

ANNUAL REPORT AND FINANCIAL STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020



**GROWING
STRONGER**



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All employees of the Bank are expected to demonstrate the following values in their daily activities and in decision making.

Accountability: We are accountable for our own actions and decisions.

Integrity: We act with honesty and honor without compromising the truth.

Respect for the individuals: We value diversity and unique contributions.

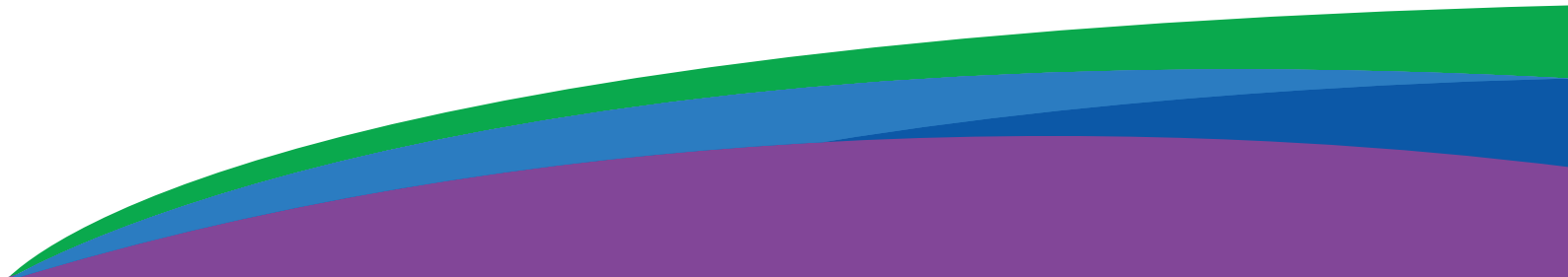
Caring for Community: We are responsive to our community in which we operate.

Empowerment: We encourage our employees to be innovative and use their skills for the best of the bank.

Innovation: We are skilled, competent and innovative. We create new ways of life to our customer.



Kesho Yake, Inajengwa Leo Na
Junior Accounts





To grow our business whilst investing on communities that we serve and improving the lives of our employees. We strive to provide competitive and innovative financial services to all stakeholders and the society.

I am delighted to welcome you all on behalf of the Board of Directors to the 7th Annual General Meeting of "Maendeleo Bank Plc" for the Financial Year 2020, being held today here at Msasani Hall and through Video Conference. It is in a different setting that we normally meet; the COVID -19 pandemic has disrupted the conventional ambience, and that we are now exposed to a new normal. It is wonderful to see many of you joining in from different parts of the country and overseas. I extend my special thanks to all of you for joining us virtually. I gratefully acknowledge your continued trust and support extended to the Bank that has enabled us to proceed ahead over the years. The Directors' Report and the Audited Financial Statements for the Year ended December 31, 2020 are already with you, and with your permission, I assume you have read them.

The Operating Environment

Before I present the performance of the Bank, I would like to briefly share with you the present macroeconomic and banking scenarios. The onset of the COVID-19 pandemic has affected all countries. In spite of all the challenges that have been through we thank God who has sustained us.

The entire banking sector has been affected through borrowers who have not been able to pay promptly, thus contributing to a higher level of non-performing loans – a factor which the regulators watch very closely.

Performance of the Bank

The Managing Director's Report provides the details of our performance. I am glad to report that, despite the challenges in the operating environment, it was yet another prosperous year for us, as the Bank recorded an impressive performance, thanks to all Stakeholders. I am pleased to report that, the Bank registered an after-tax profit of TZS 718Mn as of December 2020, which has increased substantially from TZS 231Mn registered last year 2019. With this achievement, the Board was bracing itself to declare a cash dividend, but the regulatory authority pre-empted that intent – for reasons considered to protect all stakeholders in the sector. We are looking for possibility of getting a waiver on the regulatory requirements to allow us make a cash dividend declaration.

Dividend Recommendation

The existing dividend payout policy enables the bank to reward Shareholders 50% of the net profit, while simultaneously reserving funds for the implementation of growth strategy.

Therefore, the Board of Directors recommends a cash dividend payout for the year ending 31st December 2020 upon receipt of a waiver from the regulator. This matter will be presented to you under the respective agenda of this meeting.

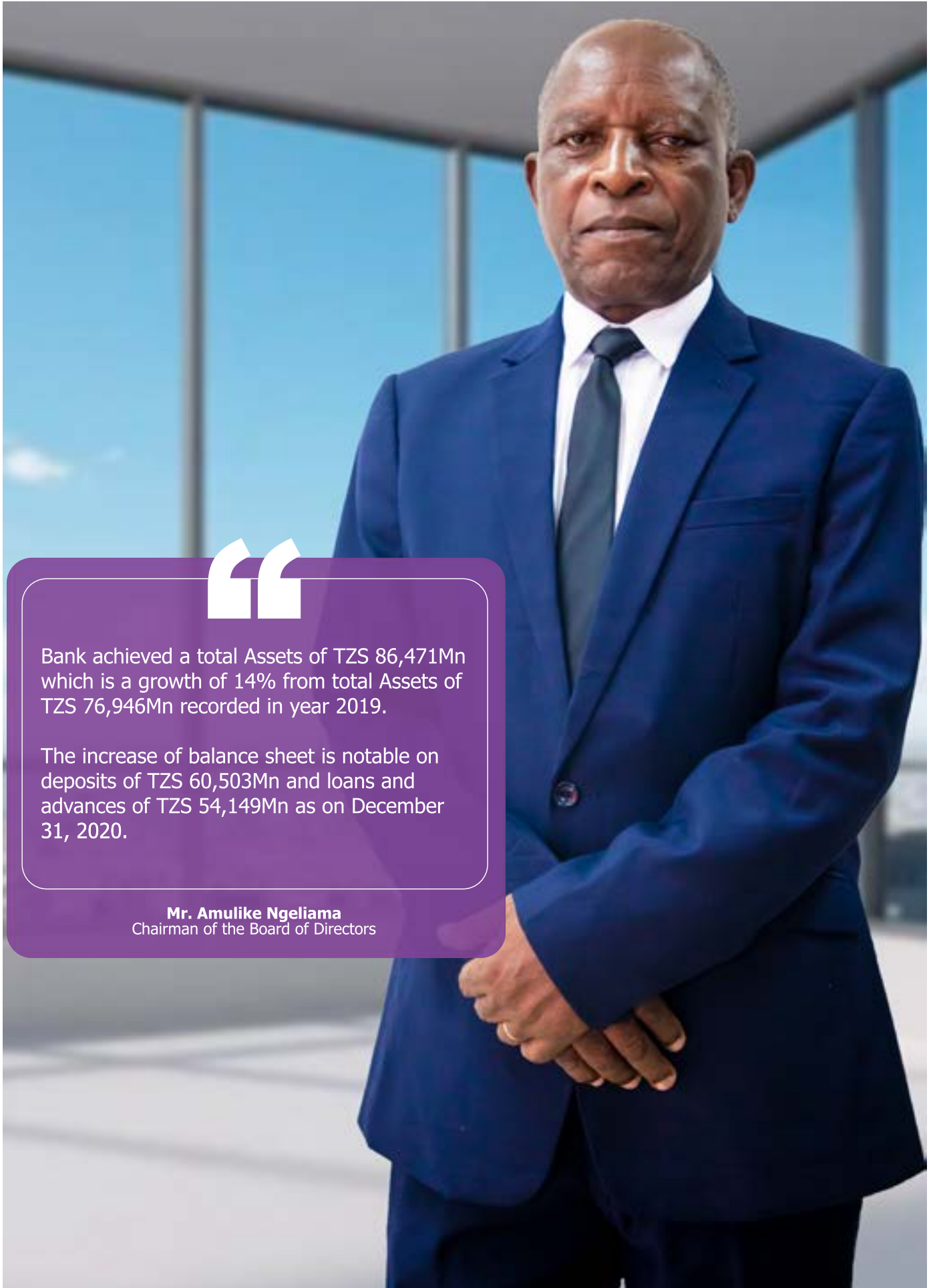
Corporate Governance

The bank continued with implementation of its core activities of providing banking and related services to the public as stipulated in its strategic Plan 2017 -2021.

At the close of the year 2020, the bank had a Board of nine Directors, eight of whom are non-executives and the Managing Director of the Bank as an ex-officio member. The Board continues to delegate the day-to-day operations to the Managing Director who is assisted by Management team.

Corporate Social Responsibility (CSR)

The Bank is committed to integrate social and environmental concerns in its business operations in line with the CSR Policy. During 2020, the Bank spent TZS 5.17Mn towards CSR activities against TZS 4.1Mn in 2019. The Bank had also initiated a program of Management Trainees whereby the best three students in the Business Administration course offered by Tumaini University Dar es salaam College are taken by the bank



Bank achieved a total Assets of TZS 86,471Mn which is a growth of 14% from total Assets of TZS 76,946Mn recorded in year 2019.

The increase of balance sheet is notable on deposits of TZS 60,503Mn and loans and advances of TZS 54,149Mn as on December 31, 2020.

Mr. Amulike Ngeliama
Chairman of the Board of Directors

for a one-year practical training program.

Risk Management:

The risk management strategy of the Bank is designed to develop and implement policies and procedures that are continuously evaluated and benchmarked to avoid challenges that come into the sector. Through continuous refinement / improvement of the risk measurement / management systems, including automation of feasible processes, the Bank aims to ensure regulatory compliance while ensuring better returns through good utilization of capital in line with the business objectives.

Looking ahead in confronting challenges posed by the Covid-19 pandemic, the Bank focuses on maintaining a sustainable asset quality, managing costs, controlling NPLs to a sustainable level, applying the credit risk management tools and developing implementable strategies for achieving the annual business plan.

Acknowledgement

I take this opportunity to express my deep sense of gratitude to the Bank of Tanzania, the CMSA, TIRA, DSE and other stakeholders for their strong support and guidance, during the year. The Board also places on record its gratitude to the Bank's Shareholders and Customers for their continued support, patronage and goodwill. The Board further places on record its appreciation for the valuable services rendered by M/s Ernst & Young, our Statutory auditors, during their tenure at Maendeleo Bank PLC.

Conclusion

My mark of achievement is that I and my Board should be able to upgrade the bank to a national bank status before I vacate the Chair. That is my prayer.

Thank you, Ladies and Gentlemen for your valuable time and attention.



Mr. Amulike Ngeliama
Chairman of the Board of Directors
Maendeleo Bank Plc.



Mr. Amulike Ngeliama
Board Chairman



Mr. Naftal M. Nsemwa
Board Member



Prof. Ulingeta Mbamba
Board Member



Mrs. Anna Mzinga
Board Member



Rev. Wilbroad Mastai
Board Member



Ms. Dosca K. Mutabuzi
Board Member



Ms. Joyce Mapunjo
Board Member



Dr. Emmanuel Manasseh
Board Member



Rev. Dr. Ernest W. Kadiva
Board Member



Dr. Ibrahim Mwangalaba
Managing Director and Board Secretary

Introduction

I am honoured to present to the esteemed Shareholders the bank's performance report for the financial year 2020. As may be recalled that during last year's Annual General Meeting, I thanked our Board Members, Ambassador Richard Mariki and other two, for their tremendous contributions to the Bank following their retirement from our Board of Directors.

Today, it is with great sadness to report to you that Ambassador Richard Mariki is no more, he had unexpected passed away. Ambassador Richard Mariki's legacy can be seen far and wide beyond his own family, whom he aggressively loved. A big part of his legacy is the impact he had on the many, many people he mentored, coached, and encouraged. He demonstrated an unshakable commitment to integrity and good corporate governance while serving on the various boards including Maendeleo Bank Plc.

Our sympathies go out to his wife Amalya and the Mariki family. You remain in our thoughts.

Economic and Banking Scenarios

At the onset of the COVID-19 pandemic, leading economists called for swift policy action to mitigate the economic damage (Baldwin and Weder di Mauro 2020). Bank of Tanzania promptly took forceful and unprecedented actions to avoid a financial crisis and sustain the supply of credit. Consequently, while the initial collapse in economic activity was enormous, advanced economies generally exhibited rapid rebounds during the summer and early fall.

The steps taken by Bank of Tanzania (BoT) to maintain stability in the financial sector and to ensure there is guidance in relation to increased non-cash transactions were as follows;

1. Statutory Minimum Reserves (SMR)

The BoT lowered the SMR requirement from 7% to 6%. Pursuant to the BoT Act 2006, the BoT may require banks or financial institutions to maintain minimum cash balances as reserves against the deposit and other liabilities of the banks and financial institutions. This policy measure has often been taken by the BoT in the past given prevailing economic conditions and has proven effective to spur economic growth in the market.

2. Discount Rate

In anticipation that banks may require additional funding from the BoT in light of COVID-19 pandemic liquidity challenge, reduced the discount rate from 7% to 5%. The discount rate is the rate at which the BoT lends to banks which enabled banks to borrow additional funds from the BoT at a lower discount rate to cushion to their liquidity need during the time and being able to return within two weeks.

3. Haircuts on Government Securities

In relation to government securities, the BoT has reduced haircuts on Treasury Bills from 10 percent to 5 percent and on treasury bonds from 40% to 20% marking a significant change which was made to increase the ability of commercial banks to borrow from the BoT with less collateral than before. Haircuts are the difference between the current market value of an asset and the amount that can be used as collateral for a loan.



718 Mil
Profit



43,000
Customers



255
Agents
Maendeleo Wakala



Despite of all the challenges during the year 2020 we have managed to report yet another year of impressive financial performance. The bank profit after tax grew by 211% from TZS 231Mn to TZS 718Mn

Dr. Ibrahim Mwangalaba
Managing Director

4. Regulatory Flexibility on Restructuring of Loans

BoT permitted regulatory flexibility in order for banks and financial institutions to discuss restructuring of loans with borrowers who were facing financial difficulty due to the pandemic.

5. Mobile Money Operators

BoT also increased daily transaction limits for mobile money customers from TZS 3.0Mn to TZS 5.0Mn as well as increased daily balance amounts from TZS 5.0Mn to TZS 10.0Mn for all mobile money platforms. This was the aim that would enhance the concern with congestion in public places such as banks during pandemic.

Nonetheless, the degree of economic uncertainty is still extraordinarily high, reflecting a combination of upside and downside risks to the economic outlook caused by the pandemic.

Financial Results

Competition remained high in 2020 as commercial banks had to align their service delivery with digital transformation. The current customer taste and preference is convenience in getting banking service through digital platform. With this, banks are not competing with Mobile Network Operators rather partnering with them in the journey towards improving customer service, creating convenience and accessibility through digital banking.

Despite of all the challenges during the year 2020 we have managed to report yet another year of impressive financial performance. The bank profit after tax grew by 211% from TZS 231Mn to TZS 718Mn.

This good performance was derived from both interest and non-interest income streams. Interest income grew to TZS 11,010Mn in 2020, up from TZS 8,838Mn recorded in 2019 which is the growth of 25%.

The increase was mainly attributable to growth on interest income from loans and advances that grew to TZS 9,379Mn from TZS 7,608Mn in 2019 and interest income from investments that grew to TZS 1,217Mn from TZS 661Mn in 2019. However, non interest income decreased from TZS 1,582 Mn recorded in 2019 to TZS 1,399 recorded in 2020 due to slow insurance business affected by policy change resulting to closure of 7 sales points across the country.

On the other hand, interest expenses increased by 25.5% in 2020 to TZS 4,511Mn compared to TZS 3,593Mn recorded in 2019 mainly due to cost of obtaining funds mainly through fixed deposit and borrowing.

Non-interest expenses during the year increased by 10% to TZS 6,310Mn from TZS 5,731Mn in preceding year. The increase was due to business expansion mainly acquisition of agency banking equipment which increased depreciation amount and marketing costs.

Balance sheet grew by 14% from Total Assets of TZS 76,144Mn in year 2019 to TZS 86,679Mn recorded in 2020. The increase is notable on loans and advances to TZS 54,150Mn from TZS 47,969Mn signifying 14% growth. An increase financed by customer deposits, increased by 11% to TZS 60,503Mn from TZS 54,652Mn and borrowings increased by 84% to TZS 9,932Mn from TZS 5,412Mn in 2019.



14%
Total Assets



11%
Bank's Deposits



14%
Loans Growth

The bank's non-performing loans ratio was 13% which is above the regulatory requirement of 5%. The high non-performing loans was highly caused by negative economic impact caused by COVID-19 pandemic resulting to most businesses collapsing or failing to generate income to pay the loans. This forced the bank to increase loans provision which eventually affected the NPL ratio and profitability.

This is a year in which we continued to strengthen a transformation process as the world transform due to changes caused by COVID-19. More focus during the year eyed on effectively and efficiently financial service delivery through digital banking platform which is the current market desire. We were able to open 255 agents in various regions in order to meet this demand. We have opened agencies in Dar es salaam, Coastal Region, Zanzibar, Dodoma, Iringa, Mbeya, Mwanza, Shinyanga, and Ruvuma. Our ambition is to become a scalable and digitally led bank in the country, especially for banks of our size.

The challenges faced in 2020 are not expected to ease in 2021; however, most of the required adjustments to cope with new macro economic conditions have been made and the bank is in good shape to implement a strategy of Operational Efficiency in 2021. This strategy seeks to drive transaction volumes within the bank's network of 3 branches and one new branch at Mbezi Luis which will start in June 2021 all supported by effective Digital Channels with a view of increasing our non-funded income substantially.

Looking on all these changes, it gives me a sense of satisfaction over the manner the bank is transforming business, people, processes and systems to achieving the best customer experiences and enhanced of Shareholder's value.

I am confident that our strategic objectives, steeped as they are in our values, will fuel profitable growth and good performance on our financial objectives as we establish ourselves as a premier bank. Thanks to our Board of Directors, Shareholders, Regulators and Employees for a remarkable support during the year.



Dr. Ibrahim Mwangalaba
Managing Director.



1. Dr. Ibrahim Mwangalaba
Managing Director

2. George Wandwalo
Head of Operation and ICT

3. Said Kapilima
Head of Internal Audit

4. Richard Mashiku
Head of Human Resources

5. Peter Tarimo
Head of Finance

6. Mumi Philip
Head of Credit

7. Emmanuel Mwaya
Business Development Manager



Always deliver with quality, while continuing creating customised products and services to cater all need of our customers and community at large.

Magreth Msengi
Branch Manager Luther House

David Jason
Branch Manager Kariakoo

Aneth Mahondo
Branch Manager Mwenge

Maendeleo Bank strongly believes in being responsible to our community in which we operate by being a good corporate citizen through giving back to the community touching the lives and empowering the disadvantaged groups.

CSR reminds us to be bold to our commitment as a bank beyond our core business objectives, as a responsible and ethical participant at helping the needy society.



Head of Operations and ICT, Mr. George Wandwalo together with other Staff donating blood.

Mandeleo Bank Staff donating blood.





Managing Director Dr. Ibrahim Mwangalaba, handing over cleaning equipments donated by the bank to Ferry Market Manager Mr. Dennis Mrama



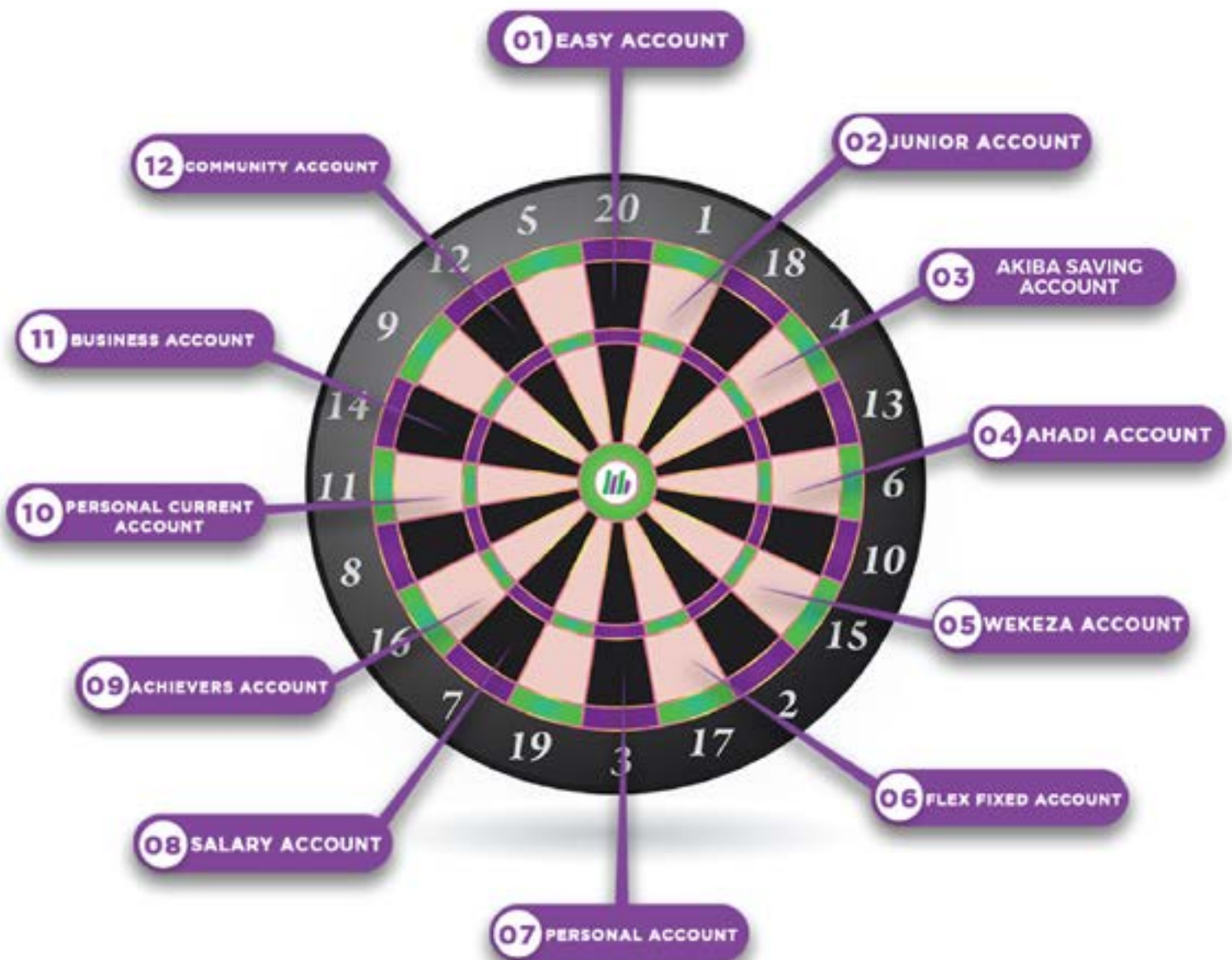
Managing Director Dr. Ibrahim Mwangalaba together with other Maendeleo Bank staff cleaning the Ferry Market.



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1. CORPORATE GOVERNANCE

The Directors consider corporate governance as a key to good performance of the Bank. In view of this, the Directors continued to strengthen good governance system by reviewing policies in the areas of the Board and Board Committees' activities and general management of the Bank. Board guidelines, committees' charters and policies of the Bank were reviewed and approved during the period.

Chairman and Managing Director

The Chairman is a non-executive Director, and the roles of the Chairman and the Managing Director are separate, with their responsibilities clearly defined. The Chairman is responsible for leading the Board and ensuring its effectiveness. The Managing Director is responsible for the execution of the Bank's strategy, policies and the day-to-day business of the Bank, supported by Management and Executive Committees which he chairs.

Board Structure

The Board comprises of nine (9) Directors including Chairperson and Vice Chairperson. Members of the Board were elected by the Shareholders during Annual General Meeting of 22nd June 2019 and vetted by Bank of Tanzania.

Board Meetings

The Board of Directors and the Committees are each required to meet at least four times a year, i.e. once in every quarter, one Annual General Meeting for Shareholders and Extra Ordinary Meetings when an urgent matter arises.

During the period ended 31 December 2020 the Board held five meetings which deliberated on the Bank's policies, Bank's performance as well as the Bank's 2021 budget.

Committees of the Board

As at 31 December 2020 the Board had two Committees namely the Audit and Risk Committee and the Credit Committee. The activities of the Committees are governed by the Committee's charter approved by the Board.

Audit and Risk Committee

The committee had 7 meetings during the year. The external auditors were invited and attended two meetings, to present their audit plan and audited financial statements for the year ended 31 December 2020. The Managing Director and all Senior Members of Staff attended all the meetings as invitees.

CORPORATE GOVERNANCE (continued)

Audit and Risk Committee (continued)

The Audit and Risk Committee has the following members:

NAME	POSITION	AGE	QUALIFICATIONS
Mrs. Anna T. Mzinga	Chairperson	44	MBA - Finance, Open University of Tanzania, Advanced Diploma in Accountancy - Institute of Finance Management CPA (T)
Ms. Joyce Mapunjo	Director	63	MBA International Finance LOYOLA University Chicago, Masters in Banking from Milan Italy, Bachelor of Commerce UDSM
Prof. Ulingeta Mbamba	Director	59	Phd (Problems of Information management MBA Management Science
Ms. Angela Mwageni	Secretary	36	LLM - UDSM, LLB University of the Witwatersrand, Post Graduate Diploma in Law (Law School of Tanzania)

The Board Audit and Risk Committee reviewed significant accounting policies and financial reporting systems to ensure that they are adequate and are complied with at all times. It reviewed adequacy of internal control systems and monitored implementation of actions to address issues raised by internal auditors, BoT examination and external auditors. The Secretary of the Audit and Risk Committee is Angela Mwageni who is a Legal Officer of the bank.

The Head of Internal Audit functionally reports directly to the Committee. On annual basis, the Committee reviews and approves the internal audit work plan and budget for the year while ensuring that it covers all high-risk areas in the banking operations. The Committee also receives reports of findings observed by internal auditors on quarterly basis for review and recommendation to the Board.

Credit Committee

The Credit Committee monitors performance and quality of the credit portfolio, appraises and approves loans within its credit approval limit and recommends to the Board for approval facilities beyond its limit. The Committee reviews the Credit Policy and ensures that it contains sound fundamental principles that facilitate the identification, measurement, monitoring and control of credit risk as well as having appropriate plans and strategies for credit risk management.

During the period, the committee had seven meetings.

The Credit Committee has the following members:

NAME	POSITION	AGE	QUALIFICATIONS
Mr. Naftal M. Nsemwa	Chairperson	74	PGD in Project Analysis (Institute of Social Studies, The Hague) ; Bachelor of Arts (Economics) UDSM, Certificate in Investment Appraisal and Management (University of Harvard)
Ms. Dosca K. Mutabuzi	Director	63	Master of Business Administration (MBA) – University of Wales-UK, Bachelor of Laws(LI.B), UDSM, High Court Advocate
Dr. Emmanuel Mannasseh	Director	42	Phd (System Cybermetics) Hiroshima University, Japan, Masters of Eng (Artificial Complex System) Hiroshima University, Japan, BSc. Telecommunications Engineering UDSM
Ms. Angela Mwangeni	Secretary	36	LLM (Corporate Commercial Law) UDSM, LLB (Law) University of the Witwatersrand, Post Graduate Diploma in Law (Law School of Tanzania)

2. MANAGEMENT

The Management of the Bank is under the Managing Director and is organized in the following departments:

- Finance Department
- Credit Department
- Business Development
- Human Resources Department
- Information Communication Technology and Operations Department, and
- Internal Audit Department

3. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the Bank. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

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

The efficiency of any internal control system is dependent on the strict observance of prescribed procedures. There is always a risk of non-compliance of such procedures by staff. Whilst no system of internal control can provide absolute assurance against misstatement 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. The Board believes that the internal control system met accepted criteria.

4. PRINCIPAL RISKS AND UNCERTAINTIES

Operational, fraud and financial risks are the principal risks that may significantly affect the Bank's strategies and development. Below are the descriptions of the operational, fraud and financial risks facing the Bank and the related management controls in place:

Fraud risk

There is a general increase in fraudulent transactions in the Banking industry in Tanzania. Management has put in place several controls to mitigate the fraud risk. These controls include:

- The Bank has adequate segregation of duties in each sensitive area of the operations which include cheque handling, Automated Teller Machine (ATM) card and Personal Identification Number (PIN) controls and strong room,
- The Bank has adequate internal reports generated by system on daily basis that helps detection of any misappropriations and irregularities, and,
- The Bank has an Internal Auditor who provide assurance on the bank's operations and serve as a protection against any future risk.

Operational risk

This is a risk resulting from the Bank's activities not being conducted in accordance with the formal procedures put in place including non-compliance with Know Your Customer (KYC) and account opening procedures. Management ensures that the Bank complies with KYC and other internal procedures. Management has put in place several controls to mitigate the operational risk including the following:

- The Bank has operational manual for its daily activities, which provides adequately procedures and rules of attending every activity of the Bank,
- The Bank has several policies, which guide the operations of every department and units in a bank, and
- The Bank has a system of making sure every transaction and event concluded has proper supervision and authorization.

Financial risk

The Bank's activities expose the bank to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Management has put in place several controls to mitigate the financial risk including the following:

- The Bank has adequate policies that guide each operation relating to financial risk like credit policy, financial policy and Asset and Liability Committee (ALCO) policy,
- Management has internal reports that serve as red flags which puts attention to management in thoroughly reviewing the respective operations like net open position, exchange rates and general asset revaluation, and
- The Bank has in place insurance policies that cover for credit life Insurances for its borrowers.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce profit in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Bank.

Liquidity risk

Liquidity risk is the risk that a Bank is unable to meet its 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. The Bank's liquidity management process, as carried out within the Bank and monitored by the Asset and Liability Committee (ALCO) of the Bank, include:

- 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 reborrowed 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 balance sheet liquidity ratios against internal and regulatory requirements.

5. CAPITAL STRUCTURE

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

NAME OF SHAREHOLDER	NUMBER OF SHARES	% Ownership
United Evangelical Mission	2,980,326	12%
Diocese Institutions	2,750,161	11%
ELCT- Eastern & Coast Diocese	1,435,407	6%
Companies & Saccos	874,134	4%
ELCT – Retirement Scheme	1,175,734	5%
ELCT – HEAD OFFICE	335,000	1%
Other Individuals	15,087,358	61%
Total	24,638,120	100%

6. STOCK EXCHANGE INFORMATION

The shares of the Bank were listed in the Dar es Salaam Stock Exchange (DSE) on 5th November 2013 and became the first company listed at the point of its establishment. As at the end of the year 31 December 2020 the Bank's shares were traded at TZS 490 each. In September 2016 and 2018 Maendeleo Bank Plc was nominated and awarded as the best listed Company under Enterprise Growth Market (EGM) by Dar Es Salaam Stock Exchange (DSE).

7. RESULTS AND DIVIDEND

The bank recorded a profit after tax of TZS 717,718,000 during the year under review as reported by Managing Director in his statement above. The Board of Directors recommend payment of dividend for the year ended 31st December 2020 subject to BoT approval as reported above.

8. KEY PERFORMANCE FOR THE YEAR AS OF DECEMBER 2020

8.1. Budget vs Actual

Details	Budget TZS`000	Actual TZS`000	Achieved (%)
Account numbers	40,762	39,494	97%
Agency Banking Outlets	250	285	114%
Customer deposits	62,946,068	60,503,267	96%
Loans and advances	54,157,274	54,149,583	99.9%
Interest Income	10,768,758	11,010,779	102%
Interest Expense	4,780,045	5,510,763	94%
Fees, Commission and other income	1,160,999	1,342,790	116%
Total Assets	89,849,000	86,679,381	96%
Non-Performing Loans	5%	13%	-160%
Profit After Tax	208,102	717,718	345%

9. FUTURE DEVELOPMENTS PLANS

The Bank's future plans is to expand leveraging on digitalization technology by pushing establishment of agency banking as we cautiously open physical branches in order to have a wide presence that can serve its customers better by providing easier access to banking services. During the current five years strategic plan, the Bank has planned to increase its branch networks to upcountry regions, which couldn't happen due to unfulfilled regulatory requirement of attaining the national wide banking license. As at 31 December 2020, the bank had three branches, i.e. Luther House, Mwenge and Kariakoo branch, the fourth branch is expected to be opened in June 2021.

The introduction of mobile phone banking has enabled customers to access basic banking and utility services such as electricity, water, and DSTV subscription payments, purchase of airtime, balance enquiry, money transfers, bank statements and foreign exchange rate requests among others. Similarly, the Bank has introduced Timiza Vikoba product, this is a group loans using mobile phones to serve customers in areas where the Bank does not have a physical branch presence.

The bank has introduced Bodaboda and Bajaji loans, the loans are designed to empower youths from unemployment and hence creates personal independence, national revenue and bank income via loan interest.

The Bank intends to continue being profitable through introduction of innovative products, focusing on value added customer services and selective expansion of its branches while carefully managing both costs and risks. The Bank will continue to focus on improving productivity and introducing new products to the market.

10. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions during the year with related parties were conducted at terms and conditions similar to those offered to other clients and in the normal course of business.

11. EMPLOYEES WELFARE

Management and employees' relationship

There were continued good relations between employees and management for the year 2020. There were no unresolved complaints received by management from the employees during the year. Management took measures to build strong workplace relations by ensuring that employees lived up to the standards of the institutions culture and values while maintaining effective communication at all levels. Staff meetings were conducted at branch, department and corporate levels whereby staffs were able to participate in helping shape the future of the organization.

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 facilities

During the year, the Bank spent TZS 25,792,500 on staff training where by 37 staff benefitted from these training against 34 staff benefitted in 2019. They acquired new knowledge and skills which led to the enhancement of business performance.

Health Medical Care to support

All members of staff and their spouses up to a maximum number of four beneficiaries (dependents) for each employee were availed with medical services by the Bank through an external service provider.

Employees contribution plan

The Bank has a statutory requirement to contribute to the fund preferred by the employee, which is a defined contribution scheme. The Bank contributes 10% of employee's gross emoluments to the scheme.

Compensation benefits

The Bank has a statutory requirement to contribute to the Workers Compensation Fund with effect from 1st July 2015. The main purpose of the Fund is to provide compensation benefits when employees suffer occupational injuries, contract occupational diseases or die as a result of employment related reason(s). The Bank contributes 1% of the employees' earnings.

Gender Parity

Bank gives gender equal opportunities to all Tanzanians during recruitment and filling of positions provided they have the required qualifications and ability. Out of the total number of employees in the Bank as at 31st December 2020:

Gender	2020	2019
Male	49	52
Female	26	28
Total	75	80

12. CORPORATE SOCIAL RESPONSIBILITY

The bank has a Corporate Social Responsibility (CSR) policy, which provides guidelines for the identification and management of corporate social responsibility programs.

13. RELATIONSHIP WITH STAKEHOLDERS

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

14. ENVIRONMENTAL CONTROL

The Bank is committed to the prevention of environmental pollution and is in compliance with relevant environmental laws in the area it operates as a minimum standard and seek; to implement best practices wherever possible.

15. ACCOUNTING POLICIES AND CRITICAL JUDGEMENT AND ESTIMATES

Results of the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. When preparing the financial statements, it is the Directors' responsibility under the Tanzania Companies Act 2002 to select suitable accounting policies and to make judgments and estimates that are reasonable and prudent. The accounting policies that are deemed critical to the results and financial position, in terms of the materiality of the items to which the policies are applied and the high degree of judgment involved, including the use of assumptions and estimation.

16. FIDUCIARY RESPONSIBILITY

Members of the Board of Directors as stewards of public trust always acted for the good of the bank rather than for the benefit of themselves throughout the period. Reasonable care was exercised in all decisions taken by the bank without placing the Bank under unnecessary risks.

17. PREJUDICIAL ISSUES

There are no prejudicial issues that may affect the Bank.

18. INDEPENDENT AUDITORS

M/s Ernst & Young, Certified Public Accountants, Dar es Salaam, were appointed as the independent auditors of Maendeleo Bank PLC for the year ended 31 December 2020. The auditors have expressed their willingness to continue in office. A resolution proposing the appointment of auditors of the Bank for the year ending 31 December 2021 had been put to the Annual General Meeting.

Approved by Board of Directors for issue in and signed on its behalf by:



Amulike S. K. Ngeliama
Chairperson
Date: 19 June 2021



ARE YOU COVERED?

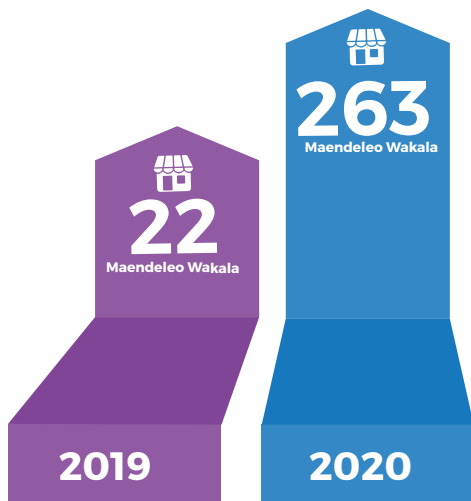
Shield your Properties with Maendeleo



For more info:

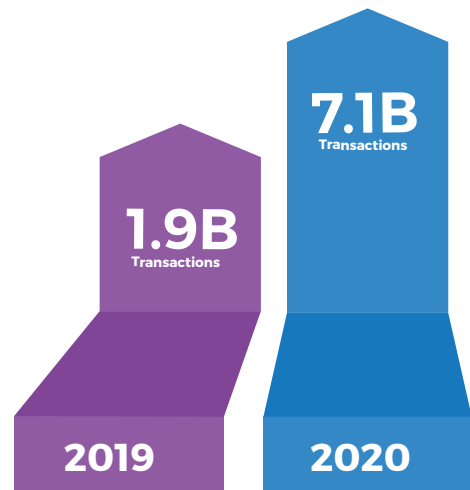
0800 750 089 | +255 677 014 875

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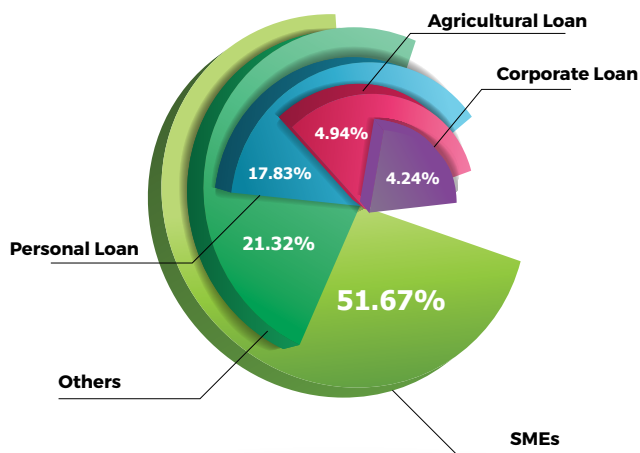


Maendeleo Wakala Outlets

Maendeleo Wakala Transactions



Your Title



Loans Distribution 2020

Next Stop:

Mbezi Luis

Maendeleo Bank New Branch



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

The Companies Act of Tanzania requires the Directors to prepare financial statements for each financial year, which 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 operating results of the Bank for that year. It also requires the Directors to ensure that the Bank keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the annual 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 and the requirements of the Companies Act of Tanzania and Banking and Financial Institutions Act, 2006 of Tanzania. 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 its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Maendeleo Bank PLC will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by Board of Directors for issue in and signed on its behalf by:



Amulike S. K. Ngeliama

Chairperson

Date: 30th March 2021

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

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

It is the duty of a Professional Accountant to assist Maendeleo Bank Plc to discharge the responsibility of preparing financial statements showing true and fair view of the entity's financial position and performance in accordance with applicable International Financial Reporting Standards and the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 of Tanzania. Full legal responsibility for the preparation of financial statements rests with the Board of Directors of Maendeleo Bank Plc as indicated under the statement of directors' responsibilities.

I, CPA Peter B. Tarimo, being the Head of Finance of Maendeleo Bank Plc, hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2020 have been prepared in compliance applicable International Financial Reporting Standards and the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 of Tanzania.

I, thus confirm that the financial statements give a true and fair view position of Maendeleo Bank Plc as on that date and that they have been prepared based on properly maintained financial records.

Signe/d by



Position: Head of Finance

NBAA Membership No: ACPA 3270

Date: 30th March 2021

To the shareholders of Maendeleo Bank PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Maendeleo Bank Plc (the "Bank") set out on pages 25 to 116, which comprise the statement of financial position as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2020, and the financial performance and cash flows of the Bank for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context. We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provided the basis for our audit opinion on the accompanying financial statements.

No.	Key audit matter	How our audit addressed the key audit matter
1	<p>Credit risk and impairment of loans and advances to customers</p> <p>As at 31 December 2020, the provision for impairment on loan and advances at Amortized Cost was TZS 884 million as disclosed in note 8(a) in the financial statements. This represents the estimation of expected credit losses at the year-end.</p> <p>The IFRS 9 Expected credit losses (ECLs) approach is applicable to financial assets. ECLs represent management's best estimate of the losses expected to be incurred at the reporting date.</p> <p>The Bank assesses the contractual terms of the financial assets to identify whether they meet the Solely Payments of Principal and Interest test. The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses.</p> <p>The determination of appropriate provisions for impairment is a key audit matter as it requires management judgement, is subject to estimation uncertainty and relies on available data. Areas which involve judgement and estimates include determination of probability of default (PDs), exposure amount given default (EAD) and ascertaining of future cash flows which the Bank will obtain when realizing the assets pledged as collaterals.</p> <p>The management is required to estimate probability and exposures at defaults. This involves consideration of certain factors including macro-economic variables such as inflation and economic growth.</p> <p>There is a risk that the provision for impairment of financial assets does not represent a complete and accurate estimate of expected losses and that the carrying amounts of these items is misstated. This includes the risk that the ECL model is not in compliance with IFRS 9. The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in Note 2.12.1 to the financial statements.</p>	<ul style="list-style-type: none"> • We undertook an assessment of the company's methodology and compared it with the requirements of IFRS 9. • We reviewed the application of the business model to existing portfolios and reviewed the results of the Solely Payments of Principal and Interest test for relevant financial instruments. • We evaluated the design and operating effectiveness of the company's key controls and IT controls around credit management, ECL model and provision assessment. • We tested key controls over completeness and accuracy of data inputs to loan loss provisioning. • We assessed management's judgements and assumptions in relation to 'significant increase or decrease in credit risk' and the allocation of loans to various categories basing on levels of risks. • We tested a sample of loans to ensure that they have been included in the correct stages depending on how they are aged in accordance with the Bank's methodology and IFRS 9. • We reviewed the IFRS 7 disclosures for adequacy.

Other Information

The directors are responsible for the other information. The other information comprises the information included in Directors' Report page 4-17, Statement of Directors' Responsibilities in page 18 and the Declaration by the Head of Finance in page 19. The other information does not include the financial statements and our

auditor's report thereon. The directors are responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 of Tanzania, 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 processes.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 Bank'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 Bank'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 Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

This report, including the opinion, has been prepared for, and only for, the Bank's members as a body in accordance with the Companies Act, 2002 of Tanzania and for no other purposes.

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

- We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit;
- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books;
- The Directors' Report is consistent with the financial statements;
- Information specified by law regarding directors' remuneration and transactions with the Bank is disclosed; and
- The statements of financial position and statements of profit or loss and other comprehensive income are in agreement with the books of account.

As required by the Banking and Financial Institutions (External Auditors) Regulations, 2014 of Tanzania, we report to you, based on our audit, that;

- In our opinion, the capital adequacy ratios as presented in Note 20 to the financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 of Tanzania.

The engagement partner on the audit resulting in this independent auditor's report is
Neema Kiure-Mssusa (FCPA 1227)

Ernst & Young
Certified Public Accountants
Dar es Salaam



Signed by:

Dr. Neema Kiure-Mssusa (FCPA 1227) _____

Date: 30th March 2021

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

	Note	2020 TZS'000'	2019 TZS'000'
Revenue			
Interest income calculated using the effective interest method	5	11,010,779	8,837,698
Interest expense calculated using the effective interest method	6	(4,510,763)	(3,592,985)
Net Interest income		6,500,016	5,244,713
Written off bad loans	8(b)	-	(60,253)
Impairment losses	8(a)	(884,841)	(604,799)
Net Interest income after Impairment		5,615,175	4,579,661
Fees, commission and other income	7(a)	1,364,564	1,517,448
Fees and commission expenses	7(b)	(21,774)	(22,878)
Net fees, commission and other income		1,342,790	1,494,570
Net operating income		6,957,965	6,074,231
Foreign exchange gain/(loss)	9	34,225	64,711
Employee benefit expenses	10	(2,638,483)	(2,612,054)
General and administration costs	11	(2,818,887)	(2,351,681)
Depreciation and amortization	22	(831,482)	(744,345)
Operating expenses		(6,254,627)	(5,643,369)
Profit for the year before tax		703,338	430,862
Income tax credit/(expense)	12	14,380	(199,731)
Profit for the year		717,718	231,131
Other comprehensive income		-	-
Total comprehensive income for the year	717,718		
Basic and diluted earnings per share	13	29.13	9.65

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 TZS'000'	2019 TZS'000'
ASSETS			
Cash and balances with Bank of Tanzania	15	6,711,432	8,157,843
Placements and balances with other banks	16	7,376,347	7,006,471
Government securities	17	13,370,912	6,207,183
Loans and advances to customers	18	54,149,583	47,968,864
Inventories	19	2,615	30,576
Other assets	20	1,479,689	3,121,466
Intangible assets	23	259,291	404,327
Property, equipment and right of use	22(a)	1,306,905	1,491,999
Leasehold improvements	22(b)	627,207	730,740
Income tax receivable	21	-	300,227
Deferred tax	12	1,395,400	724,155
Total assets		86,679,381	76,143,851
EQUITY AND LIABILITIES			
EQUITY			
Share capital	31	11,862,201	11,548,946
Share premium		547,335	484,68355
Advance towards share capital	31.3	548,230	511,965
Regulatory reserves	29	2,667,872	640,916
Retained earnings		(828,089)	481,149
Total equity		14,797,549	13,667,659
LIABILITIES			
Deposits	24	60,503,267	54,652,181
Other liabilities	25	1,170,303	2,411,833
Borrowings	27	9,931,793	5,412,178
Income tax payable	21	276,469	-
		71,881,832	62,476,192
Total Equity and Liabilities		86,679,381	76,143,851

These financial statements were approved by the Board of Directors for issue on 30th March 2021 and were signed on its behalf by:

Name: Dr. Ibrahim Mwangalaba Title: MD Signature: [Signature]

Name: AMULIKE NGELIAM Title: CHAIRMAN Signature: [Signature]

STATEMENT OF CHANGE IN EQUITY AS AT 31 DECEMBER 2020

	Share Capital	Advance share Capital	Share Premium	Regulatory Reserve	General reserve	Retained Earnings	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Balance at 1 Jan 2020	11,548,946	511,965	484,683	640,916	-	481,149	13,667,659
Transfer to Capital from Advance share	313,255	(313,255)	-	-	-	-	-
Transfer from advance share capital to share premium	-	(62,652)	62,652	-	-	-	-
Issue of Shares	-	-	-	-	-	-	-
Transfer from Retained Earnings to General and Regulatory reserve	-	-	-	2,026,956	-	(2,026,956)	-
Profit for the year	-	-	-	-	-	717,718	717,718
Advance towards share capital	-	412,172	-	-	-	-	412,172
At 31 December 2020	11,862,201	548,230	547,335	2,667,872	-	(828,089)	14,797,549
Balance at 1 Jan 2019	10,260,880	2,139,378	55,616	228,827	301,496	756,302	13,742,499
Transfer to Capital from Advance share	1,430,944	(1,430,944)	-	-	-	-	-
Transfer to R/E from General Reserve	-	-	-	-	(301,496)	301,496	-
Advance towards share capital	-	115,683	-	-	-	-	115,683
Transfer from R/E to Capital(script dividend)	-	395,690	-	-	-	(395,690)	-
Transfer to share premium from advance share	-	(286,189)	286,189	-	-	-	-
Transfer to Share Premium from share capital	(142,878)	-	142,878	-	-	-	-
Transfer from Retained Earnings to General and Regulatory reserve	-	-	-	412,089	-	(412,089)	-
Profit for the year	-	-	-	-	-	231,130	231,130
Advance towards share capital	-	(421,653)	-	-	-	-	(421,653)
At 31 December 2019	11,548,946	511,965	484,683	640,916	-	481,149	13,667,659

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 TZS`000	2019 TZS`000
Cash flows from operating activities			
Profit for the year before tax		703,338	430,862
Adjustments for:			
Amortization of intangible assets	22(b)	203,018	109,010
Interest on lease liability	22(a)	37,350	82,046
Written-off bad loans	8b	-	60,253
Interest expense on borrowings	6	757,975	367,829
Impairment on financial assets	8(a)	884,841	604,799
Depreciation on property and equipment	22(a)	490,113	505,297
Amortization of leasehold improvements	22(c)	138,351	130,037
		3,214,986	2,290,133
Changes in operating assets and liabilities			
Increase in loans and advances		(7,065,559)	(5,438,425)
Decrease/(increase) in inventories		27,961	(28,152)
Decrease/(Increase) in placements with other banks		369,876	(1,529,995)
Decrease/(increase) in other assets		1,639,323	(1,628,076)
Increase in customer's deposits		6,674,956	6,374,428
Movement in statutory minimum reserve	15	219,551	(82,421)
(Decrease)/increase in other liabilities		(976,756)	1,237,478
Income tax paid	21	(80,170)	(77,666)
Interest paid on lease liability	22(a)	(37,350)	(82,046)
Cash generated from operating activities		3,986,818	1,035,258
Cash flows from investing activities			
Purchase of government securities	17	(6,925,141)	(2,169,847)
Acquisition of intangible assets	22	(57,982)	(194,251)
Acquisition of property and equipment	22	(305,019)	(151,152)
Leasehold improvements costs incurred	22	(34,818)	1
Net cash used in from investing activities		(7,322,960)	(2,515,249)
Cash flows from financing activities			
Increase in Borrowings	27	6,000,000	2,000,000
Repayment of borrowings	27	(1,480,385)	(587,822)
Interest paid on borrowings	27	(757,975)	(367,829)
Repayment of principal portion of lease liability		(277,162)	(270,781)
Paid up share capital/right Issue		412,172	115,682
Net cash generated from financing activities		3,896,650	889,250
Net (decrease)/increase in cash and cash equivalents		560,508	(590,741)
Cash and cash equivalents 1 January		10,613,581	11,204,322
Cash and cash equivalents 31 December	32	11,174,089	10,613,581
Additional information on operational cash flows from interest and dividend			
Interest received		11,008,414	8,825,026
Interest paid		4,538,392	3,720,594

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2020

1. REPORTING ENTITY

Maendeleo Bank PLC is a public limited company established under Companies Act No. 2 of 2002 with Certificate of Incorporation No. 81006 and domiciled in the United Republic of Tanzania. The shareholding structure comprises various church institutions, Individuals, ELCT-Eastern and Coastal Diocese and United Evangelical Mission. The Bank is engaged in the business of banking and provision of related services.

The address of the registered office is as follows:

Luther House Sokoine Drive,
P.O. Box 216,
Dar es Salaam.

The Bank's shares are listed on the Dar es Salaam Stock Exchange (DSE) under Enterprise Growth Market (EGM).

The Bank's financial statements for the year ended 31 December 2020 were approved for issue by the Board of Directors on 31st March 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

2.1 Statement of compliance

These financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

2.2 Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the Tanzania Companies Act 2002 and the Banking and Financial Institution Act, 2006 has been included where appropriate. The financial statements comprise statement of profit or loss and other comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes to the financial statements.

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) and the amounts are rounded to the nearest thousand shillings except where otherwise indicated.

The preparation of financial statements in accordance 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 areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.3.1 Changes in accounting policy and disclosures

(i) *New and amended standards and interpretations*

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2020, unless otherwise stated.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the Bank as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "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." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements, nor is there expected to be any future impact to, the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the financial statements of the Bank.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. This amendment had no impact on the financial statements of the Bank.

Definition of a Business - Amendments to IFRS 3

The amendments clarify that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. They also clarify that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have 'the ability to contribute to the creation of outputs' rather than 'the ability to create outputs'. These amendments had no impact on the financial statements of the Bank.

2.3 Foreign currency translation

2.4.1 Functional and presentational currency

The financial statements are presented in Tanzania shillings ('the functional currency') and the amounts are rounded to the nearest thousand shillings except where otherwise indicated.

2.4.2. Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non-trading activities are taken to other operating income/expense in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

2.5. Recognition of interest income

2.5.1. The effective interest rate method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost, Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges). If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method. For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

2.5.2. Interest and similar income/expense

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the statement of profit or loss and other comprehensive income for both interest income and interest expense to provide symmetrical and comparable information.

In its Interest income/expense calculated using the effective interest method; the Bank only includes interest on those financial instruments that are set out in Note 2.5.1 above. The Bank calculates interest income

on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired (as set out in Note 2.12.1 and is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 2.12.1) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

2.6. Fee and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Bank's fee and commission income from services where performance obligations are satisfied over time include the following:

Loan commitment fees: These are fixed annual fees paid by customers for loan and other credit facilities with the Bank. The Bank promises to provide a loan facility for a specified period. As the benefit of the services is transferred to the customer evenly over the period of entitlement, the fees are recognised as revenue on a straight-line basis. Payment of the fees is due and received monthly in arrears.

Fee and commission income from providing services where performance obligations are satisfied at a point in time include the following:

Underwriting fees: These fees are received for underwriting of life and general insurance covers for customers. The Bank's performance obligation is to provide underwriting services to these customers on behalf of the insurance companies. The bank recognises commission income for each insurance cover issued as per the agreement with the insurance companies.

The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

2.7. Contract balances

The following are recognised in the statement of financial position arising from revenue from contracts with customers:

Fees and commissions receivables included under 'Other assets', which represent the Bank's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). These are measured at amortised cost and subject to the impairment provisions of IFRS 9.

2.8 Financial instruments – initial recognition

2.8.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of

financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

2.8.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.10.1.1 and 2.10.1.2. Financial instruments are initially measured at their fair value (as defined in Note 2.9), except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

2.8.3. Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

2.8.4. Measurement categories of financial assets and liabilities

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 2.10.1
- FVOCI, as explained in Notes 2.10.2 and 2.10.3

2.9. Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the reporting date.

Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.

Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.. Details of this are further explained in Note 36 Fair value measurement.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

2.10. Financial assets and liabilities

2.10.1. Due from banks, Loans and advances to customers and government securities, financial investments at amortised cost.

The Bank measures Due from banks, Loans and advances to customers and other financial investments at amortised cost only if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

2.10.1.1. Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Bank's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

2.10.1.2. The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.10.3. Borrowed funds

After initial measurement, borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral

part of the EIR.

2.10.4 Financial guarantees and undrawn loan commitments

The Bank issues financial guarantees and loan commitments. Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and an ECL allowance as set out in Note 8 (a). The premium received is recognised in the income statement in Net fees and commission income on a straight-line basis over the life of the guarantee.

Undrawn loan commitments are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL are disclosed in Note 26.1

2.11. Derecognition of financial assets and liabilities

2.11.1. Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be Purchases or Originated Credit Impaired (POCI).

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Bank considers a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

2.11.2. Derecognition other than for substantial modification

2.11.2.1. Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset.
Or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents, including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset
Or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.11.2.2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.12. Impairment of financial assets

2.12.1. Overview of the ECL principles

The Bank records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as financial instruments. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit losses or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit losses (12mECL) as outlined in Note 2.12.2). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 37.3.3.3.

The 12mECL is the portion of LTECLs that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECL and 12mECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 37.4.3.4.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 37.4.3.4

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired (as outlined in Note 36.3.3.1.) The Bank records an allowance for the LTECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2.12.2. The calculation of ECL

The Bank assess on a forward-looking basis the expected credit loss ('ECL') associated with its debt instrument assets carried at amortised cost and 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 effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value. Provisions for ECL for undrawn loan commitments are assessed as set out in Note 18.1.

The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For loans considered credit-impaired (as defined in Note 18.1), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.
- Loan commitments: When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECL is calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within Provisions.
- Financial guarantee contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are

discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECL related to financial guarantee

- contracts are recognised within Provisions.

2.12.3. Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance

2.12.4. Credit and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects its expectations of customer behaviour, the likelihood of default and its future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECL for these products, is five years for corporate and seven years for retail products.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 37.3.3.3, but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECL for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently not charged interest.

The calculation of ECL, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 8 on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2.12.5. Forward looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Central Bank base rates
- House price indices

The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. There were no overlays as a result of COVID 19.

2.13. Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject

to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECL. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

Guarantees held are included in the measurement of loan ECLs when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended.

Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL. Credit default swaps are not considered to be integral to a loan's contractual terms and are accounted as derivative financial instruments, as set out in Note 8(a)

2.14. Collateral repossessed

The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the Bank's policy.

In its normal course of business, the Bank engages external agents to recover funds from the repossessed assets, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

2.15. Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2.16. Forborne and modified loans

The Bank sometimes makes concessions or modifications to the original terms of loans as a response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a loan forborne when such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Bank would not have agreed to them if the borrower had been financially healthy. Indicators of financial difficulties include defaults on covenants, or significant concerns raised by the Credit Risk Department. Forbearance may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms. It is the Bank's policy to monitor forborne loans to help ensure that future payments continue to be likely to occur. Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off.

When the loan has been renegotiated or modified but not derecognised, the Bank also reassesses whether there has been a significant increase in credit risk, as set out in Note 37.3.3.3. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contracts that are more than 30 days past due

Details of forborne assets are disclosed in Note 36.3

If modifications are substantial, the loan is derecognised, as explained in Note 2.15.

2.17. Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with central bank and amounts due from banks on demand or with an original maturity of three months or less and government securities with maturities of less than 3 months.

2.18. Repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognised in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank

2.19. Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralised by securities or cash. The transfer of the securities to counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability. Securities borrowed are not recognised in the statement of financial position, unless they are then sold to third parties, in which case, the obligation to return the securities is recorded as a short sale within financial liabilities held for trading and measured at fair value with any gains or losses included in net trading income.

2.20 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2.20.1 Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying

asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 21 Property, equipment and right-of-use assets and are subject to impairment in line with the Bank's policy as described in Note 2.26 Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs. Lease liabilities are presented within other liability in the statement of financial position (Note 25). occurs. The incremental borrowing rate is 7.5%.

2.21. Property, equipment and right-of-use assets

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates. Right-of-use assets are presented together with property and equipment in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation of owned assets is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Leasehold improvements 5 years
- ATM and Generator 5 years
- Motor Vehicle 4 years
- Furniture and fittings, office machine and equipment 4 years
- Computer hardware 3 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition 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 when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate

2.22. Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Bank determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any

provision is presented in the income statement net of any reimbursement in other operating expenses. Detailed disclosures are provided in Note 31.2.

2.23. Taxes

2.23.1. Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rate and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Detailed disclosures are provided in Note 21.

2.23.2. Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in profit or loss.

The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Bank's intention to settle on a net basis.

2.24.3. Levies and similar charges

The Bank recognises the liability arising from levies and similar charges (such as City Service Levy) when it becomes legally enforceable (i.e. when the obligating event arises) which is on 31 December each year.

2.25. Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and are no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

2.26. Intangible assets

Intangible assets 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.

The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. The amortization is calculated using straight-line method to write down the cost of intangible assets to their residual value over their estimated useful lives as follows:

Description of item	Useful life
Computer software	3 Years

Gains or losses arising from the de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is de-recognised.

2.27. Impairment of non-financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. Impairment exists when the carrying amount of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. Impairment losses of continuing operations are recognised in profit or loss in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

2.27. Impairment of non-financial assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2.28. Inventories

Inventories are stated at the lower of cost or net realizable value. Inventory costs are determined on a first in first out basis and comprise all expenditures that have been incurred in the normal course of business in

bringing the stocks to their present location and condition.

Net realizable value represents the estimated selling price in the ordinary course of business less estimated cost of disposal

2.29. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2)

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis. The standard is effective for annual period beginning on or after 1st January 2021. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. Management is in a process of assessing the impact of the standard

Reference to the Conceptual Framework – Amendments to IFRS 3.

The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendment does not have an impact to the Bank. The amendment is effective for annual periods beginning on or after 1 January 2022.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The standard is effective for annual periods beginning on or after 1 January 2022. The standard will not have impact to the Bank.

Classification of Liabilities as Current or Noncurrent - Amendments to IAS 1.

IAS 1.75A has been added to clarify that the 'classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. That is, management's intention to settle in the short run does not impact the classification. This applies even if settlement has occurred when the financial statements are authorised for issuance. The amendment is effective for annual periods beginning on or after 1 January 2023. The amendment will not have an impact to the Bank.

2.30. Classes of financial instruments

The bank's financial instruments are categorised as follows:

Category (as defined by IFRS 9)		Class (as determined by the Bank)	2020 TZS '000'	2019 TZS '000'
Financial Assets		Cash and bank balances with Bank of Tanzania	6,711,432	8,157,843
		Loans and Advances to Banks	54,149,583	47,968,864
		Other assets (Note 20)	1,076,513	2,404,462
		Investment in Government Debt securities Government securities	13,370,912	6,207,183
Financial liabilities	Financial liabilities at amortised cost	Deposits from Banks and Customers	60,503,267	54,652,181
		Borrowings and other liabilities	9,931,793	5,412,178
		Other liabilities (Note 25)	1,040,931	1,290,637

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

3.1. Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

3.1. Impairment losses on financial assets

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs

- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy is to regularly review its models in the context of actual loss experience and adjust when necessary (Note 37.3.4). The carrying amounts of the affected assets are included in notes 15,16,17,18 & 20.

3.2. Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

The potential impact of the COVID-19 pandemic on the key statement of financial position line items could include impairment of placements with other banks and amounts due from customers if the banks and customers were to be significantly affected by the pandemic. At the time of issuing the financial statements, the directors had no reason to believe that this is likely to happen. Furthermore, the directors believed that the Bank will be a going concern for the foreseeable future having considered the available assets and the directors' specific responses and actions.

Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3.3. Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value please see Note 36.

3.4. Effective Interest Rate (EIR) method

The Bank's EIR method, as explained in Note 2.2.1, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to Bank's base rate and other fee income/expense that are integral parts of the instrument.

3.5. Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Although in Bank tax losses can be utilised indefinitely, judgement is required to determine the amount of deferred tax assets that can be recognised,

based on the likely timing and level of future taxable profits, together with future tax-planning strategies (see Note 12)

3.6. Provisions and other contingent liabilities

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent t//o its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in Bank and in other jurisdictions, arising in the ordinary course of the Bank's business.

When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates. For further details on provisions and other contingencies see Note 33.

3.7. Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. Construction of significant leasehold improvements or significant customisation of the leased asset).

3.8. Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.).The Bank estimates the IBR using observable inputs (such as market interest rates)).

4. SEGMENT INFORMATION

The Bank revenue is derived from loans and advances issued to customers and banks (as disclosed in note 18) and the Board of Directors relies primarily on revenue from loans and advances to assess performance. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the Statement of profit or loss and other Comprehensive income. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the financial statements.

The entity-wide information (required by IFRS 8 Operating Segments) relating to products and services, geographic areas and significant customers is not available and hence is not reviewed by the CODM. The cost of obtaining such information is considered to be excessive.

5. INTEREST INCOME

	2020 TZS'000'	2019 TZS'000'
Interest on Government Securities	1,217,178	660,867
Placements and balances with other banks	415,038	569,234
Loans and advances to customers	9,378,563	7,607,597
Total interest and similar income	11,010,779	8,837,698

6. INTEREST AND SIMILAR EXPENSE

Interest expense calculated using the effective interest method

	2020 TZS'000'	2019 TZS'000'
Interest on placements with other banks	118,204	219,283
Time deposits	3,597,234	2,923,827
Interest on borrowings	757,975	367,829
Interest expense on lease liabilities (Notes 22(a) & 25)	37,350	82,046
Total interest and similar expense	4,510,763	3,592,985

7. NET FEES AND COMMISSION INCOME

a) Fees, commission and other income	2020 TZS'000'	2019 TZS'000'
Commission received from insurance services	184,661	185,127
Commission received from other services	401,651	407,422
Application fee	650,244	770,770
Payroll processing fee	32,785	26,059
Other fee-Current Account charges	95,223	128,070
	1,364,564	1,517,448

The Bank presented disaggregated revenue based on the type of services provided to customers as follows:

Dec-20	Retail Banking	Corporate Banking	Total
Fee income earned from services that are provided over time			
Loan commitment fees	548,021	102,223	650,244
	548,021	102,223	650,244
Fee income from providing financial services at a point in time:			
Brokerage fees insurance	155,631	29,030	184,661
Payroll processing fees, withdrawal and mobile banking services	446,393	83,266	529,659
	1,150,045	214,519	1,364,564

Dec-19	Retail Banking	Corporate Banking	Total
Fee income earned from services that are provided over time			
Loan commitment fees	649,600	121,170	770,770
	649,600	121,170	770,770
Fee income from providing financial services at a point in time:			
Brokerage fees insurance	156,024	29,103	185,127
Payroll processing fees, withdrawal and mobile banking services	473,271	88,280	561,551
	1,278,895	238,553	1,517,448

b) Fees and commission expense			
Bank charges		21,774	22,878

8. IMPAIRMENT LOSSES/WRITE-OFF

a) IMPAIRMENT LOSSES

Dec-20	Stage 1 TZS'000'	Stage 2 TZS'000'	Stage 3 TZS'000'	Total TZS'000'
Due from banks (Note 16)	-	-	-	-
Loans and Advances from customers (Note 18)	199,377	384,691	300,773	884,841
Financial guarantees (Note 26)	-	-	-	-
Total Impairment loss	199,377	384,691	300,773	884,841

Dec-19	Stage 1 TZS'000'	Stage 2 TZS'000'	Stage 3 TZS'000'	Total TZS'000'
Due from banks (Note 16)	(5,334)	-	-	(5,334)
Loans and Advances from customers (Note 18)	175,095	95,530	251,253	503,361
Financial guarantees (Note 26)	106,772	-	-	106,772
Total Impairment loss	258,016		300,977	604,799

b) WRITTEN OFF BAD LOANS

	2020 TZS'000'	2019 TZS'000'
Loans and Advances (Note 18)	-	60,253

9. FOREIGN EXCHANGE GAIN/LOSS

	2020 TZS'000'	2019 TZS'000'
Exchange gain on trading	21,572	79,400
Exchange gain/(loss) on valuation	12,653	(14,689)
	34,225	64,711

10. EMPLOYEE BENEFIT EXPENSES

	2020 TZS'000'	2019 TZS'000'
Salaries and allowances	2,118,997	2,152,527
Pension costs- defined contribution plan	216,277	165,108
Skills and Development Levy	98,018	103,079
Leave allowance	183,711	169,812
Workman's compensation	21,480	21,528
	2,638,483	2,612,054

11. GENERAL AND ADMINISTRATION EXPENSES

	2020 TZS'000'	2019 TZS'000'
Office expenses	2,244,071	1,877,050
Annual general meeting	47,717	30,631
Legal fees	84,893	44,080
Directors' remuneration	18,525	18,791
Board expenses	136,865	107,781
Auditors' remuneration	65,500	65,500
Accounting fees	3,683	4,519
Property and equipment maintenance cost	122,482	83,928
Fuel cost	65,816	87,082
Staff welfare	27,452	29,247
Other expenses	1,883	3,072
	2,818,887	2,351,681

Maendeleo Bank is subject to a city service levy. The levy is applied to total turnover paid on quarterly basis. The levy is applied at a rate of 0.3% and is not deductible for corporation tax.

There were no costs incurred for network development in 2020 (2019: TZS 3,239,880); these costs were sitting under Office expenses in 2019. Administrative expenses include expenses relating to short-term leases of TZS 4,394,080 and to leases of low-value assets of TZS 2,500,000; the expense paid equals the cash paid during the year.

12. INCOME TAX

The components of income tax expense for the years ended 31 December 2020 and 2019

	2020 TZS'000'	2019 TZS'000'
Current income tax (Note 21)	656,865	39,195
Current income tax – prior period	-	(261,749)
Deferred tax - current period (Note 12.2)	(353,775)	150,544
Deferred tax – prior period	(317,470)	271,741
	14,380	199,731

12.1 Reconciliation of the total tax charge

The tax charge shown in the statement of profit or loss and other comprehensive income differs from the tax charge that would apply if all profits had been charged at corporate rate of 30%. Reconciliation between

the tax expense and the accounting profit multiplied by applicable tax rate for the years ended 31 December 2020 and 2019 is, as follows

Profit for the year before tax	703,337	430,861
Tax expense (calculated at statutory income tax rate)	211,001	129,258
Tax effect of:		
Expenses not deductible for tax purposes	92,089	60,481
Current income tax – prior period		(261,749)
Deferred tax – prior period (Note 12)	(317,470)	-
Income tax expense	14,380	(199,731)

The effective income rate for 2020 is 46%% (2019: 17%)

12.2 Deferred tax

	2020 TZS'000'	2019 TZS'000'
At 1 January	(724,155)	(1,146,448)
Credit to statement of profit and loss and other comprehensive income (Note 12)	(353,775)	150,544
Prior year under provision of deferred tax (Note 12)	(317,470)	271,749
At 31 December	1,395,400	(724,155)
Deferred income tax asset and deferred income tax credit to the statement of profit or loss and other comprehensive income and statement of changes in equity are attributed to the following items		
Deferred income tax		
Accelerated capital allowances	(657,378)	(212,484)
Accumulated expected credit losses	(734,226)	(496,973)
Unrealized exchange gains/(loss)	(3,796)	(14,698)
	1,395,400	(724,155)

13. EARNINGS PER SHARE

The calculation of the basic earnings per share was based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding at the close of the year, calculated as follows:

Profit attributable to shareholders (TZS'000)	717,718	231,131
Weighted average number of shares in issue (000)	24,638	23,952
Basic and diluted earnings per share (TZS'000)	29.13	9.65

14. DIVIDEND PAID AND PROPOSED

The Bank made a profit after tax of TZS 402 million during the year ended 31 December 2020 (2019: TZS 231 million), However, the Board of Directors does not recommend payment of dividends to shareholders.

15. CASH AND BALANCES WITH BANK OF TANZANIA

	2020 TZS'000'	2019 TZS'000'
Cash in hand	1,938,722	1,294,979
Current account	1,692,744	3,563,346
Statutory minimum reserve*	3,079,966	3,299,518
	6,711,432	8,157,843

*Section 44 of the Bank of Tanzania Act of 2006 and Sections 4 and 71 of the Banking and Financial Institution Act of 2006 requires the Bank to maintain a statutory minimum reserve (SMR) on its total deposits and liabilities and funds borrowed from general public. On 8th June 2020 the Bank of Tanzania has introduced policy measure to safeguard the stability of financial sector whereby the minimum reserve requirement was lowered from the existing 7% to 6% (2019:7%) of the average deposits. The Statutory Minimum Reserve (SMR) deposit is not available to finance the Bank's day-to-day operations.

16. PLACEMENTS AND BALANCES WITH OTHER BANKS

	2020 TZS'000'	2019 TZS'000'
Placements with local banks	6,454,945	6,417,540
Balances with local banks	407,714	300,534
Cheques and items for clearance with other bank	536,163	310,872
Total	7,398,822	7,028,946
Less: Allowance for expected credit losses	(22,475)	(22,475)
	7,376,347	7,006,471

As at 1 January	22,475	27,809
Addition during the year	-	-
Write-off	-	-
Release during the year		(5,334)
As at 31 December	22,475	22,475
Maturity analysis		
Redeemable on demand		
- Balances with local banks	407,714	300,534
- Cheques and items for clearing with other banks	536,163	310,872
- Maturity within 3 months from acquisition	3,757,548	2,351,500
- Maturity within 6 months from acquisition	1,197,397	4,066,040
- Maturity above 6 months from acquisition	1,500,000	-
	7,398,822	7,028,946

16.1 Impairment allowance for placements and balances with other banks

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in Note 37.3.3 and the Bank's impairment assessment and measurement approach is set out in Note 37.3.3.

16.1 Impairment allowance for due from banks (Continued)

31-Dec-20 Internal rating grade	12 month PD range	Stage 1	Stage 2	Stage 3	Total
High grade	0.00% - 3.00%	7,398,822	-	-	7,398,822
Standard grade	3.00% - 20.00%	-	-	-	-
Substandard	20.00%- 50.00%	-	-	-	-
Low grade	50.00%-100.00%	-	-	-	-
Individually impaired	100%	-	-	-	-
Total		7,398,822	-	-	7,398,822

31-Dec-19 Internal rating grade	12 month PD range	Stage 1	Stage 2	Stage 3	Total
High grade	0.00% - 3.00%	7,028,946	-	-	7,028,946
Standard grade	3.00% - 20.00%	-	-	-	-
Substandard	20.00%- 50.00%	-	-	-	-
Low grade	50.00%-100.00%	-	-	-	-
Individually impaired	100%	-	-	-	-
Total		7,028,946	-	-	7,028,946

17. GOVERNMENT SECURITIES

	2020 TZS'000'	2019 TZS'000'
Treasury bills & bonds	12,764,166	5,839,026
Interest Receivable	606,746	368,157
	13,370,912	6,207,183
Treasury bills are debts securities issued by the Government of the United Republic of Tanzania. As at 31 December 2020, the bank had Treasury bills of TZS 3,509,870,715 (2019: Treasury bills were TZS. 3,701,680,024) and Treasury bonds of TZS 9,254,295,700 (2019: TZS 2,137,346,000)		
Maturity analysis of Government securities is as follows:		
Maturity within 3 months from date of acquisition	2,841,198	-
Maturity between 3 to 6 months from date of acquisition	2,802,078	2,792,350
Maturity after 6 months from date of acquisition	7,727,636	3,414,833
	13,370,912	6,207,183

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

31 December 2020 Internal rating grade	12 months PD range	Stage 1 TZS'000'	Stage 2 TZS'000'	Stage 3 TZS'000'	Total TZS'000'
High grade	0.00% - 3.00%	13,370,912	-	-	13,370,912
Standard grade	3.00% - 20.00%	-	-	-	-
Substandard	20.00%- 50.00%	-	-	-	-
Low grade	50.00%-100.00%	-	-	-	-
Individually impaired	100%	-	-	-	-
Total		13,370,912	-	-	13,370,912

31 December 2020 Internal rating grade	12 months PD range	Stage 1 TZS'000'	Stage 2 TZS'000'	Stage 3 TZS'000'	Total TZS'000'
High grade	0.00% - 3.00%	6,207,183	-	-	6,207,183
Standard grade	3.00% - 20.00%	-	-	-	-
Substandard	20.00%- 50.00%	-	-	-	-
Low grade	50.00%-100.00%	-	-	-	-
Individually impaired	100%	-	-	-	-
Total		6,207,183	-	-	6,207,183

A reconciliation of changes in gross carrying amount and corresponding ECL allowances by stage for amounts/balances due from banks is as follows

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1-Jan-2020	6,207,183	-	-	-	-	-	6,207,183	-
New assets originated	10,626,821	-	-	-	-	-	10,626,821	-
Payments and assets derecognized	(3,463,092)	-	-	-	-	-	(3,463,092)	-
As at 31 Dec- 2020	13,370,912	-	-	-	-	-	13,370,912	-

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1-Jan-2019	3,702,618	-	-	-	-	-	3,702,618	-
New assets originated	5,490,087	-	-	-	-	-	5,490,087	-
Payments and assets derecognized	(2,985,522)	-	-	-	-	-	(2,985,522)	-
As at 31 Dec- 2019	6,207,183	-	-	-	-	-	6,207,183	-

18. LOANS AND ADVANCES TO CUSTOMERS

	2020 TZS'000'	2019 TZS'000'
Corporate lending	10,074,507	8,985,811
Small business lending	37,923,636	23,103,264
Consumer lending	8,576,386	17,419,896
Gross loan and advances	56,574,529	49,508,971
Less: Allowance for ECL	(2,424,946)	(1,540,107)
	54,149,583	47,968,864

As at 1 January	1,540,106	1,961,685
Addition during the year	884,841	503,361
Write-off	-	(924,940)
As at 31 December	2,424,947	1,540,106

18.1 Impairment allowance for loans and advances to customers

18.1.1 Corporate lending

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL.

31 December 2020 Internal rating grade	12 months PD range	Stage 1 TZS'000'	Stage 2 TZS'000'	Stage 3 TZS'000'	Total TZS'000'
High grade	0.00% - 3.00%	6,247,242	-	-	6,247,242
Standard grade	3.00% - 20.00%	-	-	1,862,867	1,862,867
Substandard	20.00%- 50.00%	-	-	-	-
Low grade	50.00%-100.00%	1,964,398	-	-	1,964,398
Individually impaired	100%	-	-	-	-
Total		8,211,640	-	1,862,867	10,074,507

31 December 2019 Internal rating grade	12 months PD range	Stage 1 TZS'000'	Stage 2 TZS'000'	Stage 3 TZS'000'	Total TZS'000'
High grade	0.0% - 3.0%	7,675,929	-	-	7,675,929
Standard grade	3.0% - 20.0%	-	275,522	-	275,522
Substandard	20.0%- 50.0%	-	-	-	-
Low grade	50.0%-100.0%	-	-	1,034,360	1,034,360
Individually impaired	100%	-	-	-	-
Total		7,675,929	275,522	1,034,360	8,985,811

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for corporate lending as follows:

Dec-20	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL
01-Jan-20	7,675,929	(26,924)	275,522	213,063	1,034,360	(320,387)	8,985,811	78,816
New assets originated	6,350,748	-	-	-	-	-	6,350,748	-
Payments and assets derecognized	(4,708,171)	26,924	(275,522)	(213,063)	(410,603)	386,494	(5,394,296)	(12,708)
Accrued interest	67,089	-	-	-	65,155	6,905	132,244	6,905
Amounts written off	-	-	-	-	-	-	-	-
31-Dec 20	9,385,595	-	-	-	688,912	73,012	10,074,507	73,012
Dec-19	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL
01-Jan-19	8,404,190	1,279	2,350,999	844	8,116,734	607,062	18,871,923	609,185
New assets originated	4,202,095	630,314	-	-	-	-	4,202,095	630,314
Payments and assets derecognized	(3,781,886)	(567,283)	(1,060,149)	(371,486)	(9,519,477)	(475,974)	(14,361,512)	(1,201,679)
Transfers to stage 2	(756,377)	(90,181)	756,377	90,181	-	-	-	-
Transfers from stage 3	-	-	1,810,984	563,105	(1,810,984)	(563,105)	-	-
Transfers to stage 3	(665,398)	(42,049)	(3,582,689)	(69,581)	4,248,087	111,630	-	-
Accrued interest	273,305	40,996	-	-	-	-	273,305	40,996
Amounts written off	-	-	-	-	-	-	-	-
31-Dec-19	7,675,929	(26,924)	275,522	213,063	1,034,360	(320,387)	8,985,811	78,816

18.1.2. Small business lending

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL.

Dec-20 Internal rating grade	12 month PD range	Stage 1 TZS'000'	Stage 2 TZS'000'	Stage 3 TZS'000'	Total TZS'000'
High grade	0.00% - 3.00%	6,761,178	-	-	6,761,178
Standard grade	3.00% - 20.00%	23,757,983	996,597	-	24,754,579
Substandard	20.00%- 50.00%	-	-	-	-
Low grade	50.00%-100.00%	-	-	6,407,879	6,407,879
Individually impaired	100%	-	-	-	-
Total		30,519,161	996,597	6,407,879	37,923,636

Dec-19 Internal rating grade	12 month PD range	Stage 1 TZS'000'	Stage 2 TZS'000'	Stage 3 TZS'000'	Total TZS'000'
High grade	0.00% - 3.00%	13,047,973	-	-	13,047,973
Standard grade	3.00% - 20.00%	-	817,599	-	817,599
Substandard	20.00%- 50.00%	-	-	-	-
Low grade	50.00%-100.00%	-	-	9,237,692	9,237,692
Individually impaired	100%	-	-	-	-
Total		13,047,973	817,599	9,237,692	23,103,264

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for small business lending as follows

Dec-20	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL
01-Jan-20	13,047,974	151,654	817,599	68,750	9,237,692	320,728	23,103,265	541,132
New assets originated	23,221,115	775,638	-	-	-	-	23,221,115	775,638
Payments and assets derecognized	(6,000,624)	(303,309)	(666,000)	127,574	(3,369,739)	303,309	(10,036,363)	127,574
Transfers to stage 2	(824,188)	(263,787)	824,188	263,787	-	-	-	-
Transfers to stage 3	-	-	-	-	-	-	-	-
Accrued interest	1,074,884	33,852	20,810	98	539,925	55,189	1,635,619	89,139
Amounts written off	-	-	-	-	-	-	-	-
31-Dec -20	30,519,161	394,048	996,597	460,209	6,407,878	679,226	37,923,636	1,533,491

Dec-19	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL
01-Jan-19	12,080,942	67,758	2,788	6	478,725	79,225	12,562,455	146,989
New assets originated	9,008,540	810,769	-	-	-	-	9,008,540	810,769
Payments and assets derecognized	(1,208,094)	(323,161)	-	-	-	-	(1,208,094)	(323,161)
Transfers from stage 1	(662,713)	(53,017)	662,713	53,017	-	-	-	-
Transfers to/from stage 2	-	-	136,780	14,195	(136,780)	(14,195)	-	-
Transfers to stage 3	(7,206,428)	(809,362)	-	-	7,206,428	809,362	-	-
Accrued interest	1,035,727	155,359	15,318	1,532	2,155,186	215,519	3,206,231	372,409
Amounts written off	-	-	-	-	(465,867)	(465,867)	(465,867)	(465,867)
31-Dec-19	13,047,974	(151,654)	817,599	68,750	9,237,692	624,044	23,103,265	541,139

18.1.3. Consumer lending

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system, 12-month PD range and year-end stage classification. The amounts presented are gross of allowance for ECL.

Dec 2020	12 month	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	PD range	TZS'000'	TZS'000'	TZS'000'	TZS'000'
High grade	0.00% - 3.00%	7,410,951	-	-	7,410,951
Standard grade	3.00% - 20.00%	-	434,775	-	434,775
Substandard	20.00% - 50.00%	-	-	-	-
Low grade	50.00% -100.00%	-	-	730,658	730,658
Individually impaired	100%	-	-	-	-
Total		7,410,951	434,775	730,658	8,576,384

Dec 2019	12 month	Stage 1	Stage 2	Stage 3	Total
Internal rating grade	PD range	TZS'000'	TZS'000'	TZS'000'	TZS'000'
High grade	0.00% - 3.00%	16,115,513	-	-	16,115,513
Standard grade	3.00% - 20.00%	-	60,565	-	60,565
Substandard	20.00% - 50.00%	-	-	-	-
Low grade	50.00% -100.00%	-	-	1,243,818	1,243,818
Individually impaired	100%	-	-	-	-
Total		16,115,513	60,565	1,243,818	17,419,896

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for small business lending as follows

Dec-20	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL
Jan-20	16,115,513	598,260	60,564	(234,984)	1,243,817	556,875	17,419,894	920,151
New assets originated	5,830,747	579,276	-	-	-	-	5,830,747	579,276
Payments and assets derecognized	(14,169,105)	(214,633)	(120,709)	(17,877)	(562,935)	(458,328)	(14,852,749)	(690,838)
Transfers to/from stage 1	(491,418)	(437,235)	491,418	437,235	-	-	-	-
Transfers to/from stage 2	-	-	-	-	-	-	-	-
Transfers to/from stage 1	-	-	-	-	-	-	-	-
Accrued interest	125,214	2,651	3,502	-	49,776	7,204	178,492	9,855
Amounts written off	-	-	-	-	-	-	-	-
Dec-20	7,410,951	528,319	434,775	184,374	730,658	105,751	8,576,384	818,444

Dec-19	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL
Jan-19	9,343,888	631,343	1,906,581	154,219	1,107,875	577,452	12,358,344	1,363,014
New assets originated	9,072,213	355,068	-	-	-	-	9,072,213	355,068
Payments and assets derecognized	(1,868,779)	(336,380)	(2,690,596)	(484,307)	-	-	(4,559,375)	(820,688)
Transfers to/from stage 1	(662,713)	(70,079)	662,713	70,079	-	-	-	-
Transfers to/from stage 2	-	-	136,780	20,517	(136,780)	(20,517)	-	-
Transfers to/from stage 1	(2,336)	(350)	-	-	2,336	350	-	-
Accrued interest	233,240	18,659	45,086	4,509	297,579	26,782	575,905	49,950
Amounts written off	-	-	-	-	(27,193)	(27,193)	(27,193)	(27,193)
Dec-19	16,115,513	598,260	60,564	(234,984)	1,243,817	556,875	17,419,894	920,151

19. INVENTORIES

	2020 TZS'000'	2019 TZS'000'
ATM cards	-	18,022
Stationery	2,615	12,554
	2,615	30,576

20. OTHER ASSETS

	2020 TZS'000'	2019 TZS'000'
Prepaid expenses*	402,200	714,549
Staff salary advances	160,163	195,190
Fees receivable	916,350	2,209,273
Others	976	2,454
	1,479,689	3,121,466

*Prepaid expenses comprise of prepaid insurance costs with respect to all risks, bankers blanket bond and prepaid medical insurance for staffs.

21. INCOME TAX PAYABLE/(RECEIVABLE)

At January	(300,227)	261,423
Tax charge to profit or loss	656,866	39,195
Tax paid during the year	(80,170)	(77,666)
Withholding tax		(261,430)
Over provision - prior year		(261,749)
	276,469	(300,227)

22. a) PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

The Bank has lease contracts for office buildings (i.e. head office and branches) used in its day to day operations as well as short term leases for office equipments. The lease payments for these equipments are short-term in nature i.e. not in excess of 12months period. The other leases are long-term in nature i.e. more than 12 months. The Bank's obligations under its leases are secured by the lessor's title to the leased assets. The Bank is restricted from assigning and subleasing the leased assets. Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 36) and the movements during the year.

22. b) LEASEHOLD IMPROVEMENTS

	2020 TZS'000'	2019 TZS'000'
At 1 January	1,320,586	1,320,585
Additions	34,818	1
At 31 December 2020	1,355,403	1,320,586
Amortization		
At 1 January	589,845	459,808
Charge for the year	138,351	130,037
At 31 December 2020	728,196	589,845
Net carrying amount	627,207	730,740

23. INTANGIBLE ASSETS

	2020 TZS'000'	2019 TZS'000'
At 1 January	812,036	617,785
Additions	57,982	194,251
At 31 December 2019	870,018	812,036
Accumulated amortization		
At 1 January 2019	407,709	298,698
Charge for the year	203,018	109,010
At 31 December 2019	610,727	407,709
Net carrying amount	259,291	404,327

24. DEPOSITS

	2020 TZS'000'	2019 TZS'000'
Current accounts	13,851,869	11,348,238
Savings accounts	12,289,213	9,328,005
Time deposit accounts	31,415,411	31,605,293
Short term deposit from banks	2,650,000	1,250,000
Interest Payable	296,774	1,120,644
	60,503,267	54,652,181

25. OTHER LIABILITIES

	2020 TZS'000	2019 TZS'000
Accrued expenses	99,081	118,647
Insurance payables	177,793	150,532
Provision for off balance sheet items	-	108,028
Others	120,372	1,021,757
Lease liabilities (see below)	773,057	1,012,869
	1,170,303	2,411,833

*

Lease liabilities kme	2020 TZS'000'	2019 TZS'000'
Opening Balance as at 1January	1,012,869	1,283,650
Interest	37,350	82,046
Payments	(277,162)	(352,827)
31 December	773,057	1,012,869

Below are the maturities for lease liability:

31/12/2020					
Lease liabilities	< than 1 yr	1 - 2 yrs	2-5 yrs	5 yrs	Total
	208,113,200	132,590,400	421,449,700	8,832,000	770,985,300
Total	208,113,200	132,590,400	421,449,700	8,832,000	770,985,300
31/12/2019					
Lease liabilities	208113200	406364000	439113700	44,160,000	1,097,750,900
Total	208,113,200	406,364,000	439,113,700	44,160,000	1,097,750,900

26. PROVISIONS FOR OFF BALANCE SHEET ITEMS

	Financial Guarantees	Operational risk	Litigation	Total
1-Jan-20	108,028-	-	-	108,028
Changes in ECL	(108,028)			(108,028)
Amounts written off	-			-
31-Dec-20	-	-	-	-
Changes in ECL	108,028			108,028
Amounts written off	-			-
31 Dec 2019	108,028	-	-	108,028

These provisions relate to guarantees issued to customers

A reconciliation of changes in outstanding exposures and corresponding allowance for ECL by stage for financial guarantees is, as follows

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL
1-Jan-20	445,117	108,028					445,117	108,028
New exposures	1,614,949	4,377	-	-	-	-	1,614,949	4,377
Exposures derecognised	(445,117)	(108,028)	-	-	-	-	(445,117)	(108,028)
31-Dec-20	1,614,949	4,377	-	-	-	-	1,614,949	4,377
Dec-19	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL	Gross carrying amount TZS'000'	ECL
1-Jan-19	463,302	1,256					463,302	1,256
New exposures	445,117	106,772	-	-	-	-	445,117	106,772
Exposures derecognised / matured / lapsed	(463,302)	-	-	-	-	-	(463,302)	-
31-Dec-19	445,117	108,028	-	-	-	-	445,117	108,028

26.1. Financial guarantees and other undrawn commitments

To meet the financial needs of customers, the Bank enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees and other commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they contain credit risk and, therefore, form part of the overall risk of the Bank.

Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act, Guarantees carry a similar credit risk to loans. The nominal values of such commitments are listed below:

	2020 TZS'000'	2019 TZS'000'
Financial guarantees	1,614,949	445,117
Other undrawn commitments	747,422	812,992
	2,362,371	1,258,109

26.2 Operational risk

Operational risk provisions exclude litigation and regulatory enforcement and include liabilities arising from the breakdown of internal processes and controls or from external events resulting in economic outflow. The Bank has bankers blanket bond insurance cover that protects a bank against such losses.

26.3 Litigation

Litigation provisions arise out of current or potential claims or pursuits alleging non-compliance with contractual or other legal or regulatory responsibilities, which have resulted or may arise in claims from customers, counterparties or other parties in civil litigations. As of 31 December 2020, the Bank was a defendant in several lawsuits. The plaintiffs are claiming damages and interest thereon for the alleged caused by the Bank due to breach of contracts and loss of business. The Directors are of the opinion that no significant liabilities will arise from these claims..

27. BORROWED FUNDS

	2020 TZS'000'	2019 TZS'000'
BORROWINGS		
TZS 3Bn fixed rate due 2023	3,000,000	3,000,000
TZS 1.9Bn floating rate due 2022	1,931,793	412,178
TZS 5Bn floating rate due 2024	5,000,000	2,000,000-
	9,931,793	5,412,178
<i>Movement in the interest-bearing loans and borrowings:</i>		
At 1 January	5,412,178	
Additional loan received	6,000,000	2,000,000
Repayment during the year	(1,480,385)	(587,822)
Interest charge for the year	757,975	367,829
Interest paid	(757,975)	(367,829)
At 31 December 2020	9,931,793	5,412,178

Terms and conditions for the loan:

CDRB Bank loan

During the year, CRDB Bank granted a loan of TZS 5 billion for on-lending to various customers. The loan accrues an interest of 15%p.a. It is secured by a letter of lien over treasury bills and treasury bonds of at least TZS 6.25 billion owned by Maendeleo Bank. The loan is repayable in equal quarterly instalments. for a period of 60 months.

TIB Loan

During the year, TIB Bank granted a loan facility of TZS 1 billion for on-lending customers involved in agricultural activities only. The loan is secured by Treasury Bond with face value of TZS 1.5 billion. It accrues an interest of 4%p.a charged daily on the outstanding amount. The loan is repayable in 12 equal quarterly instalments for a period of 24 months.

BOT Loan

On 7th August 2018, the Bank of Tanzania granted a loan of TZS 3 billion under Housing Microfinance Fund at a rate of 7.5%.The loan is repayable in a period of 60 months. The loan is secured by loan portfolio held by the bank.

SELF Microfinance Loan

On 7th November 2019, Self microfinance granted a loan facility of TZS 2 billion for on-lending customers involved in agricultural activities only. The loan is secured by Treasury Bond and Bills with face value of TZS 4 billion. It accrues an interest of 16%p.a charged daily on the outstanding amount. The loan is repayable in a period of 24 months.

28. ISSUED CAPITAL AND RESERVES

Regulatory reserves represent an amount set aside to cover additional impairment for losses over and above the impairment of loans advances required in order to comply with impairment requirements as per IFRS 9. This reserve is not available for distribution. Impairment for non-performing assets is computed using both IFRS 9 approach and BOT regulatory approach. IFRS 9 provision is charged to profit or loss. Where the IFRS 9 impairment is less than BOT provision, then the excess over IFRS 9 impairment provision is taken to a non-distributable reserve known as Regulatory Reserve. During the year under review, the provisions using both approaches were as follows:

	2020 TZS'000'	2019 TZS'000'
Provisions per Bank of Tanzania approach	5,092,819	2,181,022
Impairment as per IFRS 9 (Note 18)	(2,424,947)	(1,540,106)
Excess over IFRS impairment taken to regulatory risk reserve	2,667,872	640,916

30. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

31 December 2020	1-12 months TZS'000'	More than 1 year TZS '000'	Total TZS'000'
Cash and balances with Bank of Tanzania	6,711,432	-	6,711,432
Placements and balances with other banks	7,376,347	-	7,376,347
Government securities	3,712,264	9,658,648	13,370,912
Loans and advances to customers	15,701,127	38,448,456	54,149,583
Inventories	2,615		2,615
Other assets	1,479,689	-	1,479,689
Intangible assets	-	259,291	259,291
Property, equipment and right of use	-	1,306,905	1,306,905
Leasehold improvements	-	627,207	627,207
Deferred tax	-	1,395,400	1,395,400
Total assets	35,062,078	51,695,907	86,679,381
			-
LIABILITIES			
Deposits	45,564,054	14,939,213	60,503,267
Other liabilities	500,435	669,869	1,170,304
Borrowings	287,978	9,643,815	9,931,793
Income tax payable	276,469	-	276,469
Total Liabilities	46,628,936	25,252,897	71,881,833

30. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Continued)

31 December 2019	1-12 months TZS'000'	More than 1 year TZS '000'	Total TZS'000'
Cash and balances with Bank of Tanzania	8,157,843	-	8,157,843
Placements and balances with other banks	7,006,471	-	7,006,471
Government securities	6,207,183		6,207,183
Loans and advances to customers	16,778,439	31,190,425	47,968,864
Inventories	30,576	-	30,576
Other assets	3,013,438	-	3,013,438
Intangible assets	-	404,327	404,327
Property, equipment and right of use		1,491,999	
Leasehold improvements	730,740		730,740
Deferred tax	-	724,155	724,155
Total assets	41,924,690	33,810,906	74,243,597
			-
LIABILITIES			
Deposits	53,300,810	1,351,371	54,652,181
Other liabilities	2,030,883	272,622	2,303,505
Borrowings	412,178	5,000,000	5,412,178
Income tax payable	(300,227)	-	(300,227)
Total Liabilities	55,716,266	6,351,371	62,067,637

31. CAPITAL

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the regulator, Bank of Tanzania
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders
- to maintain a strong capital base to support the development of its business.

The Bank's management monitors the adequacy of its capital and use of regulatory capital are monitored on a quarterly basis by management using the ratios established by the Bank of Tanzania (BOT) which rates are broadly in line with those for Basel Committee. The ratio measures capital adequacy by comparing the Bank's eligible capital with its statements of financial position assets, off balance sheet component and market and other risk position at weighted amounts to reflect their relative risk. The required information is filed with Bank of Tanzania on a quarterly basis.

The Bank manages its capital to meet Bank of Tanzania requirements listed below:

- Hold the minimum level of the regulatory capital of TZS 2 billion;
- Maintain regulatory reserve of not less than 7% of total deposit liabilities; and
- Maintain a ratio of total regulatory capital of not less than the internationally agreed 12% of risk-weighted assets (Basel ratio) plus risk-weighted off-balance sheet items.

31.1. Capital management

The Bank regulatory capital as established by the Bank of Tanzania is divided into two tiers:

- Tier 1 capital which includes ordinary share capital, retained earnings and reserves created by appropriations of retained earnings deduct prepaid expenses and deferred charges
- Tier 2 capital (supplementary capital) which includes the general provisions.

The risk weighted assets are measured by means of a hierarchy, classified according to the nature and reflecting an estimate, of the credit risk associated with each assets and counter party. A similar treatment is adopted for off balance sheet exposure, with some adjustment to reflect the more contingent nature of the potential losses.

During the year, the Bank has complied with all the imposed capital requirements of Bank of Tanzania to which the Bank is subject.

31.2 Regulatory capital

	2020 TZS '000'	2019 TZS '000'
Tier 1 Capital		
Share capital	12,957,765	12,545,594
Retained earnings	(371,188)	481,149
Prepaid expenses	(402,200)	(714,549)
Deferred tax asset	1,395,400	(724,155)
Intangible assets	(259,291)	(404,327)
Total qualifying Tier 1 Capital	13,320,486	11,183,712
Regulatory reserve	2,667,872	640,916
Total qualifying Tier 2 Capital	15,988,358	11,824,628
Total regulatory capital	15,988,358	11,824,628
Risk - weighted assets		
On balance sheet position	58,585,077	53,254,308
Off balance sheet position	1,614,949	445,117
Total risk - weighted assets	60,200,026	53,699,425

	Required ratios		Bank's Ratio	
	2020	2019	2020	2019
CET 1 capital ratio	12.5%	12.5%	22.1%	20.8%
Tier 1 + Tier 2 Capital	14.5%	14.5%	26.6%	22.0%

During the year, the bank has complied with all the imposed capital requirements as shown below:

31 December 2020			
Statement of Financial Position	N o m i n a l S t a t e m e n t o f F i n a n c i a l P o s i t i o n	R i s k %	W e i g h t e d R i s k
ASSETS (Net)	TZS'000'		TZS'000'
Cash and balances with Bank of Tanzania	6,711,432	-	
Placements and balances with other banks	6,862,659	20	1,380,820
Cheques and items for clearing	536,163	50	268,082
Government securities	13,370,912	0	0
Loans and advances to customers	54,149,583	100	54,149,583
Other assets	1,479,689	100	1,479,689
Property and equipment	1,306,903	100	1,306,903
Leasehold improvements	627,207	-	-
Prepaid expenses (Deduction from CET)	402,200	-	-
Intangible assets(Deduction from CET)	259,291	-	-
TOTAL	85,706,039		58,585,077

31 December 2019			
Statement of Financial Position	N o m i n a l S t a t e m e n t o f F i n a n c i a l P o s i t i o n	R i s k %	W e i g h t e d R i s k
ASSETS (Net)	TZS'000'		TZS'000'
Cash and balances with Bank of Tanzania	8,157,843	-	
Placements and balances with other banks	6,695,599	20	1,339,120
Cheques and items for clearing	310,872	50	155,436
Government securities	6,207,183	-	-
Loans and advances to customers	47,968,864	100	47,968,864
Other assets	2,298,889	100	2,298,889
Property and equipment	1,491,999	100	1,491,999
Leasehold improvements	730,740	-	-
Prepaid expenses (Deduction from CET)	714,549	-	-
Intangible assets(Deduction from CET)	404,327	-	-
TOTAL	74,980,866		53,254,308

31.3 Advance towards share capital

Advance towards share capital represent shares paid up but yet to be approved by the Capital Market Security Authority (CMSA). These will be moved to share capital once approval is obtained from the Capital Market Security Authority (CMSA).

32. ADDITIONAL CASH FLOW INFORMATION

	2020 TZS`000	2019 TZS`000
Cash in hand (Note 15)	1,938,722	1,294,979
Current account with Bank of Tanzania (Note 15)	1,692,744	3,563,346
Placements and balances with other banks (Note 16)	4,701,425	2,962,906
Government securities (Note 17)	2,841,198	2,962,906-
	11,174,089	10,613,581

Cash and cash equivalents exclude TZS. 3,079,966,384 (2019: TZS 3,299,517,882) cash reserve requirement held with the Bank of Tanzania. Placements and balances with other banks included above mature within 3 months.

33. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

33.1 Financial guarantees and other undrawn commitments

The nominal values of Financial guarantees, letters of credit are disclosed together with their ECL impacts in Note 36

33.2. Legal claims

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent in its operations. As a result, the Bank is involved in various litigation, arbitration and regulatory proceedings, in Tanzania jurisdictions in the ordinary course of its business. The Bank has formal controls and policies for managing legal claims. Based on professional legal advice, the Bank provides and/or discloses amounts in accordance with its accounting policies described in Note 2.24. At year end, the Bank had several unresolved legal claims. There were no significant legal claim against the Bank, which can bring a financial loss. Accordingly, no provision for any claims has been made in these financial statements based on the legal opinion received from the lawyers which indicates the probability of the bank to lose a case is remote.

33.3. Leases – Bank as lessee

The Bank has entered into commercial leases for premises and equipment. The leases have an average life of between five and ten years. There are no restrictions placed upon the lessee by entering into these. The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

	2020 TZS `000	2019 TZS `000
Not later than 1 year	320,121	348,103
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
	320,121	348,103

The Directors are of the view that these commitments will be sufficiently covered by future net revenues and funding.

34. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the normal course of business, a number of banking transactions are entered into with related parties i.e. key management personnel and directors. These include loans and deposits. The volume of related party transactions for the year and the outstanding amounts at the year-end were as follows:

(a) Loans and advances to related parties		2020 TZS `000	2019 TZS `000
(i)	Directors		
	At 1 January	117,892	154,948
	Advanced during the year	45,000	99,000
	Repayment during the year	(50,340)	(136,056)
	At 31 December	112,552	117,892
	Interest earned	8,054	14,175
There were no deposits controlled by Directors or their families (2019: Nil)			
(ii)	Key management		
	At 1 January	423,962	423,962
	Advanced during the year	10,000	160,651
	Repayment during the year	(260,369)	(98,532)
	At 31 December	173,593	486,081
	Interest earned	30,377	38,520
	Key management personnel compensation		
	Short term employee benefits	727,433	727,433
	Post-employment pension and medical benefits	431,312	431,312
(iii)	Shareholders		
	At 1 January	2,161,415	3,577,561
	Advanced during the year	7,169,772	608,531
	Repayment during the year	(2,427,272)	(2,024,677)
	At 31 December	6,903,915	2,161,415
	Interest earned	1,772,925	844,104

The loans are fully secured by legal mortgage and chattels. There were no guarantees or commitments (including undrawn loan commitments) made to related parties by the bank or on for the banks.

34. RELATED PARTY DISCLOSURES (Continued)

No provision has been made in respect of loans given to related parties (2019: Nil). Loans to key management personnel were issued at market interest rate of 17% per annum as per company policy. Loans to directors were issued on commercial terms.

As at 31 December 2020, there were no loans issued to companies controlled by Directors or their families (2019: Nil).

(d)	Directors' compensation	2020 TZS'000'	2019 TZS'000'
	Allowances	136,865	107,781
	Board expenses	18,525	18,791
		155,390	126,572

Directors' attendance and remuneration list for the year 2020 is shown in the table below:

Directors	Board Meeting	Board Audit & Risk Committee Attendance	Board Credit Committee	Directors' Sitting Allowance (TZS'000)
Amulike S.K Ngeliama	6	1	-	4,900
Dosca K. Mutabuzi	6	-	6	7,800
CPA Anna T. Mzinga	4	7	-	7,150
Reverend Ernest. Kadiva	1	-	-	650
Naftal M. Nsemwa	6	4	8	11,700
Amb. Richard Mariki			3	1,950
Felix Mlaki		1		650
Prof. Ulingeta Mbamba	5	3		5,200
Ms. Joyce Mapunjo	6	3		5,850
Dr. Emmanuel Manasseh	5		2	4,550
Rev. Wilbroard Mastai	4			2,600
Dr. Ibrahim A. Mwangalaba	6	7	8	13,650
Total				66,650

35. EVENTS AFTER THE REPORTING DATE

During the year 2020, the bank's customers in Hotel and Tourism, Transportation, Trade and Education were hardest hit by the global impact of COVID-19. Working within the proactive measures Bank of Tanzania implemented, Maendeleo Bank PLC was able to offer relief such as rescheduling of loan repayments, temporary suspension of loan repayments and reduction of repayment amounts. These measures helped to avoid major

economic difficulty. Maendeleo Bank continues to work closely with its all customers to ensure they receive the financial solutions they need to help them achieve their financial goals. At the time of issuing these financial statements, the Directors have assessed the impact of the COVID-19 pandemic and conclude that, there is insignificant impact to the operations of the Bank and believes the COVID-19 pandemic will neither continue to cause disruption to economic activity nor cause further adverse impacts on revenues of the Bank.

There were no other events after the reporting period which require adjustment or disclosure in the financial statements.

36. FAIR VALUE

This note describes the fair value measurement of both financial and non-financial instruments and is structured as follows:

- 36.1 Valuation principles
- 36.2 Valuation governance
- 36.3 Valuation techniques

36.1. Valuation principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price), regardless of whether that price is directly observable or estimated using a valuation technique.

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as explained in Note 7.8.

36.2. Valuation governance

The Bank's fair value methodology and the governance over its models includes a number of controls and other procedures to ensure appropriate safeguards are in place to ensure its quality and adequacy. All new product initiatives (including their valuation methodologies) are subject to approvals by various functions of the Bank including the risk and finance functions. The responsibility of ongoing measurement resides with the business and product line divisions.

Once submitted, fair value estimates are also reviewed and challenged by the Risk and Finance functions. The independent price verification process for financial reporting is ultimately the responsibility of the independent treasury team within Finance which reports to the Head of Finance.

The treasury team validates fair value estimates by:

- Benchmarking prices against observable market prices or other independent sources
- Re-performing model calculations
- Evaluating and validating input parameters

36.3. Valuation techniques

The treasury unit team also challenges the model calibration on at least a quarterly basis or when significant events in the relevant markets occur. The treasury unit team works together with the Finance function's accounting policy team and is responsible for ensuring that the final reported fair value figures are in compliance with IFRS and will propose adjustments when needed.

When relying on third-party sources (e.g., broker quotes, or other micro or macro-economic inputs), the independent price verification team is also responsible for:

- Verifying and challenging the approved list of providers
- Understanding the valuation methodologies and sources of inputs and verifying their suitability for IFRS reporting requirements

Valuation methodologies of financial instruments not measured at fair value

Below are the methodologies and assumptions used to determine fair values for financial instruments which are not recorded and measured at fair value in the Bank's financial statements.

Short-term financial assets and liabilities

For financial assets and financial liabilities that have a short-term maturity (less than three months), the carrying amounts, which are net of impairment, are a reasonable approximation of their fair value. Such instruments include: cash and balances with the central bank; due to and from banks; demand deposits; and savings accounts without a specific maturity. Such amounts have not been included in the table below as their carrying amount approximate fair value.

Loans and advances to customers

The fair values of loans and advances are estimated by discounted cash flow models that incorporate assumptions for credit risk, probability of default and loss given default estimates. Credit risk for large corporate and a subset of the small business lending, when appropriate, is derived from market observable data, such as comparable traded debt. Where such information is not available, the Bank uses historical experience and other information used in its collective impairment models.

Off-balance sheet positions

Estimated fair values of off-balance sheet positions are based on market prices for similar instruments or on discounted cash flow models, as explained above, which incorporate the credit risk element through the discount factor.

Investment securities

The fair value for debt instruments held at amortised cost is based on market prices. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount is a reasonable approximation of fair value.

Borrowings

The estimated fair value of interest-bearing borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. Government debt securities are financial instruments issued by sovereign governments and include both long-term bonds and short-term bills with fixed or floating rate interest payments. These instruments are generally highly liquid and traded in active markets resulting in a Level 1 classification. When active market prices are not available, the Bank uses discounted cash flow models with observable market inputs of similar instruments and bond prices to estimate future index levels and extrapolating yields outside the range of active market trading, in which instances the Bank classifies those securities as Level 2. The Bank does not have Level 3 government securities where valuation inputs would be unobservable. The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable

inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

31 December, 2020				
	Level 1 TZS` 000	Level 2 TZS` 000'	Level 3 TZS` 000'	Total TZS` 000
Financial assets	-	-	,	
Government securities	-	12,985,348	-	12,985,348
Loans and advances	-	53,593,000	-	53,593,000
		66,578,348		66,578,348
Financial liabilities				
	-		-	
Borrowings		9,780,546		9,780,546
	-	9,780,546	-	9,780,546

31 December, 2019				
	Level 1 TZS` 000	Level 2 TZS` 000'	Level 3 TZS` 000'	Total TZS` 000
Financial assets	-	-	,	
Government securities	-	6,113,512	-	6,113,512
Loans and advances	-	46,348,200	-	46,348,200
		52,461,712		52,461,712
Financial liabilities				
	-	''	-	
Borrowings		5,512,278		5,512,278
	-	5,512,278	-	5,512,278

Valuation methodologies of financial instruments not measured at fair value

Below is a summary of methodology and inputs used to determine fair values of above financial instruments which are not recorded at fair value in the Bank's financial statements. These fair values are calculated for disclosure purpose only.

Instrument	Level	Valuation basis	Significant input
Loans and advances	2	Discounted Cash Flow	Market interest rate for similar instruments
Borrowings	2	Discounted Cash Flow	Market interest rate for similar instruments

Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter

derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer/Bank of Tanzania quotes for similar instruments;
- Quoted prices for identical or similar assets or liabilities in markets that are not active.

37. RISK MANAGEMENT

37.1 Introduction and risk profile

Maendeleo Bank is based in Dar es salaam region, Tanzania and has three branches namely Luther House branch, Mwenge branch and Kariakoo branch. Whilst risk is inherent in the Bank's activities, it is managed through an integrated risk management framework, including ongoing identification, measurement and monitoring, and subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to country risk and various operating and business risks.

37.1.1 Risk management structure

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and principles. The Board has appointed the Board Audit and Risk Committee which is responsible for monitoring the overall risk process within the Bank and fulfils the responsibilities of the audit committee. The Board Audit and Risk Committee has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Board Audit and Risk Committee is responsible for managing risk decisions and monitoring risk levels and reports to the Board. The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process is maintained. The unit works closely with and reports to the Managing Director to ensure that procedures are compliant with the overall framework.

The Risk Management Unit is responsible for monitoring compliance with risk principles, policies and limits across the Bank. Each business unit has its own risk champion who is responsible for the control of risks, including monitoring the actual risk of exposures against authorised limits and the assessment of risks of new products and transactions. It is the Bank's policy that this unit also ensures the complete capture of the risks in its risk measurement and reporting systems. The Bank's policy also requires that exceptions are reported on a daily basis, where necessary, to the Managing Director and the relevant actions are taken to address exceptions and any areas of weakness. The Bank's Treasury unit under Finance department is responsible for managing its assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank. The Bank's policy is that risk management processes throughout the Bank are audited annually by the Internal Audit function, which examines both the adequacy of the procedures and the Bank's compliance with them. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Board Audit and Risk Committee.

37.1.2. Risk mitigation and risk culture

As part of its overall risk management, the Bank uses other instruments other than derivatives to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions. In accordance with the Bank's policy, its risk profile is assessed before entering into transactions which are authorised by the liquidity committee of the Bank which meets daily to discuss Bank's position and obtain approval from Managing Director. The Bank actively uses collateral to reduce its

37.1.3. Risk measurement and reporting systems

The Bank's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Bank also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries. In addition, the Bank's policy is to measure and monitor the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all of the branches and units is processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board of Directors, the Board Audit and Risk Committee, and the head of each business division. The report includes aggregate credit exposure, credit metric forecasts, hold limit exceptions, VaR, liquidity ratios and risk profile changes. On a monthly basis, detailed reporting of industry, customer and risks takes place. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis during ALCO meeting. The Board Audit and Risk Committee receives a comprehensive risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the risks of the Bank.

At all levels of the Bank's operations, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

It is the Bank's policy to ensure that robust risk awareness is embedded in its organisational risk culture. Employees are expected to take ownership and be accountable for the risks the Bank is exposed to that they decide to take on. The Bank's continuous training and development emphasises that employees are made aware of the Bank's risk appetite and they are supported in their roles and responsibilities to monitor and keep their exposure to risk within the Bank's risk appetite limits. Compliance breaches and internal audit findings are important elements of employees' annual ratings and remuneration reviews.

37.2 Risk governance and risk management strategies and systems

37.2.1. Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same locality, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or locality.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines

to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as

Sector	2020		2019	
	Target	Actual	Target	Actual
Agriculture, fishing, forestry and Animal Keeping	6%	4%	6%	5%
Finance, Insurance and Business Services	1%	0%	1%	0.2%
Real Estate and Construction	12%	13%	12%	13%
Transport and communication	2%	2%	1%	3%
Trade and commerce	42%	43%	42%	44%
Tourism, hotel and restaurants	2%	3%	2%	4%
Personal including employee loans	18%	16%	18%	15%
Education	8%	7%	8%	5%
Others	10%	12%	10%	11%
Total	100%	100%	100%	100%

37.3. Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the credit risk department under Head of credit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including collateral revisions. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

37.3.1. Credit-related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Guarantees commit the Bank to make payments on behalf of customers in the event of a specific act. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

37.3.2. Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the Summary of significant accounting policies.

37.3.2.1. Definition of default impaired and cure

The Bank considers a financial instrument defaulted for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

The Bank has aligned its definition of credit impaired assets under IFRS 9 to the EBA definition of non-performing loans ('NPLs').

As a part of a qualitative assessment of whether an exposure is credit-impaired, the Bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank
- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition. The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in Note 7.15.

37.3.3. The Bank's internal rating and PD estimation process

The Bank's Risk Department operates its internal rating models. The Bank runs separate models for its key portfolios in which its customers are rated from 1 to 5 using internal grades. The models incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. Where practical, they also build on information from Credit Reference Bureau. These information sources are first used to determine the probability of defaults (PDs) within the Bank's framework. PDs are then adjusted for IFRS 9

ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearinghouses. For these relationships, the Bank's risk department analyses publicly available information such as financial information and other external data, and assigns the internal rating, as shown in the table below.

Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any

other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

- Any publicly available information on the clients from external parties. This includes external information from Credit Reference Bureau, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

Consumer lending and retail mortgages

Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing.
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

The Bank's internal credit rating grades

Internal rating grade	Description of the grade	12 months PD range	Number of days outstanding	IFRS 9
High grade	Current	0.0% – 3.0%	0-30	Stage 1
Standard grade	Especially Mentioned	3.0% - 20.0%	31-90	Stage 1
Sub-standard grade	Sub-standard	20.0% - 50.0%	91-180	Stage 2
Past due but not impaired	Doubtful	50.0% - 100.0%	181-360	Stage 2
Individually impaired	Loss	100%	361-Above	Stage 3

37.3.3.1. Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit and other revolving facilities is set out in Note 7.12.5.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the reporting date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time,

corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

37.3.3.2. Loss given default

For corporate and investment banking financial instruments, LGD values are assessed at least every three months by account managers and reviewed and approved by the Bank's Head of credit department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further, recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the bank. The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

37.3.3.3. Significant increase in credit risk

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 37.3.3.3 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 37.3.3.4), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

37.3.3.4. Grouping financial assets measured on a collective basis

As explained in Note 2.12.1 dependant on the factors below, the Bank calculates the allowance for ECL either on a collective or an individual basis.

Asset classes where the Bank calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The Corporate lending portfolio
- The large and unique exposures of the Small business lending portfolio
- The treasury, trading and interbank relationships (such as Due from Banks, Cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI)

- Exposures that have been classified as POCI when the original loan was derecognised, and a new loan was recognised as a result of a credit driven debt restructuring Asset classes where the Bank calculates ECL on a collective basis include:
- The smaller and more generic balances of the Bank's Small business lending
- Collateral type

37.3.4. Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral.

The main types of collateral obtained are, as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For corporate and small business lending, charges over real estate properties, inventory and trade receivables and, in special circumstances, government guarantees
- For retail lending, mortgages over residential properties

The Bank also obtains guarantees from directors of companies for loans to their companies. Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement. In its normal course of business, the Bank engages external agents to recover funds from repossessed properties or other assets in its retail portfolio, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors.

As a result of this practice, the residential properties under legal repossession processes are not recorded on the statement of financial position and not treated as non-current assets held for sale.

Credit exposure on balance sheet items	2020		2019	
	TZS'000	%	TZS'000	%
Cash and balances with bank of Tanzania	6,711,432	8.1	6,862,865	9.7
Placements and balance with other banks	7,376,347	8.9	7,006,471	9.7
Government securities	13,370,912	16.1	6,207,183	8.6
Loans and advances to customers	54,149,583	65.2	47,968,864	66.3
Other assets	917,326	1.1	2,404,462	4.2
	82,525,600	100.0	70,449,845	100.0
Off balance sheet items				
Guarantees and performance bonds	1,614,949	100	445,117	100
Undrawn credit lines and commitments	747,422	100	812,992	100

*Other assets (excludes prepayments as they are not financial assets)

The total maximum exposure for the Bank is derived from loan and advances to customers at 65.2% (2019:66.3%).

The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from the loan and advances portfolio as corporate loans which represents the greatest group in the portfolio are backed by collaterals as shown below:

Type of Security	Collateral Value	
	2020 TZS'000'	2019 TZS'000'
Cash Cover	14,698,000	3,031,875
Owner Occupied Mortgages	79,643,394	97,032,854
Salaried Loan	456,815	1,418,200

37. RISK MANAGEMENT (continued)

Dec-20	Max exposure	Cash	3 rd party/ Employer guarantee	Property	Surplus Collateral	Total collateral	Associated ECL
Loans and advances to customers							
Corporate lending	10,074,507	-	-	16,119,211	(5,641,724)	10,477,487	73,012
Small business lending	37,923,636	14,198,000	-	49,300,727	(17,255,254)	46,243,472	1,533,491
Consumer lending	8,576,386	-	456,815	14,223,456	(4,978,209)	9,702,061	818,444
Total	56,574,529	14,198,000	456,815	79,643,394	(27,875,188)	66,423,021	2,424,947
Financial guarantees	1,614,949	2,135,000	-	-	(520,051)	1,614,949	4,377
Dec-19	Max exposure	Cash	3rd party/ Employee guarantee	Property	Surplus Collateral	Total collateral	Associated ECL
Loans and advances to customers							
Corporate lending	8,985,811	-	-	17,971,622	(6,290,068)	11,681,554	78,816.00
Small business lending	23,103,264	3,031,875	-	44,221,440	(15,477,504)	31,775,811	541,139.00
Consumer lending	17,419,896	-	1,418,200	34,839,792	(12,193,927)	24,064,065	920,151.00
Total	49,508,971	3,031,875	1,418,200	97,032,854	(33,961,499)	67,521,430	1,540,106
Financial guarantees	445,117			667,676			108,028

37.4. Liquidity risk and funding management

Liquidity risk is defined as the risk that the Bank does not have sufficient liquid financial resources to meet obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due as a result of mismatches in the timing of the cash flows under both normal and stress circumstances. Such scenarios could occur when funding needed for illiquid asset positions is not available to the Bank on acceptable terms. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk.

The ALCO is responsible for managing the Bank's liquidity risk through comprehensive policies, governance and review procedures, stress testing, monitoring of limit sets to ensure these are in line with the overall liquidity risk appetite and strategy of the Bank. The treasury department of the bank is responsible for working with other departments within the Bank to ensure the liquidity risk strategy is executed. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding, if required.

The Bank maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption in cash flow. The Bank also has lines of credit that it can access to meet liquidity needs. Net liquid assets consist of cash, short-term bank deposits and liquid debt securities available for immediate sale, less deposit for banks and other issued securities and borrowings due to mature within the next month. The ratios during the year were, as follows

37.4.1. Liquidity ratios

Advances to deposit ratios

	2020	2019
Year-end	94.00%	88.80%
Maximum	99.10%	94.10%
Minimum	80.20%	80.20%
Average	89.5%	86.50%

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)

The Bank also uses the LCR and NSFR to monitor liquidity as prescribed by the Basel Committee on Banking Supervision to monitor and promote a robust liquidity profile. The Bank calculates the LCR on a daily basis which measures the adequacy of High-Quality Liquid Assets to survive an acute stress scenario over a period of 30 days. The Bank calculates the NSFR on a monthly basis which measures the available amount of stable funding that exceeds the required amount of stable funding required for a 12-month period of extended stress conditions in the market. The LCR and NSFR for the bank at year-end is 105.2% (2019: 105.1%) and 110.3% (2019: 110.1%) % respectively.

37.4.2. Stress Testing

In accordance with the Bank's policy, the liquidity position is assessed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. Additionally, stress testing is performed for a combination of both the market and specific stress factors relating to the Bank. Liquidity mismatch reporting and stress testing results are reported regularly and reviewed by the Risk Management personnel and periodically reviewed by the Asset and Liability Committee (ALCO), Executive Committee and Risk Committee.

37.4.3. Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial assets and the undiscounted cash flows of its financial liabilities as at 31 December 2020.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date it could be required to pay and the table does not reflect the expected cash flows indicated by its deposit retention history.

Liquidity risk analysis	1 - 3 Months	4 - 6 Months	7 - 12 Months	Above 1 Years	Total
31 December, 2020	TZS`000	TZS`000	TZS`000	TZS`000	TZS`000
Financial assets					
Cash and balances with Bank of Tanzania	6,711,432	-	-	-	6,711,432
Placements and balances with other banks	4,701,425	1,197,397	1,500,000		7,398,822
Government Securities	2,841,198	2,802,078		7,727,636	13,370,912
Loans and advances to customers	10,499,618	2,892,585	7,716,989	35,465,337	56,574,529
Other assets	652,693	98,355	337,669	390,972	1,479,689
Total	25,406,366	6,990,415	9,554,658	43,583,945	85,535,384
Financial liabilities					
Deposits	30,999,888	7,716,095	21,181,650	605,634	60,503,267
Borrowings	287,979	-	-	9,643,814	9,931,793
Other liabilities	301,025	138,454	245,985	484,840	1,170,303
Total	31,588,892	7,854,549	21,427,635	10,734,288	71,605,363
Liquidity gap as at 31 December, 2020	(6,182,526)	(864,134)	(11,872,977)	32,849,657	13,930,021

37. RISK MANAGEMENT (continued)

Liquidity risk analysis	1 - 3 Months	4 - 6 Months	7 - 12 Months	Above 1 Years	Total
31 December, 2019	TZS`000	TZS`000	TZS`000	TZS`000	TZS`000
Financial assets					
Cash and balances with Bank of Tanzania	4,858,325	-	-	-	4,858,325
Placements and balances with other banks	2,962,906	4,066,040	-	-	7,028,946
Government Securities	2,994,862	955,391	-	2,256,930	6,207,183
Loans and advances to customers	11,299,904	2,663,485	4,862,046	30,683,536	49,508,971
Other assets	1,400,746	1,003,716	-	-	2,404,462
Total	23,516,743	8,688,632	4,862,046	32,940,466	70,007,887
Financial liabilities					
Deposits	25,792,659	8,874,232	18,633,919	1,351,371	54,652,181
Borrowings	-	-	412,178	6,390,009	6,802,187
Lease liabilities	-	-	138,940	1,226,756	1,365,696
Other liabilities	307,566	454,081	528,990	-	1,290,637
Total	26,100,225	9,328,313	19,714,027	8,68,136	64,110,701
Liquidity gap as at 31 December, 2019	(2,583,482)	1,617,249	14,851,981	32,072,330	5,897,186

The table below shows the liquidity position of the bank as at the end of the year 31 December 2020.

	2020 TZS`000	2019 TZS`000
Total Liability	71,881,832	62,476,192
Total liquid assets held	16,022,538	18,071,979
Liquidity ratio	22%	29%
Regulatory requirement	20%	20%

37.4.4 Assets held for managing liquidity risk

The Bank's assets held for managing liquidity risk are as follows:

- Cash and balances held with Bank of Tanzania (excluding SMR)
- Treasury bills
- Placements with other banks.
- In normal course of business, a proportion of customers' loans contractually repayable within one year will be extended. The Bank will also be able to meet unexpected net cash flows by selling securities

and accessing additional funding sources such as asset backed market.

Liquid Assets held	2020 TZS'000'	2019 TZS'000'
Cash and Balance with BOT (excl. SMR) Note 15	3,631,466	4,858,325
Placements with other banks	7,376,347	7,006,471
Government securities (maturing within 1year)	5,014,725	6,207,183
	16,022,538	18,071,979

37.5. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Bank classifies exposures to market risk into either trading (the Trading book) or non-trading (the Banking book) portfolios and manages each of those portfolios separately.

The market risk for the trading portfolio is managed and monitored using value at risk (VaR), that reflects the interdependency between risk variables as set out in Note 48.6.2.

The Bank's risk management strategy for its Banking book is different for each of the following categories of market risk and is set out in the subsequent subsections of these financial statements, as follows:

- Interest rate risk
- Prepayment risk
- Currency risk in

Market risk limits are set and continuously reviewed by the risk department of the Bank's Risk Management Unit. As a part of their established risk management process, the market risk is monitored using early signs of possible changes in market conditions such as: anticipated and actual changes to interest rates; socio-economic factors driving loan prepayment behaviours; and economic and geopolitical factors driving currency and equity price movements. Market risk limits are ultimately approved by the Board.

At an operational level, market risk is primarily managed by the Bank's treasury department, which is responsible for ensuring that the Bank's exposures are in compliance with market risk limits approved by the Board and to take adequate actions when necessary.

a. 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 Bank's Finance department is responsible for the development of detailed risk management policies while Treasury is responsible for day-to-day implementation of those policies. The Bank applies stress testing analysis in measuring exposure to market risk for the purpose of managing and controlling market risk exposures within acceptable limits while optimizing the return on investment.

b. Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme or worst-case conditions. The Bank applies risk factor stress testing, where stress movements are applied to each risk category. The Bank carries out stress testing quarterly to determine whether it has enough capital to withstand adverse developments. This is for the purpose of alerting the Bank's Management to unfavourable unexpected outcomes related to various risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur. The results are meant to indicate weak spots in the risks tested at an early

stage and to guide preventative actions by the Bank. Stress testing is done to supplement the Bank's other risk management approaches and measures.

37.5.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

The table below summarizes that Bank's exposure to foreign currency exchange rate risk at 31 December 2019. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency (all amounts expressed in thousands of Tanzanian Shillings). The following table shows the concentration of currency risk on and off the balance sheet financial instruments:

31 December, 2020	USD TZS' 000	EUR TZS'000	Others TZS '000	Total TZS '000
Assets				
Cash and balances with Bank of Tanzania	1,096,269	131,923	6,754	1,234,945
Balances with other banks	2,962,121	3,609	2,230	2,967,960
Other assets	66,297	-	-	66,297
Total financial assets	4,124,686	135,531	8,984	4,269,202
Liabilities				
Deposits from customers	4,226,322	10,208	558	4,237,089
Other liabilities	19,664	3	1	19,668
Total financial liabilities	4,245,987	10,211	559	4,256,757
Net on-balance sheet position	(121,300)	125,320	8,426	12,445

37.5.1 Foreign exchange risk

31 December, 2019	USD TZS' 000	EUR TZS'000	Others TZS '000	Total TZS '000
Assets				
Cash and balances with Bank of Tanzania	699,748	25,779	12,035	737,562
Balances with other banks	2,743,512	-	710.18	2,744,222
Other assets	40,455	-	-	40,455
Total financial assets	3,483,714	25,779	12,745	3,522,239
Liabilities				
Deposits from customers	4,004,961	2,602	483	4,008,046
Other liabilities	22,147	-	-	22,147
Total financial liabilities	4,027,108	2,602	483	4,030,193
Net on-balance sheet position	(543,394)	23,178	12,262	(507,954)

Foreign exchange sensitivity analysis

At December 2020, if the Tanzania Shilling (TZS) had weakened /strengthened by 10% (2019:10%) against US dollar, with all other variables held constant, Bank`s post-tax profit/(Loss) and Total Equity for the year would have been reduced/increased by TZS 121,300,436 (2019: TZS 543,394,000) and for Euro would have been reduced/increased by TZS 125,320,000 (2019: TZS 23,178,000. Higher/lower mainly as a result of foreign exchange losses on transaction of US Dollar denominated cash and balances with the Bank of Tanzania, placements and balances with other banks and customers and deposits from customers and other banks.

37.5.2 Price risk

The Bank is not exposed to equity securities price risk as it currently has no investment in listed shares.

37.5.3 Interest rate risk

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

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may produce losses in the event that unexpected movements arise. The Bank`s Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is regularly monitored by an independent Risk and Compliance department and reported regularly to ALCO and the Board. The interest rate gap is within internal limits.

With all other variables held constant, if the interest rates prevailing during the year shifted by 100 basis points on Bank`s interest-bearing assets and liabilities, profit before tax would be lower or higher by TZS.300,712,180 (2019: TZS 19,197,533) and equity will be impacted by TZS 300,712,180 (2019: TZS 13,438,273)

37. RISK MANAGEMENT (continued)

375.3 Interest rate risk

Interest rate sensitivity gap

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items

At 31 December 2020	1 - 3 Months TZS ` 000	4 - 6 Months TZS ` 000	7 - 12 Months TZS ` 000	Above 1 Year TZS ` 000	Non-interest Bearing TZS ` 000	Total TZS ` 000
ASSETS						
Cash and balances with Bank of Tanzania	-	-	-	-	6,711,432	6,711,432
Placement and Balances with other Banks	4,701,425	1,197,397	1,500,000	-	936,089	7,376,347
Government securities	2,841,198	2,802,078	-	7,727,636	-	13,370,912
Loans and advances to customers	10,499,618	2,892,585	5,267,203	35,490,177	-	54,149,583
Other assets	-	-	-	-	1,479,689	1,479,689
Total financial assets	16,088,528	7,258,663	6,767,203	43,846,359	9,127,210	83,087,963
LIABILITIES						
Deposits from customers	30,999,888	7,716,095	21,181,650	605,634	-	60,503,267
Borrowings	287,979	-	-	9,643,814	-	9,931,793
Other liabilities	-	-	-	-	1,170,303	1,170,303
Total financial liabilities	31,287,867	7,716,095	21,181,650	10,249,448	1,170,303	71,434,013
Interest rate sensitivity gap as at 31 Dec 2020	(15,199,339)	(457,432)	(14,414,447)	33,596,911	7,956,907	11,653,950

37.5.3 Interest rate risk

At 31 December 2019	1 - 3 Months TZS ` 000	4 - 6 Months TZS ` 000	7 - 12 Months TZS ` 000	Above 1 Year TZS ` 000	Non-interest Bearing TZS ` 000	Total TZS ` 000
ASSETS						
Cash and balances with Bank of Tanzania	-	-	-	-	8,157,843	8,157,843
Balances with other Banks	2,351,500	4,066,040	-	-	588,931	7,006,471
Government securities	2,994,862	955,391	-	2,256,930	-	6,207,183
Loans and advances to customers	11,299,904	2,663,485	4,862,046	29,143,429	-	47,968,864
Other assets	-	-	-	-	3,121,466	2,404,462
Total financial assets	12,408,085	7,638,855	4,862,047	31,400,359	11,868,240	66,278,459
LIABILITIES						
Deposits from customers	23,428,537	9,074,232	17,383,917	267,179	4,498,315	54,652,180
Borrowings	-	-	412,178	5,000,000	-	5,412,178
Finance lease liability	-	-	-	1,012,869	-	1,012,869
Other liabilities	-	-	-	-	1,290,936	1,290,936
Total financial liabilities	23,428,537	9,074,232	17,796,095	6,280,048	5,789,251	62,368,163
Interest rate sensitivity gap as at 31 Dec 2019	(11,020,452)	(1,435,377)	(12,934,048)	28,060,592	6,406,185	11,656,545

37. RISK MANAGEMENT (continued)

375.3 Interest rate risk

Interest risk sensitivity analysis:			
	Change in interest rates	Effect on profit before tax TZS	Effect on profit after tax TZS
Year ended 31 December 2020	5%	124,147	86,903
Year ended 31 December 2019		67,652	47,356

37.5.3. Market risk – Banking book

The Bank's primary business model is to collect deposits and use these funds to provide loans and other funding products and debt instruments to its customers. Interest rate risk is the impact that changes in interest rates could have on the Bank's margins, profit or loss, and equity. Interest risk arises from the mismatch of interest payable on the Bank's liabilities and the interest earned on its assets.

The Bank's asset-liability profile of its banking book is such that:

- Interest on deposits is primarily either floating or their maturities are so short term that their behavior is similar to floating rate instruments
- Interest rates payable on issued debt are primarily fixed
- The Bank's loan portfolio is a mixture of fixed and floating rates instruments

As a part of the Bank's risk management strategy, the Board has established limits on the non-trading interest rate gaps for the interest rate sensitivities, as set out in Note 37.5.3. These limits are consistent with the Bank's enterprise risk appetite and the Bank aligns its hedge accounting objectives to keep exposures within those limits.

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments

31 December 2020		On demand	1 - 3 months	4 - 12 months	1 - 5 years	Over 5 years	Total
		TZS'000'	TZS'000'	TZS'000'	TZS'000'	TZS'000'	TZS'000'
Guarantee and performance bonds		52,788	502,987	589,514	469,660	-	1,614,949
Undrawn credit lines and other commitments		373,711	373,711	-	-	-	747,422
Total Commitments and Guarantee		426,499	876,698	589,514	469,660		2,362,371
31 December 2019		On demand	1 - 3 months	4 - 12 months	1 - 5 months	Over 5 years	Total
		TZS'000'	TZS'000'	TZS'000'	TZS'000'	TZS'000'	TZS'000'
Guarantee and performance bonds		-	445,117	-	-	-	445,117
Undrawn credit lines and other commitments		406,496	406,496	-	-	-	812,992
Total Commitments and Guarantee		406,496	851,613				1,258,109

37. RISK MANAGEMENT (continued)

The following table summarizes the carrying amounts and fair values of those off statement of financial position financial assets and liabilities as at 31 December 2020 (2019: 1,045,339,000).

At 31 December 2020	Carrying amount TZS`000	Fair Value TZS`000
Guarantee and performance bonds	1,614,949	1,614,949
Undrawn credit lines and other commitments to lend	747,422	747,422
	2,362,371	2,362,371
At 31 December 2019	Carrying Amount TZS`000	Fair Value TZS`000
Guarantee and performance bonds	463,302	463,302
Undrawn credit lines and other commitments to lend	582,037	582,037
	1,045,339	1,045,339

37.5.5.1. Prepayment risk

Prepayment risk primarily relates to the Bank's loan portfolio and is the risk that the Bank will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. It includes its borrowers that repay or refinance their fixed rate loans when interest rates fall or the corporate and small business customers with prepayment options with zero or low penalties that refinance their loans when their credit quality improves to a point that they can obtain lower rates.

The Bank uses the same models and inputs that it also uses for ECL models to project the impact of varying levels of prepayment on its net interest income and distinguishes between the different reasons for repayment (e.g., relocation, refinancing and renegotiation). When estimating the prepayment rates, the Bank also takes into account the effect of any prepayment penalties, when applicable, and other socio-economic factors (interest rates house price movements, inflation rate, exchange rate, etc.) on a forward-looking basis. The model is back tested against actual outcomes.

Within its risk management framework, the Bank has introduced various measures to limit its economic losses arising from prepayment risk.

37.6. Operational and business risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to operate effectively, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavours to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, such as the use of internal audit.

37.7. Compliance risk

Compliance risk encompasses regulatory and legal compliance risk. Compliance risk is the risk that the Bank incurs financial or reputational risk through imposition of penalties or fines as a result of not adhering to applicable laws; rules and regulations and good market practise (including ethical standards). The Bank's

compliance function proactively seeks to enhance compliance risk management and the supporting control framework. The Bank operates in a market where there is a significant level of regulatory change activity; therefore, compliance risk is a key area of focus . The risk and compliance function monitor this risk through reference to metrics relevant to the Bank, review of incident reports and assessments, risk and control assessments pertaining to the first and second lines of defence functions, results of regulatory assessments, and review of results internal audit and external audit reports. Remediation of controls is conducted in a timely manner.



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