continued)

	Up to	1 - 3	3-12	Over	Non-interest	
As at 31 December 2019	1 Month	Months	Months	1 year	Bearing	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets						
Cash and Bank balances with Bank of Tanzania	-	-	-	-	12,218,789	12,218,789
Loans and balance to banks	2,199,133	1,150,500	2,991,300	-	-	6,340,933
Government securities	1,100,000	1,000,000	6,300,000	5,469,506	-	13,869,506
Loans and advances to customers	6,742,909	2,088,044	12,580,332	62,914,011	-	84,325,296
Equity investment	-	-	-	-	1,804,200	1,804,200
Other assets	-	-	-	-	186,871	186,871
Total assets	10,042,042	4,238,544	21,871,632	68,383,517	14,209,860	118,745,595
Liabilities						
Due to other banks	4,561,200	2,350,000	4,016,860	-	696,207	11,624,267
Deposit from customers	34,764,787	9,261,307	21,835,782	9,235,023	10,091,957	85,188,856
Borrowings	-	-	1,750,000	8,503,881	-	10,253,881
Lease liability	-	-	876,000	2,861,989	-	3,737,989
Other liabilities	-	-	-	-	941,345	941,345
Total liabilities and equity	39,325,987	11,611,307	28,478,642	20,600,893	11,729,509	111,746,338
Interest sensitivity gap	(29,293,945)	(7,372,763)	(6,607,010)	47,782,624	2,480,351	6,999,257

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. Analysis of the Bank's assets and liabilities into relevant maturity groupings is set out in note 3.3.3.

6.3.1 Liquidity risk management

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

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid Government securities, deposits from institutions and other inter-Bank facilities, to ensure that sufficient liquidity is maintained within the institution as a whole. All liquidity policies and procedures are subject to review by Assets and Liabilities Committee and approval by the Board.

The Bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, Directors ensure that the mismatch is controlled in line with allowable risk levels and includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of gap analysis, maturity ladder as well as cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

6.3.2 Funding approach

Sources of liquidity are regularly reviewed by the Bank to maintain a wide diversification by currency, provider, product and term.

6.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual cash flow as at 31 December 2020. The bank does not manage liquidity based on undiscounted cash-flows.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3. Liquidity risk (continued)

6.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk (Continued)

	Due on Demand	Up to 1 Month	1 - 3 Months	3 - 6 Months	6-12 Months	1 - 5 Years	Total
At 31 December 2020	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Due to other banks	606,128	17,141,602	500,267	-	9,265,657	-	27,513,654
Deposits from customers	32,079,248	-	19,305,762	-	35,258,429	12,860,408	99,503,846
Borrowings	-	-	3,160,759	-	-	7,759,489	10,920,248
Lease liability	-	-	-	-	640,886	2,531,735	3,172,621
Other liabilities	392,637	227,483	-	-	-	-	620,120
Total liabilities	33,078,013	17,369,085	22,966,788	-	45,164,971	23,151,632	141,730,489
Assets held for managing liquidity risk	13,419,633	8,927,430	5,089,182	5,139,319	13,715,364	104,482,099	150,773,027
Net liquidity gap	(19,658,380)	(8,441,655)	(17,877,606)	5,139,319	(31,449,607)	81,330,467	9,042,538

At 31 December 2019									
Liabilities									
Due to other banks	696,207	4,561,200	2,350,000	-	4,016,860	-	11,624,267		
Deposits from customers	44,856,745	-	9,261,307	-	21,835,782	9,235,022	85,188,856		
Borrowings	-	-	-	1,000,000	750,000	8,503,881	10,253,881		
Lease liability	-	-	-	-	876,000	2,861,989	3,737,989		
Other liabilities	305,971	635,374	-	-	-	-	941,345		
Total liabilities	45,858,923	5,196,574	11,611,307	1,000,000	27,478,642	20,600,892	111,746,338		
Assets held for managing liquidity risk	11,500,546	10,946,386	4,238,544	12,972,284	8,899,348	70,188,487	118,745,595		
Net liquidity gap	(34,358,377)	5,749,812	(7,372,763)	11,972,284	(18,579,294)	49,587,595	6,999,257		

The analysis above assumes that all deposits falling due in each of the periods will be withdrawn, which is unlikely.

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3. Liquidity risk (continued)

6.3.4: Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with the Bank of Tanzania (excluding SMR);
- Government securities
- Placements with other banks; and
- Loans and advances to customers.

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended, accordingly the behavioral pattern does not necessarily follow the contractual pattern. The Bank would also be able to meet unexpected net cash outflows by selling investment securities and accessing additional funding sources such as asset-backed markets.

The bank performs the following to manage its liquidity positions:

- Based on its judgement of financial market trends, the Bank actively adjusts its business strategies to manage liquidity risk.
- The bank performs periodic cash flow projections considering its impact on internal and regulatory limits.
- The bank control of non-earning assets proportion to manage its impact on the Bank's overall financial position.
- Conduct regular liquidity stress tests including testing of contingency plans.
- Monitor diversification of funding sources in order to control concentration risk and ensure a satisfactory funding mix.
- Monitoring the level of undrawn commitments.
- Regular conduct of the Asset and Liability management Committee (ALCO) meetings which focuses on:
 - Establishing policies and tolerance levels, from both risk and return perspectives, for liquidity, interest rate and balance sheet valuation management.
 - Manage the intra-day liquidity position to ensure that payment and settlement obligations are met on a timely basis.
 - Strategic financial position planning from both risk and return perspective.
 - Strategically coordinate the management of the Bank's financial position in consideration of changing economic conditions.

6.3.5 Commitments

(a) Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 38) are summarized in the table below.

At 31 December 2020	No later than 1 year	1-5 years	Over 5 years	Total
	TZS 000	TZS 000	TZS 000	TZS 000
Capital commitments	99,591	-	-	99,591
Total	99,591	-	-	99,591
At 31 December 2019				
Capital commitments	99,591	-	-	99,591
Total	99,591	-	-	99,591

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3. Liquidity risk (continued)

6.3.5 Commitments (continued)

(b) *Commitments to extend credit and other facilities*

As at 31 December 2020, the Bank had outstanding commitments to extend credit to customers and other facilities amounting to TZS 3.6 billion (2019: 2.4 billion).

6.4 Fair value of financial assets and liabilities

IFRS 13 requires the Bank to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The Bank specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on recurring basis

The Bank has equity investment with TMRC and Umoja switch worth TZS 1.82 billion Cost TZS 1.12 billion. These investments are measured at Fair value through OCI.

Financial instruments not measured at fair value:

The following table analyses within the fair value hierarchy the Bank's assets and liabilities (by class) measured at amortized cost at 31 December 2020.

	Level 1	Level 2	Level 3
Assets	TZS '000	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	-	13,419,633	-
Loans and balance to banks	-	3,179,930	-
Government securities	-	33,708,791	-
Loans and balance with customers	-	-	98,071,452
Other assets	-	-	570,021
Total assets	-	50,308,354	98,641,473
Liabilities			
Due to other banks	-	27,513,654	-
Deposit from customers	-	-	99,503,846
Borrowings	-	-	10,920,248
Lease liabilities	-	-	3,172,621
Other liabilities	-	-	620,120
Total liabilities	-	27,513,654	114,216,835

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.4 Fair value of financial assets and liabilities (continued)

The following table analyses within the fair value hierarchy the Bank's assets and liabilities (by class) measured at fair value at 31 December 2019.

	Level 1	Level 2	Level 3
	TZS '000	TZS '000	TZS '000
Assets			
Cash and balances with Bank of Tanzania	-	12,218,789	-
Loans and balance to banks	-	6,340,933	-
Government securities held to maturity	-	13,869,506	-
Loans and balance with customers	-	-	84,325,295
Other assets	-	-	186,871
Total assets	-	32,429,228	84,512,166
Liabilities			
Due to other banks	-	11,624,267	-
Deposit from customers	-	-	85,188,856
Borrowings	-	-	10,253,881
Lease liabilities	-	-	3,737,989
Other liabilities	-	-	941,345
Total liabilities	-	11,624,267	100,122,071

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.5 Capital management

The Bank of Tanzania has set, among other measures, the rules, and ratios to monitor adequacy of a Bank's capital, monitored daily and monthly, for supervisory purposes. In implementing current capital requirements, the Bank of Tanzania requires maintenance of a prescribed ratio of total capital to total risk-weighted assets in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capitals, which includes qualifying subordinated liabilities and the element of fair value reserve relating to unrealized gains on equity instruments classified as held to collect and sale.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. Tier 1 capital (Core capital) is also subjected to various limits like limitation in risk weighted assets by 12.5% and investments in movable and immovable assets not to exceed 70% of core capital.

The primary objectives of the Bank's capital management which is a broader concept than the 'equity' on the face of statement of financial positions are:

- To comply with the capital requirements set by the Bank of Tanzania (BOT) while safeguarding the Bank's ability to continue as a going concern
 - To maintain strong capital base and a strong credit rating to support the development of its business
- Below is the composition of regulatory capital and the ratios of the Bank.

REGULATORY CAPITAL	2020	2019
Tier 1 Capital	TZS'000	TZS'000
Share capital	22,741,149	22,741,149
Share premium	4,104,046	4,104,046
Advance toward share capital	1,400,000	750,000
Accumulated losses	(2,217,315)	(580,333)
Less: Prepaid expenses	(879,480)	(391,022)
Less: Deferred income tax asset	(4,421,346)	(4,813,686)
Total qualifying Tier 1 Capital	20,727,054	21,810,154
Tier 2 capital		
Fair value reserve	642,621	478,940
Total regulatory capital	21,369,675	22,289,094
Risk - weighted assets		
On balance sheet	111,659,080	100,952,245
Off balance sheet	3,584,722	2,410,552
Total risk - weighted assets	115,243,802	103,362,797
Minimum capital for market risks	1,396,007	229,659
Minimum capital for Operational risks	9,104,059	9,845,893
Total adjusted risk weighted assets	125,743,868	113,438,349
Bank Ratios		
Tier 1 (BoT Minimum 12.5%)	16.5%	19.4%
Tier 1+Tier 2 (BoT Minimum 14.5%)	17.0%	19.8%

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. SEGMENT REPORTING

The segment reporting format is determined by Bank's risks and rates of returns based on products and services offered. The segment information provided to Bank's senior management for the reportable segments for the year ended 31 December 2020 is as follows:

	Business Banking	Personal Banking	Microfinance	Treasury	Intersegment	Total
Statement of profit or loss and other comprehensive income	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Net interest income	1,720,083	5,234,983	4,483,108	1,312,177	276,406	13,026,756
Fees, commission, and other income	828,559	1,666,154	342,652	-	899,349	3,736,713
Foreign exchange income	-	-	-	151,697	-	151,697
Other operating income	-	-	41,210	228,003	478,018	747,231
Income	2,548,641	6,901,136	4,866,969	1,691,877	1,653,773	17,662,397
Expenses						
Loan impairment credit (charge)	(155,477)	(887,227)	1,307,432	-	-	264,727
Personnel expenses	(690,851)	(198,654)	(977,625)	(244,795)	(7,435,727)	(9,547,652)
Administrative and other operating expenses	(343,887)	(257,915)	(1,332,560)	(64,479)	(2,987,514)	(4,986,355)
Depreciation and amortization	(163,899)	(122,924)	(635,110)	(30,731)	(1,423,875)	(2,376,540)
Total expenses	(1,354,114)	(1,466,720)	(1,637,863)	(340,005)	(11,847,117)	(16,645,820)
Profit (Loss) before tax	1,194,528	5,434,417	3,229,107	1,351,872	(10,193,344)	1,016,577
Income tax charge	-	-	-	-	(563,271)	(563,271)
Profit for the year	1,194,526	5,434,417	3,229,106	1,351,873	(10,756,615)	453,306

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. SEGMENT REPORTING (CONTINUED)

31 December 2019	Business Banking	Personal Banking	Microfinance	Treasury	Intersegment	Total
Statement of profit or loss and other comprehensive income	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Net interest income	2,291,575	6,094,170	3,644,666	288,155	208,072	12,526,638
Fees, commission, and other income	635,760	1,377,078	247,725	-	677,743	2,938,306
Foreign exchange income	-	-	-	82,950	-	82,950
Other operating income	-	-	24,848	385,873	780,659	1,191,380
Income	2,927,335	7,471,248	3,917,239	756,978	1,666,474	16,739,274
Expenses						
Loan impairment credit (charge)	(118,696)	1,192,697	119,093	-	-	1,193,094
Personnel expenses	(690,851)	(198,654)	(977,625)	(368,479)	(6,324,559)	(8,560,168)
Administrative and other operating expenses	(184,929)	(92,464)	(716,600)	(34,674)	(1,421,641)	(2,450,308)
Depreciation and amortization	(363,337)	(181,668)	(1,407,929)	(68,126)	(2,793,150)	(4,814,210)
Total expenses	(1,357,813)	719,911	(2,983,061)	(471,279)	(10,539,350)	(14,631,592)
Profit before tax	1,569,522	8,191,159	934,178	285,699	(8,872,876)	2,107,682
Income tax charge	-	-	-	-	(69,493)	(69,493)
Profit for the year	1,569,522	8,191,159	934,178	285,699	(8,942,369)	2,038,189

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. SEGMENT REPORTING (CONTINUED)

Statement of financial position as at 31 December 2020 in TZS'000	Business Banking	Personal Banking	Microfinance	Treasury	Intersegment	Total
Assets						
Cash and balances with Bank of Tanzania	-	-	-	13,419,633	-	13,419,633
Loans and balances to banks	-	-	-	3,179,930	-	3,179,930
Government securities	-	-	-	33,708,791	-	33,708,791
Equity investment	-	-	-	-	1,823,200	1,823,200
Loans and advances to customers	28,500,652	59,390,630	10,180,169	-	-	98,071,452
Property and Equipment	-	-	-	-	3,719,268	3,719,268
Intangible assets	-	-	-	-	4,635,848	4,635,848
Corporate tax recoverable	-	-	-	-	1,939,384	1,939,384
Right of use Assets	-	-	-	-	6,079,060	6,079,060
Deferred tax asset	-	-	-	-	4,421,346	4,421,346
Other assets	-	-	-	-	1,890,220	1,890,220
Total assets	28,500,652	59,390,630	10,180,169	50,308,354	24,508,326	172,888,132
Equity						
Share capital	-	-	-	-	22,741,149	22,741,149
Share premium	-	-	-	-	4,104,046	4,104,046
Advance toward share capital	-	-	-	-	1,400,025	1,400,025
Accumulated losses	-	-	-	-	(2,612,756)	(2,612,756)
General banking risk reserve	-	-	-	-	2,944,457	2,944,457
Fair valuation reserve	-	-	-	-	642,621	642,621
Total equity	-	-	-	-	29,614,958	29,614,958
Liabilities						
Deposit from banks	9,872,985	-	-	17,640,669	-	27,513,654
Deposits from customers	40,297,497	55,450,742	3,755,607	-	-	99,503,846
Borrowings	-	-	-	10,920,248	-	10,920,248
Lease liability	-	-	-	-	3,172,621	3,172,621
Other liabilities	-	-	-	-	2,162,805	2,162,805
Total liabilities	50,170,482	55,450,742	3,755,607	28,560,917	5,335,426	143,273,174
Total Equity and liabilities	50,170,482	55,450,742	3,755,607	28,560,917	34,950,384	172,888,132

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. SEGMENT REPORTING (CONTINUED)

Statement of financial position as at 31 December 2019 in TZS'000	Business Banking	Personal Banking	Microfinance	Treasury	Intersegment	Total
Assets						
Cash and balances with Bank of Tanzania	-	-	-	12,218,789	-	12,218,789
Loans and balances to banks	-	-	-	6,340,933	-	6,340,933
Government securities	-	-	-	13,869,506	-	13,869,506
Equity investment	-	-	-	-	1,804,200	1,804,200
Loans and advances to customers	24,156,207	52,110,240	8,058,849	-	-	84,325,296
Property and Equipment	-	-	-	-	4,895,942	4,895,942
Intangible assets	-	-	-	-	4,124,507	4,124,507
Corporate tax recoverable	-	-	-	-	1,958,826	1,958,826
Right of use Assets	-	-	-	-	6,870,925	6,870,925
Deferred tax asset	-	-	-	-	4,813,686	4,813,686
Other assets	-	-	-	-	971,507	971,507
Total assets	24,156,207	52,110,240	8,058,849	32,429,228	25,439,593	142,194,117
Equity						
Share capital	-	-	-	-	22,741,149	22,741,149
Share premium	-	-	-	-	4,104,046	4,104,046
Advance toward share capital	-	-	-	-	750,000	750,000
Accumulated losses	-	-	-	-	(580,333)	(580,333)
General banking risk reserve	-	-	-	-	1,354,169	1,354,169
Fair valuation reserve	-	-	-	-	478,940	478,940
Total equity	-	-	-	-	28,847,971	28,847,971
Liabilities						
Deposit from banks	-	-	-	11,624,267	-	11,624,267
Deposits from customers	41,528,943	38,789,894	4,118,210	-	751,809	85,188,856
Borrowings	-	-	-	10,253,881	-	10,253,881
Lease liability	-	-	-	-	3,737,989	3,737,989
Other liabilities	-	-	-	-	2,541,153	2,541,153
Total liabilities	41,528,943	38,789,894	4,118,210	21,878,148	7,030,951	113,346,146
Total Equity and liabilities	41,528,943	38,789,894	4,118,210	21,878,148	35,878,922	142,194,117

Items reported under intersegment are those, which are used by all segment and cannot be specifically allocated to any of the segments.

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020	2019
	<u>TZS 000</u>	<u>TZS 000</u>
8. INTEREST INCOME		
Loans and advances	19,568,430	17,654,757
Government securities	2,936,794	1,774,044
Placements	<u>160,025</u>	<u>156,910</u>
	<u>22,665,249</u>	<u>19,585,711</u>
9. INTEREST EXPENSE		
Time deposits	7,428,638	4,821,237
Long term borrowing	1,071,572	857,759
Interbank borrowing	712,210	785,039
Savings deposits	128,196	281,167
Current accounts	21,165	3,051
Finance cost lease liability	<u>276,712</u>	<u>310,819</u>
	<u>9,638,493</u>	<u>7,059,073</u>
10. FEES AND COMMISSION INCOME		
Loan commitment fees	1,262,583	966,146
Ledger fees	1,021,971	926,236
Commission on insurance fees	432,108	403,239
Withdrawal fees	163,383	137,854
Commission charged on transfers	15,121	25,654
Commission on Western Union Transfers	12,091	15,629
Commission on ATM withdrawal charges	12,293	2,823
Commission on mobile banking	263,210	92,544
Other fees and commissions	485,652	279,603
Drafts and transfers	14,030	13,461
Guarantee and indemnities	<u>54,271</u>	<u>75,117</u>
	<u>3,736,713</u>	<u>2,938,306</u>
11. FOREIGN EXCHANGE INCOME		
Foreign exchange dealings gains	<u>151,697</u>	<u>82,950</u>
12. OTHER OPERATING INCOME		
Gain on sale of bonds	228,003	385,873
Other income	<u>519,228</u>	<u>805,507</u>
	<u>747,231</u>	<u>1,191,380</u>
13. STAFF COSTS		
Wages and salaries	5,809,367	5,399,535
Pension and retirement benefits	1,217,783	865,707
Other staff costs	<u>2,520,502</u>	<u>2,294,926</u>
	<u>9,547,652</u>	<u>8,560,168</u>

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020	2019
	TZS '000	TZS '000
14. GENERAL AND ADMINISTRATIVE EXPENSES		
Lending expenses	659,284	631,146
Financial expenses	48,280	11,652
Legal expenses	29,595	26,163
ATM Management expenses	24,979	7,631
Consultancy expenses	48,111	77,468
Security expenses	480,221	481,225
Electricity expenses	252,312	202,597
Cleaning, gardening, and water expenses	145,530	175,001
Telephone expenses	184,812	188,016
Insurance expenses	226,849	240,480
Office rent expenses	266,014	111,130
Stationery and consumables	292,107	294,479
Auditors' remuneration	158,210	172,010
Donations & subscriptions	84,930	99,751
Recruitment expenses	7,174	9,561
(Release)/write off through profit or loss	(227)	53,843
Maintenance expenses (Note 16)	1,458,239	1,383,443
Charge (release) for other risk assets	20,000	(57,705)
Marketing and promotion (Note 17)	387,214	532,257
Cost of meeting with shareholders (Note 18)	209,990	174,062
Other expenses	2,731	-
	4,986,355	4,814,210
15. DEPRECIATION AND AMORTISATION		
Amortization of leasehold improvement	292,834	292,379
Depreciation of motor vehicles	114,684	114,333
Depreciation of Computer and IT equipment	152,720	166,255
Depreciation furniture & fittings and Machinery	400,326	348,960
Depreciation Right of Use Assets	791,864	910,436
Amortization of intangible assets	624,112	617,945
	2,376,540	2,450,308
16. MAINTENANCE EXPENSES		
Maintenance premises, furniture & equipment	151,468	211,522
Motor vehicle fuel and repair	218,233	190,526
Intangible assets, software	1,075,732	974,676
Computer & IT equipment	12,806	6,534
Maintenance office buildings	-	185
	1,458,239	1,383,443
17. MARKETING AND PROMOTION		
Publications	44,356	16,167
Advertisement	10,512	1,460
Magazine and journal	13,137	14,847
Promotion	319,209	499,783
	387,214	532,257

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020	2019
	TZS'000	TZS'000
18. COST OF MEETINGS		
Shareholder's meeting expenses	60,743	101,666
Directors' fees	149,247	72,396
	209,990	174,062
19. INCOME TAX CHARGE		
Income tax expense:		
Current income tax- current year (AMT)	136,504	117,062
- prior year under(over) provision	104,576	(346,737)
Deferred income tax - current year (note 30)	322,191	644,851
- prior year over provision (note 30)	-	(345,683)
	563,271	69,493
Reconciliation of accounting profit to tax charge:		
Accounting profit before income tax	1,016,578	2,107,682
Tax charge at 30%	304,973	632,305
Disallowed expenditure	17,217	12,546
Prior year under(over) provision of income tax	104,577	(346,737)
Prior year over provision of deferred tax	-	(345,683)
Alternative Minimum Tax (AMT)	136,504	117,062
	563,271	69,493
20. CASH AND BALANCES WITH BANK OF TANZANIA		
Cash in hand	3,019,983	1,807,033
Balance with Bank of Tanzania	3,199,655	3,645,996
Cheques in the-course of collection	111,280	120,530
Statutory minimum reserve (SMR)	7,088,715	6,645,230
	13,419,633	12,218,789
Current	13,419,633	12,218,789
The SMR deposit is not available to finance the day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the statement of cash flows (see Note 35). Cash in hand and balances with Bank of Tanzania and SMR are non-interest bearing.		
21. LOANS AND ADVANCES TO BANKS		
	2020	2019
	TZS'000	TZS'000
Balances with other banks	3,178,656	6,310,038
Accrued interest	1,274	30,895
	3,179,930	6,340,933
Current	3,179,930	6,340,933

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. GOVERNMENT SECURITIES AT AMORTISED COST	2020 TZS'000	2019 TZS'000
Treasury bills and bonds with more than three months original maturity	22,572,383	12,277,975
Accrued interest	1,517,355	1,591,531
	24,089,738	13,869,506
Current	2,035,919	8,400,000
Non-current	22,053,819	5,469,506

GOVERNMENT SECURITIES AT FAIR VALUE OCI

Treasury bills and bonds with more than three months original maturity	9,129,197	-
Accrued interest	256,026	-
Fair value gain	233,830	-
	9,619,053	-

TOTAL GOVERNMENT SECURITIES	33,708,791	13,869,506
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As at 31 December 2020, the bank had pledged treasury bonds of TZS 22.6 billion

23. LOANS AND ADVANCES TO CUSTOMERS

Loans to individuals and corporates (23(a))	88,575,325	78,861,291
Loans to solidarity groups	11,385,915	10,860,214
Overdraft facility	4,847,690	3,647,326
	104,808,930	93,368,831

Allowance for credit losses (23(a))	(6,737,478)	(9,043,535)
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At 31 December	98,071,452	84,325,296
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Loan Maturity analysis

With maturity of 3 months or less	10,266,661	8,830,953
With maturity of between 3 months and 1 year	16,818,765	12,580,332
With maturity of more than 1 year	70,986,026	62,914,011
	98,071,452	84,325,296

Movement in allowance for impairment of loans and advances is as follows

At 1 Jan	9,043,535	14,193,716
Impairment release	(264,727)	(1,193,094)
Write offs	(2,041,330)	(3,957,087)
At 31 December	6,737,478	9,043,535

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****23. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)****Additional provision as per Bank of Tanzania Regulations**

	2020	2019
Regulatory Impairment	General Banking risk reserve	General Banking risk reserve
At the beginning of the year	1,354,169	-
Provision during the year	1,590,288	1,354,169
At the end of the year	2,944,457	1,354,169

General banking risk reserve represent additional allowance for losses charged to retained earnings. The reserve is not available for distribution.

24. EQUITY INVESTMENTS AT FVOCI	Interest held	2020 TZS'000	2019 TZS'000
Tanzania Mortgage Refinancing Company	5.0%	1,784,200	1,784,200
Umoja Switch Co. Ltd	8.67%	39,000	20,000
		1,823,200	1,804,200

The Bank has investments in ordinary shares in Tanzania Mortgage Refinancing Company Limited (TMRC) valued at Fair value and Umoja Switch Co. Ltd being founder member of the Switch.

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. PROPERTY AND EQUIPMENT

	Machinery and equipment TZS'000	Furniture, fixture and fitting TZS'000	Computers and IT equipment TZS'000	Generator TZS'000	Motor vehicle TZS'000	Leasehold improvement TZS'000	WIP TZS'000	Total TZS'000
Cost								
As at 1 January 2020	2,054,050	640,274	1,169,316	380,480	793,564	3,307,562	1,907,837	10,253,083
Additions	101,348	27,189	131,630	-	-	-	653,790	913,956
Transfer in/(out)	407,766	25,273	32,946	-	-	5,330	(471,315)	-
Transferred to intangible assets	-	-	-	-	-	-	(1,131,901)	(1,131,901)
At 31 December 2020	2,564,961	692,736	1,333,892	380,480	793,564	3,312,892	958,411	10,036,935
Depreciation								
As at 1 January 2020	1,558,836	537,582	920,780	338,071	593,768	1,408,066	-	5,357,103
Charge for the year	327,225	57,242	152,720	15,858	114,684	292,834	-	960,563
At 31 December 2020	1,886,061	594,824	1,073,500	353,929	708,452	1,700,900	-	6,317,666
Net Book Value	678,900	97,912	260,392	26,551	85,112	1,611,992	958,411	3,719,268

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. PROPERTY AND EQUIPMENT (CONTINUED)

	Machinery and equipment	Furniture, fixture and fitting	Computers and IT equipment	Generator	Motor vehicle	Leasehold improvement	Leasehold building	WIP	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cost									
As at 1 January 2019	1,979,263	604,280	1,055,531	380,480	776,687	3,291,160	4,053,472	1,327,215	13,468,088
Additions	74,789	30,155	113,785	-	4,500	54,657	-	598,861	876,747
Reclassifications to right of use asset	-	-	-	-	-	-	(4,053,472)	-	(4,053,472)
Transfer in/(out)	-	5,900	-	-	12,375	(38,256)	-	(18,275)	(38,256)
At 31 December 2019	2,054,052	640,335	1,169,316	380,480	793,562	3,307,561	-	1,907,801	10,253,107
Depreciation									
As at 1 January 2019	1,300,765	468,791	754,526	316,036	479,433	1,130,955	713,727	-	5,164,233
Charge for the year	258,070	68,855	166,255	22,035	114,333	292,379	-	-	921,927
Reclassification to right of use asset	-	-	-	-	-	-	(713,727)	-	(713,727)
Transfer out	-	-	-	-	-	(15,268)	-	-	(15,268)
At 31 December 2019	1,558,835	537,646	920,781	338,071	593,766	1,408,066	-	-	5,357,165
Net Book Value	495,217	102,689	248,535	42,409	199,796	1,899,495	-	1,907,801	4,895,942

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020	2019
	<u>TZS'000</u>	<u>TZS'000</u>
26. INTANGIBLE ASSETS		
Cost		
At 1 January	7,420,990	7,420,990
Transferred In	<u>1,131,901</u>	<u>-</u>
At 31 December	8,552,891	7,420,990
Amortization		
At 1 January	3,292,931	2,678,538
Charge for the year	624,112	617,945
At 31 December	3,917,043	3,296,483
	<u> </u>	<u> </u>
Net Book Value	<u>4,635,848</u>	<u>4,124,507</u>
27. OTHER ASSETS		
Prepaid expenses	879,480	391,022
Stationery and consumables	440,719	393,614
Mobile banking float	4,113	4,114
Sundry assets	<u>829,641</u>	<u>527,895</u>
	2,153,953	1,316,645
Allowance for other assets	<u>(263,733)</u>	<u>(345,138)</u>
	<u>1,890,220</u>	<u>971,507</u>
Current	<u>1,890,220</u>	<u>971,507</u>
28. INCOME TAX RECOVERABLE		
At 1 January	1,958,826	1,631,681
(Under)/Overprovision of tax in prior period	(104,577)	346,737
Alternative minimum tax charge during the year	(136,504)	(117,062)
Corporation tax paid	<u>221,639</u>	<u>97,470</u>
At 31 December	<u>1,939,384</u>	<u>1,958,826</u>
29. DEPOSITS		
29.a DUE TO OTHER BANKS		
Term deposits	26,889,514	10,910,047
Savings	18,012	18,013
Call deposits	<u>606,128</u>	<u>696,207</u>
	<u>27,513,654</u>	<u>11,624,267</u>
29.b DEPOSITS FROM CUSTOMERS		
Current accounts	9,291,162	10,091,958
Savings deposits	26,341,108	24,672,829
Time deposits	<u>63,871,575</u>	<u>50,424,069</u>
	<u>99,503,846</u>	<u>85,188,856</u>
Current	86,643,438	75,953,834
Non-current	12,860,408	9,235,022

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. DEFERRED INCOME TAX ASSET/(LIABILITY)			
Deferred income taxes are calculated on all temporary differences under the liability method, using the enacted tax rate of 30%			
		2020	2019
		TZS'000	TZS'000
The net deferred tax assets/(liabilities) is attributable to the following:			
Accelerated capital allowances	468,331		260,973
Provisions (loans and other assets)	2,100,364		2,816,601
Loss carried forward	1,637,761		1,524,975
Revaluation Gain on equity Investment (FVTOCI)	(205,260)		(205,260)
Revaluation Gain on Bonds (FVTOCI)	(70,149)		-
Commitment fee	360,910		348,119
IFRS 16 temporary differences	129,389		68,278
At end of the year	4,421,346		4,813,686

The movement on the deferred tax account is as follows as 31 December 2019	December 2019 in TZS'000	Charged to profit or loss in TZS'000	December 2020 in TZS'000
Deferred tax assets/(liabilities) in relation to:			
Property and equipment	260,973	207,291	468,331
Provisions – Loans	2,713,060	(691,817)	2,021,244
Provisions – other assets	103,541	(24,421)	79,120
Loss carried forward	1,524,975	112,854	1,637,761
Commitment fee	348,119	12,791	360,910
IFRS 16 temporary differences	68,278	61,111	129,389
	5,018,946	(322,191)	4,696,755
Revaluation gain on equity investment	(205,260)	-	(205,260)
Revaluation gain on bonds (FVTOCI)	-	(70,149)	(70,149)
	4,813,686	(392,339)	4,421,346

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2020	2019
		TZS'000	TZS'000
31. BORROWINGS			
Tanzania Mortgage and Refinance Corporation (TMRC) (a)		3,500,000	3,500,000
BOT term loan (b)		3,000,000	3,000,000
Self-Microfinance (c)		1,875,000	750,000
CRDB Bank (d)		2,384,489	2,881,400
Interest accrued		160,759	122,481
		10,920,248	10,253,881
Current		3,160,759	1,750,000
Non - Current		7,759,489	8,503,881
		10,920,248	10,253,881

The bank pledged government bonds worth TZS 9.74 billion to secure the borrowing, all borrowings are fully covered except TMRC loans worth TZS 3.5 billion with bond collateral of TZS 1.0 billion. Detailed analysis for each loan is as provided herein below:

a) TMRC term loan

On 15 July 2019, the Bank renewed a mortgage refinancing loan from TMRC of TZS 2.0 billion. The tenor of the loan is five years and bears interest of 7.50% maturing on 15 July 2024. The bank is still paying the loan. The Bank also renewed new loan of TZS 1.5 billion from TMRC on 26 February 2019 at the annual interest rate of 9.00% with maturity date of five years to 26 February 2024.

	2020	2019
	TZS'000	TZS'000
At 1 January	3,500,000	3,500,000
Loan received	-	-
Loan repayment	-	-
At 31 December	3,500,000	3,500,000

b) BOT term loan

On 31 July 2015, the Bank received a housing microfinance loan of TZS 1 billion from the Bank of Tanzania bearing annual interest rate of 10% with maturity date of 31 June 2020 this facility in final procedure to be rebooked. On 31 March 2016 new loan was received of TZS 2 Billion with maturity of 5 years with interest rate of 10% maturing on 31 March 2021.

	2020	2019
	TZS'000	TZS'000
At 1 January	3,000,000	3,000,000
Loan received	-	-
Loan repayment	-	-
At 31 December	3,000,000	3,000,000

c) SELF MICROFINANCE term loan

The Bank received loan of TZS 2 billion in 17 September 2018 with interest rate of 8.7% repayable quarterly. The loan is for three years ending 17 September 2020. Of the TZS 2 billion loans unpaid amount as of 31 December 2019 is TZS 750 million. The bank fully repaid the balance as of 2020 and borrowed TZS 2.5 billion for 2 years with quarterly repayment at a rate of 8.5 percent from 3rd April 2020 to 3rd April 2022

	2020	2019
	TZS'000	TZS'000
At 1 January	750,000	2,090,061
Loan received	2,500,000	-
Repayment	(1,375,000)	(1,340,061)
At 31 December	1,875,000	750,000

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. BORROWINGS (CONTINUED)

d) CRDB bank - term loan

On 22 July 2019 the Bank received loan of TZS 3 billion from CRDB bank Plc, The loan carry annual variable interest rate of 182 T-Bill plus 5% margin (Approx. 10.25% pa) for 5 years repayable on Quarterly basis. The facility maturity date is 22 July 2024. Of this amount, the unpaid principal at year end was TZS 2.88 billion.

	2020 TZS'000	2019 TZS'000
At 1 January	2,881,400	-
Loan received	-	3,000,000
Repayment	(496,911)	(118,600)
At 31 December	2,384,489	2,881,400

32. OTHER LIABILITIES

Accrued expenses	195,283	352,754
Withholding tax	144,369	86,657
Sundry creditors	97,650	109,129
Deferred commitment fees	1,203,033	1,160,397
Dividend payable	392,637	305,971
Account's payables	129,833	526,245
	2,162,805	2,541,153

33. SHARE CAPITAL

Authorized

400,000,000 (2019:400,000,000) ordinary shares of TZS 250/= each

100,000,000 100,000,000

Issued and fully paid ordinary shares

92,363,896 (2019: 92,363,896) shares of TZS 250/= each

22,741,149 23,090,974

Rights issue expenses

- (349,825)

Share capital as per the statement of financial position

22,741,149 22,741,149

34. a) SHARE PREMIUM

92,363,896 (2019: 92,363,896) shares issued at a premium

4,104,046 4,472,086

Rights issue expenses

- (368,040)

Share premium as per the statement of financial position

4,104,046 4,104,046

b) ADVANCE TOWARDS SHARE CAPITAL

1,400,000 750,000

This relates to funds received from the shareholders as deposit for shares. These are non – refundable.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35. EARNINGS PER SHARE

Basic earnings/(loss) per share

Basic earnings/ (loss) per share amounts are calculated by dividing net profit/(loss) for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year. The calculation is based on:

	2020	2019
Profit(loss) attributable to ordinary shareholders (TZS'000)	453,306	2,038,189
Weighted average number of ordinary shares	92,363,896	92,363,896
Basic earnings/(loss) per share - TZS	5	22

Diluted loss per share was the same as basic loss per share as the Bank had no potentially dilutive ordinary shares in issue.

36. CASH AND CASH EQUIVALENTS

	2020 TZS'000	2019 TZS'000
Cash and balances with Bank of Tanzania (excluding SMR) (Note 20)	6,219,638	5,453,029
Balances with other banks (Note 21)	3,179,930	6,340,933
Cheques in the course of collection (Note 20)	111,280	120,530
	9,510,848	11,914,492

37. NET DEBT RECONCILIATION

	2020 TZS'000'	2019 TZS'000'
The analysis and movement of the Bank's net debt is as follows;		
Cash and cash equivalents (Note 36)	9,510,848	11,914,492
Due to other banks	(27,513,654)	(11,624,268)
Borrowings repayable after one year	(7,759,489)	(10,253,881)
Net debt	(25,762,295)	(9,963,657)
Cash and cash equivalents (Note 36)	9,510,848	11,914,49
Gross debt – fixed interest rate	(35,273,143)	(21,878,149)
Net debt	(25,762,295)	(9,963,657)

	Assets Cash and cash equivalents TZS'000	Liabilities from financing activities Due to other banks TZS'000	Borrowings TZS'000	Total TZS'000
At 1 January 2020	11,914,49	(11,624,268)	(10,253,881)	(9,963,657)
Net cash flows	(2,403,644)	(15,889,386)	2,494,392	(15,798,638)
Net debt	9,510,848	(27,513,654)	(7,759,489)	(25,762,295)
At 1 January 2019	12,158,52	(19,271,481)	(8,590,061)	(15,703,020)
Net cash flows	(244,030)	7,647,213	(1,663,820)	5,739,363
Net debt	11,914,492	(11,624,268)	(10,253,881)	(9,963,657)

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. LEASES	2020 TZS' 000	2019 TZS' 000
(i) Right-of-use assets		
At start of the year	7,781,361	7,781,361
Additions	-	-
At the end of year	7,781,361	7,781,361
Accumulated Depreciation		
At start of the year	910,436	-
Depreciation charge for the Year	791,865	910,436
	1,702,301	910,436
NBV at the end of year	6,079,060	6,870,925
(ii) Lease liabilities		
At start of the year	3,737,989	4,301,232
Additions	-	-
Finance cost (included in interest expense)	276,712	310,819
Payment during the year	(842,080)	(874,062)
At the end of year	3,172,621	3,737,989
Current	640,886	876,000
Non-current	2,531,735	2,861,989
	3,172,621	3,737,989

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39. RELATED PARTY DISCLOSURES

The Bank is owned by UTT AMIS (25.02%), Dar es Salaam City Council (7.4%), Ilala Municipal Council (6.88%), Kinondoni Municipal Council (6.50%), Temeke Municipal Council (3.7%), National Health Insurance Fund (6.5%), Ubungu Municipal Council (2.7%), Kigamboni Municipal Council (2.4%) and the General Public (39.23%).

	2020 TZS'000	2019 TZS'000
Loans to key management personnel:		
Loans outstanding at the beginning of the year	1,064,110	770,417
Loan additions during the year	358,700	1,205,867
Loan repayments during the year	(382,768)	(912,174)
Loans outstanding at the end of the year	1,040,042	1,064,110
Interest income earned	83,203	85,129
Loans to shareholders:		
Loans outstanding at the beginning of the year	-	-
Loan additions during the year	-	-
Loan repayments during the year	-	-
Loans outstanding at the end of the year	-	-
Interest income earned	-	-
Deposits from Directors and key management personnel:		
Deposits at the beginning of the year	271,490	151,575
Deposits received during the year	1,639,762	2,142,340
Deposits repaid during the year	(1,826,519)	(2,022,425)
Deposits as at the end of the year	84,733	271,490
Interest expense	1,695	4,072
Deposits from shareholders		
Deposits at the beginning of the year	16,939,447	14,692,510
Deposits received during the year	12,058,820	16,488,651
Deposits repaid during the year	(24,562,745)	(14,241,714)
Deposits as at the end of the year	4,435,522	16,939,447
Interest expense	88,710	254,092
Key management compensation		
Salaries and other short-term benefits	1,639,762	1,748,363
Post-employment benefits – Social security costs	243,843	298,040
	1,883,605	2,046,403

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

Business relationship with the anchor Shareholders

The Bank continues to strengthen its relationship with the Municipal Councils, UTT and NHIF via different deposits products. Deposits received and paid from during the year is indicated above.

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

39. RELATED PARTY DISCLOSURES (CONTINUED)	2020	2019
	<u>TZS'000</u>	<u>TZS'000</u>
Directors' remuneration		
Directors' remuneration- short term benefits	<u>149,247</u>	<u>72,396</u>
40. CONTINGENT LIABILITIES AND COMMITMENTS	2020	2019
	<u>TZS'000</u>	<u>TZS'000</u>
Contingent liabilities		
Guarantees and indemnities	2,120,702	1,475,129
Undrawn balance	1,464,021	935,423
	<u>3,584,723</u>	<u>2,410,552</u>
Capital expenditure	<u>99,591</u>	<u>99,591</u>

Capital commitment for the year 2020 comprises capital expenditure software.

Commitments to extend credit and guarantees

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards.

Legal claims

Litigation is a common occurrence in banking industry due to the nature of the business. The Bank has established protocol for dealing with such legal claims. Once professional advice has been obtained and the number of damages reasonably estimated, the bank adjusts account for any adverse effects which the claims may have on its financial standing. At year end the bank had legal claims of which the total loss expected in the worst-case scenario is TZS 20 million (2019:75 million)

41. DIVIDEND PER SHARE

Dividends are not recognized as a liability until they have been approved at the Annual General Meeting. In 2020 no dividend is proposed (2019: TZS 500 million).

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42. IMPACT OF COVID-19 PANDEMIC

COVID-19 has affected both countries and companies causing disruptions by interrupting operations, dwindling demand which led to implementation of measures such as quarantine, travel bans and total lockdowns in many parts of the world. The cost of mitigating COVID-19 and measures implemented by governments globally led to financial challenges and impacted a wide range of industries, including the financial sector.

The pandemic negatively affected world's economy in turn affects forward-looking information, including impact of on macroeconomic variables to forecast the future probability of default, recovery rate and cure rate for the purposes of Expected Credit Loss (ECL) computation were given. Its unmeasurable and unpredictable to ascertain both social and economic impact.

Liquidity crunch was experienced in the economy and posse Credit risk to the bank. The Bank assisted customers to absorb the impact of COVID-19 pandemic by providing relief measures on a case-by-case basis and these include.

- Restructure of customers loans to match their expected cash flows.
- Provided a moratorium period of up to 3 months to affected customers such as schools, restaurants, importers, and exporters.

43. EVENTS AFTER THE REPORTING DATE

(i) Change of Shareholding structure

In February 2021, the president of united republic of Tanzania upgraded Ilala Municipal council to Dar es Salaam city council. This decision changed our shareholding structure and made Dar es Salaam City Council be the second largest shareholder as here under.

Name	No. of shares	Value of shares TZS	% holding
UTT-AMIS	23,211,479	5,802,869,750	25.13
Dar es Salaam City Council	13,189,520	3,297,380,000	14.28
National Health Insurance Fund	6,000,000	1,500,000,000	6.50
Kinondoni Municipal Council	5,625,019	1,406,254,750	6.09
Temeke Municipal Council	3,422,252	855,563,000	3.71
Ubungu Municipal Council	2,500,009	625,002,250	2.71
Kigamboni Municipal Council	2,281,502	570,375,500	2.47
Other 7,269 members	36,134,115	9,033,528,750	39.12
Total share capital	92,363,896	23,090,974,000	100.00

(ii) Regulatory requirement on cost to income ratio and NPL ratio

Bank of Tanzania introduced regulatory requirements for bank and financial institution operating in Tanzania to have cost to Income ratio of less than 55 percent and Non-performing loans of less 5 percent. The financial institution required to comply by 31 December 2022 and effectively from 22nd January 2021 all financial institution with ratio above acceptable limits are restricted from paying dividends and bonuses. DCB Commercial Bank plc cost to income ratio and Non-performing loans as at 31 December 2020 is 96% and 12% respectively.

DCB commercial bank plc has put strategies in place including Branch optimization, operational efficiency through technology and automations, deposit growth and channel optimization. All these initiatives will enable the bank to comply with required limits as stipulated in the Bank's 5 years plan.