# MKOMBOZI COMMERCIAL BANK PLC

## ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2019

**MKOMBOZI COMMERCIAL BANK PLC**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

| **TABLE OF CONTENTS** | **PAGE NUMBER** |
| --- | --- |

**MKOMBOZI COMMERCIAL BANK PLC**

**BANK INFORMATION**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

**BANK INFORMATION**

| | |
|---|---|
| **Registered Office:** | Plot Number 40<br>Mansfield Street<br>P.O. Box 38448<br>Dar es Salaam, Tanzania |
| **Main Bankers:** | **BHF BANK**<br>Frankfurt am Main<br>German 60302<br>Bockenheimer Landstrabe10 |
| | **Pax-BANK eG**<br>P.O. Box 50670<br>Von-Werth-Street<br>Koln, German |
| **Bank's Lawyers:** | **Galati Law Chambers,**<br>**Plot No. 21 block k**<br>Kenyatta Road<br>3rd Floor, Exim bank Building<br>Mwanza, Tanzania |
| | **Maleta & Ndumbaro Advocates**<br>P.O. Box 79944<br>Tancot House, Ground Floor<br>Dar es Salaam, Tanzania |
| **Bank's Secretary:** | Baltazar Mbilinyi |
| **Auditor:** | Ernst & Young<br>Certified Public Accountants<br>P.O. Box 2475,<br>4th Floor, Tanhouse Tower<br>Plot 34/1, Ursino South<br>New Bagamoyo Road<br>Dar es Salaam, Tanzania |

**REPORT OF THE DIRECTORS**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

## 1. INTRODUCTION

The directors submit their report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of Mkombozi Commercial Bank Public Limited Company (''Mkombozi Commercial Bank Plc'' or the ''Bank'').

## 2. INCORPORATION

The Bank was incorporated as a public limited liability company in Tanzania in 2007 under the Companies Act, CAP 212 of 2002.

## 3. VISION

To be a leading Bank in addressing the growth needs of small and medium size enterprises through delivery of high quality and integrity banking services to a wide micro customer base and corporate enterprises.

## 4. MISSION

To be a Bank that will provide high quality financial services to all sectors of the economy in a sustainable and socially responsible manner to meet stakeholders' expectations.

## 5. PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of banking and related services stipulated in the Banking and Financial Institutions Act, 2006 of Tanzania. There has been no change in the principal activities of the Bank during the financial year.

## 6. SHARE CAPITAL STRUCTURE

The Bank's share capital structure for the year under review is shown below: -

**Authorized share capital**
TZS 50,000,000,000 comprising 50,000,000 ordinary shares of TZS 1,000 each.

**Called up and fully paid up share capital**
TZS 20,615,272,000 comprising 20,615,272 ordinary shares of TZS 1,000 each.

## 7. SHAREHOLDING STRUCTURE

As at 31 December 2019, the shares of the Bank were held as follows:

| Category | No of shares | Value of shares (TZS) | % of holding |
|---|---|---|---|
| Church dioceses and affiliated institutions | 5,777,708 | 5,777,708,000 | 28.0% |
| Other institutions | 2,125,907 | 2,125,907,000 | 10.3% |
| Tanzania Episcopal Conference (TEC) | 4,133,995 | 4,133,995,000 | 20.1% |
| Individuals | 8,577,662 | 8,577,662,000 | 41.6% |
| **Total** | **20,615,272** | **20,615,272,000** | **100.0%** |

As at 31 December 2018, the shares of the Bank were held as follows:

| Name | No of shares | Value of shares (TZS) | % of holding |
|---|---|---|---|
| Church dioceses and affiliated institutions | 5,486,179 | 5,486,179,000 | 26.6% |
| Other institutions | 1,795,120 | 1,795,120,000 | 8.7% |
| Tanzania Episcopal Conference (TEC) | 4,469,784 | 4,469,784,000 | 21.7% |
| Individuals | 8,864,189 | 8,864,189,000 | 43.0% |
| **Total** | **20,615,272** | **20,615,272,000** | **100.0%** |

## 8. DIRECTORS

The directors of the Bank who held office during the year and to the date of this report were:

| Name | Position | Age | Profession/Qualification | Nationality | Date appointed/ Resigned |
|---|---|---|---|---|---|
| Prof. Marcellina Mvula Chijoriga | Chairperson | 65 years | Associate Professor UDSM Business School<br>Holds B. Com in Accounting, MBA in Finance, PhD in Economics and Finance | Tanzanian | Appointed on 31 August 2013 |
| George Rwezaura Shumbusho | Managing Director | 44 years | Advanced Diploma in International Tax (ADIT), Post Graduate Diploma in Financial Management (IFM) and MBA (ESAMI/MsM) | Tanzanian | Appointed on 18 Nov 2017 Resigned on 1 May 2019 |
| Thomas Enock | Acting Managing Director | 36 years | Certified Public Accountant<br>Holds Bachelor of Commerce (Accounting) | Tanzanian | Appointed on 1 May 2019 Resigned on 17 January 2020 |
| Respige Kimati | Managing Director | 46 | Holds B. Com in Finance, MSc in Finance | Tanzanian | Appointed on 18 January 2020 |
| Most Rev. Beatus Kinyaiya | Director | 63 years | Arch Bishop of Dodoma Diocese<br>Holds MA in History, BA in Geography, BA in Spiritual Theology | Tanzanian | Reappointed on 30 May 2015 |
| Mr. Ayoub Mtafya | Director | 49 years | Advocate of the High Court of Tanzania and Tax Consultant<br>Partner at Nex Law Advocates<br>Holds LLB and LLM | Tanzanian | Appointed on 26 October 2016 |
| Mr. Robert Mtendamema | Director | 47 years | ICT Specialist<br>Holds B. Computer Science and Master of Science in Data Communications Networks and Distributed Systems | Tanzanian | Appointed on 8 August 2018 |
| Ms Uphoo Swai | Director | 48 years | Certified Public Accountant<br>Holds Advanced Diploma in Accountancy and Master of Business Administration | Tanzanian | Appointed on 8 August 2018 |
| Mr. Benedict Warisianga Sudi | Director | 52 years | Certified Public Accountant<br>Holds Advanced Diploma in Accountancy | Tanzanian | Appointed on 9 May 2019 |
| Fr. Dr. Charles Kitima | Director | 55 years | Holds Bachelor of Arts in Theology, Licentiate in Canon Law and Doctorate in Laws | Tanzanian | Appointed on 2 January 2019 |

## 8. DIRECTORS (Continued)

The following directors held shares in the Bank as at the respective year-ends:

| Name of the director | Number of shares held 2019 | 2018 |
|---|---|---|
| Mr. Method Anatoli Kashonda[1] | N/A | 4,500 |
| Most Rev. Beatus Kinyaiya | 13,574 | 13,574 |
| Prof. Marcellina Mvula Chijoriga | 17,000 | 17,000 |
| George Rwezaura Shumbusho[1] | N/A | 6,575 |
| Mr. Ayoub Mtafya | 6,250 | - |
| Mr. Robert Mtendamema | 1,190 | 1,190 |
| Mr. Marcelino Xavier Kayombo[1] | N/A | 2,622 |
| **Total shares held by directors** | **38,014** | **45,461** |

[1]Not a director as at 31 December 2019.

No director owned more than 0.3% of total issued share capital of the Bank.

## 9. COMPANY SECRETARY

The Bank's Secretary as at 31 December 2019 was Mr. Baltazar Mbilinyi.

## 10. CORPORATE GOVERNANCE

The Board of Directors (the ''Board'') consists of eight directors including the Managing Director. Other than the Managing Director, no director holds an executive position in the Bank. The Board has overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing performance by management against business plans and budgets.

The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures, which is compliant with sound corporate governance principles, is operative.

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

During the year, the Board held four ordinary meetings and twelve extraordinary meetings due to special activities that necessitated the Board's deliberations. The Board meetings held during the year are as summarized below:

| No. | Name of the director | Position | Total meetings | Meetings attended | % |
|---|---|---|---|---|---|
| 1. | Prof. Marcellina Chijoriga | Board Chairperson | 16 | 16 | 100% |
| 2. | Most Rev. Beatus Kinyaiya | Director | 16 | 15 | 93.8% |
| 3. | Mr. Ayoub Mtafya | Director | 16 | 14 | 87.5% |
| 4. | Mr. Robert Mtendamema | Director | 16 | 15 | 93.8% |
| 5. | Ms. Uphoo Swai | Director | 16 | 12 | 75.0% |
| 6. | Fr. Dr. Charles Kitima | Director | 16 | 11 | 68.8% |
| 7. | Mr. Sudi Warisianga[1] | Director | 16 | 08 | 50.0% |

[1]Was appointed on 9 May 2019 and was hence not yet a director when some of the meetings were held.

## 10. CORPORATE GOVERNANCE (Continued)

The Board has three committees, that is, the Board Audit, Risk and Compliance Committee, the Board Human Resources and Operations Committee and the Board Credit Committee. Each committee has a charter to govern its roles and responsibilities as well as facilitate efficiency and effectiveness of the Board's performance.

The Bank is committed to the principles of effective corporate governance, especially recognising the importance of integrity, transparency and accountability. The Board exercised close oversight over the Bank's operations and ensured high standards of corporate governance through its committees as shown below:

The Board Audit, Risk and Compliance Committee (BARCC) is composed of the following:

| No. | Name of director | Position | Total meetings | Meetings attended | % |
|---|---|---|---|---|---|
| 1. | Ms. Uphoo Swai | Chairperson | 10 | 08 | 80% |
| 2. | Most Rev. Beatus Kinyaiya | Director | 10 | 09 | 90% |
| 3. | Mr. Benedict Warisianga Sudi[1] | Director | 10 | 05 | 50% |

[1]Was appointed on 9 May 2019 and was hence not yet a director when some of the meetings were held.

The Board Credit Committee (BCC) is composed of the following:

| No. | Name of director | Position | Total meetings | Meetings attended | % |
|---|---|---|---|---|---|
| 1. | Mr. Robert Mtendamema | Chairperson | 23 | 22 | 95.7% |
| 2. | Mr. Ayoub Mtafya | Director | 23 | 21 | 91.3% |
| 3. | Fr. Charles Kitima[1] | Director | 23 | 12 | 52.2% |

[1]Travelled out of the country for three months from September to December 2019.

The Board Human Resources and Operations Committee is composed of the following:

| No. | Name of director | Position | Total meetings | Meetings attended | % |
|---|---|---|---|---|---|
| 1. | Mr. Ayoub Mtafya | Chairperson | 9 | 9 | 100% |
| 2. | Mr. Robert Mtendamema[1] | Director | 9 | 5 | 55.6% |
| 3. | Fr. Charles Kitima | Director | 9 | 6 | 66.7% |
| 4. | Mr. Sudi Warisianga[2] | Director | 9 | 4 | 44.4% |

[1]Became a member of this committee on 14 May 2019.
[2]Became a member of this committee 12 July 2019.

## 11. MANAGEMENT TEAM

The Managing Director was assisted by the following Heads of Departments:

| | |
|---|---|
| • Chief Finance Officer<br>• Chief Operations Officer<br>• Head of Treasury<br>• Head of Credit<br>• Chief Internal Auditor | • Chief Commercial Officer<br>• Head of Legal Services (Company Secretary)<br>• Manager, Risk and Compliance Department<br>• Manager, Human Resources Department |

## 12. FINANCIAL PERFORMANCE AND POSITION

The Bank reported a loss of TZS 6,583 million during the year ended 31 December 2019 (2018: Profit of TZS 806 million). The following achievements were recorded in terms of the financial position:

- Loans and advances to customers increased by 23.3% from TZS 99,036 million as at 31 December 2018 to TZS 122,084 million as at 31 December 2019;
- Deposits due to customers increased by 18.7% from TZS 136,467 million as at 31 December 2018 to TZS 161,926 million as at 31 December 2019; and
- Total assets increased by 14.1% from TZS 178,824 million as at 31 December 2018 to TZS 204,038 million at 31 December 2019.

The key performance indicators (KPIs) of the Bank are indicated below:

| Performance Indicator | Definition and calculation method | 2019 | 2018 |
|---|---|---|---|
| Return on equity | (Loss)/profit before tax/Total equity | (23%) | 6% |
| Return on assets | (Loss)/profit before tax/Total assets | (3%) | 1% |
| Cost to income ratio | Operating costs/Net interest + non-interest income | 105% | 80% |
| Interest margin on earning assets | Total interest income/(interest on government securities + balances with other banks + interbank loans receivable + investments in other securities + net loans, advances and overdrafts) | 12% | 11% |
| Non - interest income to gross income | Non - interest income/Total income | 20% | 12% |
| Earnings per share | Basic earnings/ Number of ordinary shares in issue (TZS) | (319) | 39 |
| Gross loans to customers deposits | Total loans and advances to customers/Total deposits due to customers | 75% | 73% |
| Non - performing loans to gross loans | Non - performing loans/Gross loans and advances | 20% | 10% |
| Earning assets to total assets | Earning assets/Total assets | 84% | 86% |
| Growth in total assets | Trend (2019/2018 total assets – 2018/2017 total assets)/(2018/2017 total assets) | 14% | 19% |
| Growth in loans and advances to customers | Trend (2019/2018 loans and advances – 2018/2017 loans and advances) /2018/2017 loans and advances) | 23% | 21% |
| Growth in deposits due to customers | Trend (2019/2018 deposits – 2018/2017 deposits)/(2018/2017 deposits) | 19% | 13% |

**Capital adequacy**

| | | | |
|---|---|---|---|
| Core (Tier 1) capital ratio | [Core capital/Total risk-weighted on and off statement of financial position, operational and market risk weighted exposures] x 100 | 5.76% | 15.33% |
| Total (Tier 1 + Tier 2) capital ratio | [Total capital/Total risk-weighted on and off statement of financial position, operational and market risk weighted exposures] x 100 | 5.76% | 15.96% |

## 12. FINANCIAL PERFORMANCE AND POSITION (Continued)

Despite the Bank incurring a loss of TZS 6,583 million during the year ended 31 December 2019 (2018: profit of TZS 806 million), and as at 31 December 2019, the Bank's core capital, core capital ratio and total capital ratio were TZS 8,606 million, 5.76% and 5.76%, which are below the minimum regulatory requirements of TZS 15,000 million, 12.5% and 14.5%, respectively, the directors confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. This basis presumes that the Bank's business and capital restoration plans will be successfully implemented to the extent that the Bank's capital position will be restored to the level required by the regulations, the Bank will have access to sufficient resources necessary to enable it to continue in business for the foreseeable future, and that realisation of assets and discharge of liabilities will occur in the normal course of business.

## 13. NETWORK AND OUTREACH

The Bank had eleven branches as at 31 December 2019: Four branches are located in Dar es Salaam, one in Mwanza (Mwanza Region), one in Bukoba (Kagera Region), one in Morogoro (Morogoro Branch) one in Dodoma (Dodoma Region), one in Iringa (Iringa Region) one in Njombe (Njombe Region) and one in Moshi (Kilimanjaro Region). The Bank's total number of depositors and borrowers as at the respective year-ends were as shown below:

| | 2019 | 2018 |
|---|---|---|
| **Account type** | | |
| Current accounts | 2,837 | 2,374 |
| Savings accounts | 55,283 | 44,659 |
| Time deposits | 975 | 677 |
| **Total number of deposit accounts** | **59,095** | **47,710** |
| **Loan to customers accounts** | **12,839** | **12,413** |

## 14. DIVIDEND

The directors do not propose payment of dividends for the year 2019 (2018: None).

## 15. KEY DEVELOPMENTS DURING THE YEAR

The Bank opened three branches during the year in the following strategic locations, Dodoma Region, which is the administrative capital city of the country, and two in the southern highlands in Iringa and Njombe. The following milestones were also achieved during the year:

- The process of sourcing a reliable provider of digital solutions was approved by the Board on 24 October 2019 with BCX Tanzania Limited being commissioned for the project.
- Commercial Banking Department effectively started in June 2019. The function has increased the loan book of the Bank from TZS 101 billion recorded in May to the forecast position of gross loans of TZS 131 billion as at 31 December 2019. Increase in non-interest income, volume of transactions and improved turnaround time on loan issuance are some of the achievements registered.
- Direct Sales Agency model was re-introduced in the 3rd quarter of 2019.
- The Performance Management System was approved by the Board to be used in 2020.

## 16. RELATED PARTY TRANSACTIONS AND BALANCES

The related party transactions and balances are disclosed in Note 37 to the financial statements.

## 17. PLANNED DEVELOPMENT

The Bank will continue to focus on business opportunities arising in the economy especially in lending and other related activities. The Bank has the following plans:

- Raise additional equity capital of TZS 15 billion in 2020
- Grow microfinance lending by introducing Residential Sales Agents (RSAs), with 40 RSAs expected to be recruited in 2020
- Relocate the Head Office and St. Joseph Branch to the new building of St. Joseph House.
- Introduction of the mini-branch model, with four mini-branches expected to be open in 2020 in strategic locations.
- Launching of digital banking solutions including agency banking, mobile applications, internet banking and payment solutions.
- Responding to the impact of Covid-19 on the Bank and general business environment and reacting timely and appropriately by adjusting business plans and strategies.

## 18. HUMAN RESOURCES

The Bank has adequate employees with pre-requisite competency and experience in key positions to manage the banking operations and pursue the business objectives.

## 19. PRINCIPAL RISKS AND UNCERTAINTIES

As the Bank continues to scale up its operations, it ensures that the resultant commercial and operational risks are mitigated through enforcement of appropriate policies and procedures. The Bank's activities expose it to risks including financial (liquidity, credit and market) and strategic risks. The Bank's overall risk management policies are approved by the Board and implemented by management. These policies involve analysis, evaluation, acceptance and management of some degrees of risks or a combination of risks. More details of the financial risks facing the Bank are presented in Note 5 to the financial statements.

## 20. 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 the directors 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 behaviour towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance with such measures 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 and is of the opinion that they met accepted criteria. The Board monitors risk and internal control effectiveness through the BARCC and BCC.

## 21. SERIOUS PREJUDICIAL MATTERS

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

## 22. WELFARE OF EMPLOYEES

**Relationship between management and employees**
The relationship between employees and management continued to be good. Complaints are resolved through meetings and discussions. Work morale continues to be good and there were no unresolved complaints from employees. There was good teamwork between management and staff.

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, tribe, religion, and disability which does not impair one's ability to discharge duties.

**Training**
During the year, the Bank spent TZS 172.39 million on training of staff (2018: TZS 144 million). Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. Employees received training to upgrade their skills and enhance their performance.

**Staff loans and advances**
The Bank provides loans to staff as well as salary advances to enable them meet financial needs and promote their economic development. Staff loans and advances are based on specific terms and conditions approved by the Board. During the year, the Bank issued staff loans of TZS 5.30 billion (2018: TZS 5.06 billion).

**Medical facilities**
The Bank covers medical bills for all of its employees and their immediate family dependents as well as medical insurance coverage to all staff.

**Retirement benefits**
The Bank makes statutory contributions in respect of staff social security benefits. The Bank's obligations in respect of these contributions are limited to 10% of the employee's gross salary.

## 23. GENDER PARITY

The Bank is an equal opportunity employer and maintains reasonable gender balance among its employees. The Bank had the following employees by gender:

| **Gender** | **2019** | **2018** |
|---|---|---|
| Female | 74 | 57 |
| Male | 95 | 77 |
| **Total** | **169** | **134** |

## 24. POLITICAL DONATIONS

The Bank did not make any political donations during the year (2018: Nil).

## 25. RELATIONSHIP WITH STAKEHOLDERS

The Bank continued to maintain cordial relationships with stakeholders including the regulators.

## 26. CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CHARITABLE DONATIONS

The Bank participates actively in community activities and development programs throughout the country. Charitable donations made during the year amounted to TZS 22.47 million (2018: TZS 29.43 million). The Bank donated to Kilimanjaro Christian Medical Centre (KCMC) for participating in world cancer day and made donations to various church institutions.

## 27. AUDITOR

Ernst & Young was the auditor of the Bank for the year ended 31 December 2019. A resolution proposing the appointment of the external auditor of the Bank for the year ending 31 December 2020 was done by the shareholders in the Tenth Annual General Meeting which resolved that Ernst & Young will be the auditor of the Bank for a period of three years from 2019 to 2021.

The Directors' Report was approved by the Board of Directors on _________________2020 and signed on behalf of the Board per the resolution of the Board by:

___________________________
**Prof. Marcellina Mvula Chijoriga**
**Chairperson of the Board**

____________________________
**Ms. Uphoo Swai**
**Board Member and Chairperson of the BAC**

**STATEMENTS OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2019**

The directors are required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 of Tanzania to prepare financial statements for each financial period that present fairly, in all material respects, the state of financial affairs of the Bank as at the end of the financial year and of the profit or loss for the year. The directors are also obliged to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 of Tanzania. The directors are of the opinion that the financial statements present fairly, in all material respects, the state of the financial affairs of the Bank, and of their financial results in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 of Tanzania. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the statements that are free from material misstatement.

The Bank's directors have made an assessment of the Bank's ability to continue as a going concern for the foreseeable future. Despite the Bank incurring a loss during the year and being undercapitalized as at year-end, the financial statements are prepared on the basis of a going concern. This basis presumes that the Bank's business and capital restoration plans will be successfully implemented to the extent that the Bank's capital position will be restored to the level required by the regulations, the Bank will have access to sufficient resources necessary to enable it to continue in business for the foreseeable future, and that realisation of assets and discharge of liabilities will occur in the normal course of business.

The financial statements were approved by the Board of Directors on ________________2020 and were signed on its behalf by:

____________________________

**Prof. Marcellina Mvula Chijoriga
Chairperson of the Board**

____________________________

**Ms. Uphoo Swai
Board Member and Chairperson of the BAC**

**MKOMBOZI COMMERCIAL BANK PLC**

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

The National Board of Accountants and Auditors (NBAA) according to the power conferred to it 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 the financial statements of the entity concerned.

It is the duty of a Professional Accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing a true and fair view of the entity's financial position and performance in accordance with 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 as stated under the Statement of Directors' Responsibilities on the previous page.

I, **Dennis Frank Kejo,** being the Chief Finance Officer of Mkombozi Commercial Bank Plc hereby acknowledge my responsibility of ensuring that the financial statements for the year ended 31 December 2019 have been prepared in compliance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

I thus confirm that the financial statements give a true and fair view of the financial position and results of Mkombozi Commercial Bank Plc as on that date and for the year then ended, and that the financial statements have been prepared based on properly maintained financial records.

Signed by: ____________________

Position: Chief Finance Officer

NBAA Membership No: ACPA 2139

Date: _______________________2020

**INDEPENDENT AUDITOR'S REPORT**
To the shareholders of Mkombozi Commercial Bank Public Limited Company

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**Opinion**

We have audited the financial statements of Mkombozi Commercial Bank Public Limited Company (the ''Bank'') set out on pages 20 to 78, which comprise the statement of financial position as at 31 December 2019, 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 2019, and its financial performance and its cash flows 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.

**Material Uncertainty Related to Going Concern**

We draw attention to Note 2.2 to the financial statements, which indicates that the Bank incurred a loss of TZS 6,583 million during the year ended 31 December 2019, and as at that date, the Bank's core capital, core capital ratio and total capital ratio were TZS 8,606 million, 5.76% and 5.76% which was below the minimum regulatory requirements of TZS 15 billion, 12.5% and 14.5%, respectively. As stated in Note 2.2, these events or conditions, along with other matters as set forth in Note 2.2, indicate that a material uncertainty exists that may cast significant doubt on the Bank's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**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. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)**

**Key Audit Matters (Continued)**

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.** | **Credit risk and expected credit losses on loans and advances to customers** | |
| | The IFRS 9 Expected Credit Losses (ECLs) approach is applicable to loans advances to customers. ECLs represent management's best estimate of the losses expected to be incurred at the reporting date.<br><br>The ECL allowances are significant in the context of the financial statements due to their magnitude as well as the estimation uncertainty and significant level of judgement inherent in determining the amount of the allowances.<br><br>The models used to determine the ECL estimates include inputs from multiple sources. Management applies adjustments to the model outputs to cater for factors not included in the model assessment, which can be highly subjective.<br><br>As at 31 December 2019, the ECL allowances on loans and advances to customers were TZS 9,308 million (2018: TZS 5,216 million). There is a risk that the ECL allowances do not represent a complete and accurate estimate of ECLs and that the carrying amount of these items is misstated. This includes the risk that the ECL model is not in compliance with IFRS 9.<br><br>The disclosures in Notes 4, 5, 6 and 21 relating to credit risk and ECL allowances are also significant to the financial statements. | Our audit procedures included, but were not limited to the following:<br><br>• Evaluating the Bank's ECL model against the IFRS 9 requirements.<br><br>• Comparing the Bank's inputs into the ECL model to industry, financial and economic data and our own assessment. As part of this, we assessed the Bank's inputs used including the consistency of judgement applied in the classification of loans and advances and determination of probabilities of default.<br><br>• Testing that the reported ECL allowances were determined in accordance with the Bank's ECL model.<br><br>• Evaluating the completeness of the disclosures on ECL allowances on loans and advances to customers. |

**INDEPENDENT AUDITOR'S REPORT (Continued)**
To the shareholders of Mkombozi Commercial Bank Public Limited Company

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)**

**Key Audit Matters (Continued)**

| No. | Key audit matter | How our audit addressed the key audit matter |
|---|---|---|
| **2.** | **Compliance with capital adequacy requirements** | |
| | Operating in the banking sector presents increased regulatory and financial risks due to the need to comply with banking laws and regulations.<br><br>As at 31 December 2019, the Bank's core capital, core capital ratio and total capital ratio were TZS 8,606 million, 5.76% and 5.76%, which were below the minimum regulatory requirements of TZS 15,000 million, 12.5% and 14.5%, respectively.<br><br>We focused on compliance by the Bank with the capital adequacy requirements stipulated in the Banking and Financial Institutions laws and regulations because breaches of compliance could have a significant effect on the results and financial position of the Bank. Furthermore, the Banking and Financial Institutions (External Auditors) Regulations, 2014 require auditors to report specifically on the accuracy of the computation of the reported capital position.<br><br>We also considered there to be a risk that the disclosures on capital adequacy in Note 5.5 which are significant to the understanding of the Bank's capital position are not accurate and complete. | Our audit procedures included, but were not limited to:<br><br>• Understanding the Bank's process for calculating the capital position.<br><br>• Inspecting the Banking and Financial Institutions Act and relevant regulations and the related Bank of Tanzania pronouncements for changes in relevant regulations and prudential guidelines and checking that the capital position was computed in accordance with the applicable regulations and prudential guidelines.<br><br>• Evaluating the arithmetic correctness of the capital position calculations through re-computation.<br><br>• Understanding the Bank's plans to ensure compliance with the regulatory capital requirements.<br><br>• Evaluating whether the Bank's disclosures on capital adequacy were accurate and complete. |

**INDEPENDENT AUDITOR'S REPORT (Continued)**
To the shareholders of Mkombozi Commercial Bank Public Limited Company

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)**

**Key Audit Matters (Continued)**

| No. | Key audit matter | How our audit addressed the key audit matter |
|---|---|---|
| **3.** | **Interest income determination** | |
| | The Bank's shares are listed on the Dar es Salaam Stock Exchange. The key users of the financial statements, including shareholders, expect the Bank to be profitable and pay dividends. We considered there to be a risk that interest income on loans and advances to customers is inappropriately reported to achieve desired financial results.<br><br>Moreover, the Bank's core banking system is not configured to automatically calculate interest income using the effective interest method. Determination of interest income on loans and advances to customers using the effective interest method is done manually using excel spreadsheets. There is a risk that interest income on loans and advances to customers is overstated by recognizing unearned interest, for example, by recognizing interest income using the straight-line method rather than the effective interest method.<br><br>We also considered that interest income on loans and advances to customers and the related disclosures in Note 8 are significant to the Bank's financial statements. | We considered revenue recognition as a high audit risk area and undertook procedures to respond to this risk. Our audit procedures included, but were not limited to:<br><br>• Understanding the Bank's process for recognizing interest income including set-up of accounts for loans and advances to customers, pricing data, segregation of duties, and calculation of interest income.<br><br>• Testing that the interest rates used in the determination of interest income agreed to the contractual effective interest rates for a sample of loans and advances to customers.<br><br>• Re-computing interest income on loans and advances to customers on a sample basis and checking that the results of our re-computation agreed to the management calculations.<br><br>• Assessing the adequacy of the Bank's disclosures on interest income. |

**Other Information**

The directors are responsible for the other information. Other information consists of the information included in the Bank Information, Directors' Report, Statement of Directors' Responsibilities and the Declaration by the Head of Finance, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

## INDEPENDENT AUDITOR'S REPORT (Continued)
To the shareholders of Mkombozi Commercial Bank Public Limited Company

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

### 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 the 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 Bank'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 Bank or to cease operations, or have no realistic alternative but to do so.

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

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements 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 scepticism throughout the audit. We also:

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

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

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

### Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 Bank's statement of financial position and statement 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 5.5 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 and the related Bank of Tanzania pronouncements.

- As at 31 December 2019, the Bank's core capital, core capital ratio and total capital ratio were TZS 8,606 million, 5.76% and 5.76%, which were below the minimum regulatory requirements of TZS 15,000 million, 12.5% and 14.5%, respectively. Furthermore, the Bank was not in compliance with certain credit concentration and other exposures limits that are dependent on core capital.

**INDEPENDENT AUDITOR'S REPORT (Continued)**
To the shareholders of Mkombozi Commercial Bank Public Limited Company

The engagement partner on the audit resulting in this independent auditor's report is Julius Rwajekare.

____________________________
**Julius Rwajekare**
**TACPA 2760**
**For and behalf of Ernst & Young**
**Certified Public Accountants**
**Dar es Salaam, Tanzania**

**Date: ___________________2020**

MKOMBOZI COMMERCIAL BANK PLC

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

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | TZS'000 | TZS '000 |
| Interest income | 8 | 20,563,640 | 23,770,463 |
| Interest expense | 9 | (8,300,425) | (7,512,284) |
| **Net interest income** | | **12,263,215** | **16,258,179** |
| Expected credit losses - loans and advances to customers | 10 | (4,540,169) | (2,480,560) |
| Expected credit losses - other financial assets | 10 | - | (11,501) |
| **Net interest income after expected credit losses** | | **7,723,046** | **13,766,118** |
| Fees, commission and other income | 11 | 3,445,169 | 2,721,134 |
| Net foreign currency trading and translation gains | 12 | 673,958 | 447,403 |
| **Total non-interest income** | | **4,119,127** | **3,168,537** |
| **Net operating income** | | **11,842,173** | **16,934,655** |
| Personnel expenses | 13 | (8,513,111) | (7,013,099) |
| Depreciation and amortization | 14 | (2,169,538) | (1,356,973) |
| General and administration expenses | 15 | (6,597,826) | (7,154,105) |
| **Total operating expenses** | | **(17,280,475)** | **(15,524,177)** |
| **(Loss)/profit before tax** | | **(5,438,302)** | **1,410,478** |
| Income tax expense | 16 | (1,144,631) | (604,434) |
| **(Loss)/profit for the year** | | **(6,582,933)** | **806,044** |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year, net of tax** | | **(6,582,933)** | **806,044** |
| | | **TZS** | **TZS** |
| **Basic and diluted (loss)/earnings per share** | **17** | **(319)** | **39** |

**MKOMBOZI COMMERCIAL BANK PLC**

**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 DECEMBER 2019**

| | Notes | 2019<br>TZS '000 | 2018<br>TZS '000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with Bank of Tanzania | 18 | 20,973,818 | 17,478,962 |
| Loans and advances to banks | 19 | 23,235,028 | 24,942,547 |
| Other assets | 20 | 1,504,206 | 1,094,421 |
| Current income tax recoverable | 16 | 408,850 | 78,939 |
| Loans and advances to customers | 21 | 122,083,704 | 99,035,944 |
| Government securities | 22 | 23,780,209 | 27,793,299 |
| Investment in corporate bond | 23 | 2,002,220 | 2,002,255 |
| Equity investments | 24 | 539,000 | 539,000 |
| Right-of-use assets | 25 | 4,551,141 | - |
| Intangible assets | 26 | 819,591 | 869,146 |
| Property and equipment | 27 | 4,140,589 | 3,844,610 |
| Deferred tax asset | 28 | - | 1,144,631 |
| **TOTAL ASSETS** | | **204,038,356** | **178,823,754** |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Deposits due to customers | 29 | 161,925,946 | 136,466,747 |
| Deposits due to banks | 30 | 16,799,185 | 13,869,813 |
| Other liabilities | 31 | 3,727,800 | 4,743,328 |
| Provisions | 32 | 265,261 | 437,886 |
| Lease liabilities | 33 | 4,597,117 | - |
| | | **187,315,309** | **155,517,774** |
| **Equity** | | | |
| Share capital | 34 | 20,615,272 | 20,615,272 |
| (Accumulated losses)/retained earnings | | (11,323,848) | 1,898,334 |
| Regulatory reserve | 35 | 7,431,623 | 11,455 |
| General reserve | 35 | - | 780,919 |
| | | **16,723,047** | **23,305,980** |
| **TOTAL LIABILITIES AND EQUITY** | | **204,038,356** | **178,823,754** |

These financial statements were authorised for issue by the Board of Directors on ____________2020, and were signed on behalf of the Board of Directors by:

____________________________
**Prof. Marcellina Mvula Chijoriga**
**Chairperson of the Board**

____________________________
**Ms. Uphoo Swai**
**Board Member and Chairperson of the BAC**

**MKOMBOZI COMMERCIAL BANK PLC**

**STATEMENT OF CHANGES IN EQUITY**
**FOR THE YEAR ENDED 31 DECEMBER 2019**

| | Share capital | (Accumulated losses)/retained earnings | Regulatory reserve | General reserve | Total |
|---|---|---|---|---|---|
| | **TZS' 000** | **TZS' 000** | **TZS' 000** | **TZS' 000** | **TZS' 000** |
| | **(Note 34)** | | **(Note 35)** | **(Note 35)** | |
| At 1 January 2019 | 20,615,272 | 1,898,334 | 11,455 | 780,919 | 23,305,980 |
| Total comprehensive income for the year | | (6,582,933) | | - | (6,582,933) |
| Transfer to regulatory reserve | | (7,420,168) | 7,420,168 | - | - |
| Transfer from general reserve | | 780,919 | - | (780,919) | - |
| **At 31 December 2019** | **20,615,272** | **(11,323,848)** | **7,431,623** | **-** | **16,723,047** |
| At 1 January 2018 | 20,615,272 | 2,461,513 | - | 721,166 | 23,797,951 |
| IFRS 9 initial impact | | (1,113,806) | - | - | (1,113,806) |
| Tax effect of IFRS 9 initial impact (Note 28) | | 331,898 | - | - | 331,898 |
| At 1 January 2018 – Restated | 20,615,272 | 1,679,605 | - | 721,166 | 23,016,043 |
| Total comprehensive income for the year | - | 806,044 | | - | 806,044 |
| Transfer to regulatory reserve | - | (11,455) | 11,455 | - | - |
| Transfer to general reserve | - | (59,753) | | 59,753 | - |
| *Transactions with owners:* | | | | | |
| Dividend declared[1] | - | (516,107) | - | - | (516,107) |
| **At 31 December 2018** | **20,615,272** | **1,898,334** | **11,455** | **780,919** | **23,305,980** |

[1]The dividend per share was TZS 25 per share.

MKOMBOZI COMMERCIAL BANK PLC

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2019

| | Notes | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before tax | | (5,438,302) | 1,410,478 |
| | | | |
| *Adjustments:* | | | |
| Loss on write off of intangible assets | | - | 126,927 |
| Interest expense on lease liabilities | 7 | 559,995 | - |
| ECL on loans and advances to customers | 10 | 4,540,169 | 2,480,560 |
| Dividend income | 11 | (5,366) | - |
| Depreciation on right-of-use assets | 14 | 779,642 | - |
| Amortization of intangible assets | 14 | 271,278 | 151,848 |
| Depreciation on property and equipment | 14 | 1,118,618 | 1,201,812 |
| Increase in provisions | 32 | 282,500 | 146,750 |
| | | **2,108,534** | **5,518,375** |
| *Changes in operating assets and liabilities:* | | | |
| Decrease/(increase) in statutory minimum reserve | | 902,564 | (1,279,356) |
| (Increase)/decrease in other assets | | (409,786) | 615,255 |
| Increase in loans and advances to customers | | (27,139,746) | (20,134,572) |
| Increase in deposits due to customers | | 25,459,199 | 15,345,188 |
| Increase in deposits due to banks | | 2,929,372 | 10,556,092 |
| (Decrease)/increase in other liabilities | | (1,015,528) | 2,170,139 |
| Payment of provisions | 32 | (455,125) | - |
| **Cash generated from operations** | | **2,379,484** | **12,791,121** |
| | | | |
| Income tax paid | 16 | (329,911) | (292,632) |
| Dividend received | | 5,366 | - |
| **Net cash flows from operating activities** | | **2,054,939** | **12,498,489** |
| | | | |
| **Investing activities** | | | |
| Decrease/(increase) in government securities | | 4,013,090 | (12,276,685) |
| Decrease/(increase) in investment in corporate bond | | 35 | (2,002,255) |
| Increase in equity investment | | - | (500,000) |
| Purchase of intangible assets | 26 | (221,634) | (575,765) |
| Purchases of property and equipment | 27 | (1,413,424) | (1,712,069) |
| Proceeds from sale of assets | | 9,196 | - |
| **Net cash flows from/(used in) investing activities** | | **2,387,263** | **(17,066,774)** |
| | | | |
| **Financing activities** | | | |
| Lease liabilities paid – principal | 33 | (733,666) | - |
| Lease liabilities interest paid | 33 | (559,995) | - |
| Dividend paid | | - | (516,107) |
| **Net cash flows used in financing activities** | | **(1,293,661)** | **(516,107)** |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **3,148,541** | **(5,084,392)** |
| Cash and cash equivalents at 1 January | | 33,003,345 | 38,354,169 |
| Translation differences | | (458,640) | (266,432) |
| **Cash and cash equivalents at 31 December** | **36** | **35,693,246** | **33,003,345** |
| | | | |
| **Cash in/(out)flows from interest** | | | |
| Cash inflows from interest income | | 19,522,104 | 19,501,606 |
| Cash outflows from interest expense on deposits | | (7,538,687) | (7,563,019) |
| Cash outflows from interest expense on lease liabilities | | (559,995) | - |

## 1. GENERAL INFORMATION

Mkombozi Commercial Bank Public Limited Company (the ''Bank'' or ''Mkombozi Commercial Bank Plc'') is a public limited liability company incorporated and domiciled in the United Republic of Tanzania. The Bank's shares are listed and traded on the Dar es Salaam Stock Exchange (DSE). The address of the Bank's registered office is as follows:

Mkombozi Commercial Bank Plc
Plot No. 40, Mansfield Street
Behind St. Joseph Cathedral
P.O. Box 38448
Dar es Salaam, Tanzania

Further information about the Bank is presented under the Bank Information and the Bank's activities are presented in the Directors' Report.

The financial statements were approved for issue by the Board of Directors as indicated under the statement of financial position.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance and basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the requirements of the Banking and Financial Institutions Act, 2006 and Companies Act, 2002 of Tanzania.

The measurement basis applied in the preparation of the financial statements is the historical cost basis, except where otherwise stated in the accounting policies. The financial statements are presented in Tanzania shillings (TZS) and the amounts are rounded to the nearest thousand (TZS'000), except where otherwise indicated.

For purposes of reporting under the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 of Tanzania, the balance sheet in these financial statements is represented by the statement of financial position, and the profit and loss account is represented by the statement of profit or loss and other comprehensive income.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Bank's management and directors to exercise judgment 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 change. 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 judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 6.

### 2.2 Going concern

The Bank incurred a loss of TZS 6,583 million during the year ended 31 December 2019 (2018: profit of TZS 806 million), and as at 31 December 2019, the Bank's core capital, core capital ratio and total capital ratio were TZS 8,606 million, 5.76% and 5.76% which is below the minimum regulatory requirements of TZS 15,000 million, 12.5% and 14.5%, respectively. Furthermore, the Bank's plans to resolve these conditions outlined in the capital restoration plan in Note 5.5 and discussed below could be negatively affected by the impact of the Covid-19 pandemic. The inability to successfully implement the capital restoration plan in the foreseeable future as required by applicable regulations could impact the Bank's going concern status. These conditions give rise to a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern and that, therefore, it may be unable to realise assets and discharge liabilities in the normal course of business.

## 2. BASIS OF PREPARATION (Continued)

### 2.2 Going concern (Continued)

The Bank's management and directors have made an assessment of the Bank's ability to continue as a going concern for the foreseeable future. The financial statements are prepared on the basis of a going concern. This basis presumes that the Bank's business and capital restoration plans (in Note 5.5) will be successfully implemented to the extent that the Bank's capital position will be restored to the level required by the regulations, the Bank will have access to sufficient resources necessary to enable it to continue in business for the foreseeable future, and that realisation of assets and discharge of liabilities will occur in the normal course of business. This is based on the following considerations:

- The Bank's liquidity position is expected to be reasonably sufficient to meet the creditor and other business requirements. The Bank has not had significant negative impact on liquidity so far arising from the Covid-19 pandemic mainly because of the nature and structure of the Bank's liabilities and the liquidity investment portfolio base. This is expected to continue for the foreseeable future. The Bank's management and directors will continue to take necessary mitigations including close monitoring of key liquidity metrics, including liquidity outflows, close and tight management of positions and intraday flows, slowing down/prioritizing lending in order to minimize the risk of default and liquidity distress, and managing the loan portfolio closely in order to take necessary performance remedial actions timely.

- The Bank's core and total capital positions are dependent on a number of factors including financial results and raising of additional equity and the level of risk weighted assets. The directors and management expect to improve these factors in the foreseeable future. The shareholders, directors and management are committed to ensuring that the capital restoration plan disclosed in Note 5.5 is executed as quickly as possible in order to return the Bank to regulatory capital compliance, profitability and sustainable growth.

However, achieving the above is dependent on the Bank successfully implementing the capital restoration and business plans approved by BoT and the directors. The Bank's management and directors expect that, while some indirect impact, for example, in terms of increase in credit risk, is expected due to value chain linkages with the downstream small and medium enterprises and consumer segments which constitute the significant base of the Bank's customer base, the Bank's business growth will be anchored on the sectors that mainly support the Bank's business and that these sectors will not be significantly impacted by the Covid-19 pandemic. However, it is possible that the consequences of the pandemic could have a negative impact on the Bank's business growth momentum and in achieving the forecast performance targets in the short to medium term.

## 3. CHANGES IN ACCOUNTING POLICIES

### 3.1 New and amended standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective are not expected to have a significant impact on the Company's financial statements. Consequently, the Bank has not early adopted any new or amended standard and interpretation.

### 3.2 New and amended standards and interpretations effective during the year

The new and amended standards and interpretations effective from 1 January 2019 did not have a material effect on the Bank's financial statements except for IFRS 16 Leases (''IFRS 16'').

## 3. CHANGES IN ACCOUNTING POLICIES (Continued)

### 3.2 New and amended standards and interpretations effective during the year (Continued)

**IFRS 16 *Leases***

On 1 January 2019, the Bank adopted IFRS 16 which replaced IAS 17 *Leases*. IFRS 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for these two types of leases differently.

The Bank elected to adopt the modified retrospective approach and did not restate comparative information, that is, comparative information is presented as previously reported under IAS 17 and related interpretations. The following practical expedients were applied on transition to IFRS 16:

- The Bank did not reassess whether leases identified under IAS 17 were leases under IFRS 16
- The Bank did not record a lease liability or right-of-use asset for leases with a remaining term of less than 12 months as at 1 January 2019
- The Bank excluded initial direct costs from the measurement of right-of-use assets as at 1 January 2019

The judgements applied in the application of IFRS 16 included determining if a contract contained a lease, and the determination of whether the Bank is reasonably certain that it will exercise extension options present in lease contracts. The estimates applied were the determination of incremental borrowing rates (IBR) used to discount the minimum lease payments. The weighted average discount rate applied on the transition date was 11.91% per annum.

The impact of IFRS 16 on the Bank was primarily in respect to where the Bank is a lessee under lease arrangements for property leases for office and branch space. On 1 January 2019, the Bank recognised a lease liability, being the remaining lease payments, including extensions options where renewal was reasonably certain, discounted using the Bank's incremental borrowing rate at the date of initial application. The corresponding right-of-use asset recognised was the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The impact on 1 January 2019 was recognition of lease liabilities and right-of-use assets amounting to TZS 4,009 million as disclosed in Notes 25 and 33. There was no adjustment to retained earnings and consequently no deferred tax impact on initial recognition.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as shown below:

| | **TZS'000** |
|---|---|
| Operating lease commitments as at 31 December 2018 (Note 38) | 3,137,637 |
| Impact of discounting using the weighted average incremental borrowing rate as at 1 January 2019 of 11.91% | (422,355) |
| **Discounted lease commitments as at 1 January 2019** | **2,715,282** |
| **Add**: Present value of lease commitments relating to renewal periods not included in operating lease commitments as at 31 December 2018 | 1,293,661 |
| **Discounted operating lease commitments as at 1 January 2019 (Note 33)** | **4,008,943** |

## 4. 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.

### (a) Interest income and expense

For all interest-bearing instruments measured at amortized cost, interest income and expenses are recognized in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or financial liability.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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 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 and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

### (b) Other revenue and income

Revenue from contracts with customers is measured based on the consideration specified in a contract with a customer and excludes amounts on behalf of third parties. The Bank recognises the revenue from contracts with customer when it transfers control over to the customers. Revenue from contracts with customers is presented in "fee and commission income".

*Consulting, administration and similar service fees*
Fee income received by the Bank for administration, consulting and similar services is recognised as revenue as the service is provided. The service is billed and the cash is received on a monthly basis.

*Deposit-related fees and commissions*
Banking fees such as bundled service fees, transactional fees and account management fees are recognised over the period over which the underlying service is provided to the customer. Transactional fees such as cash withdrawal fees, deposit fees, debit order fees etc. are recognised at the point in time of transactions with customers and payment is received monthly. The performance obligation on bundled services is satisfied on a monthly basis.

*Commitment fees*
Commitment fees relate to loan commitments where it is not probable that the loan will be drawn. Such fees are regarded as a return for the provision of a service and are amortised over the commitment period. These fees may be received upfront or on a monthly basis.

### (c) Provisions

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (d) Foreign currency translation

*Functional and presentation currency*
Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates (the ''functional currency") which is TZS. The financial statements are presented in TZS.

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

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

### (e) Financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the following table:

<table>
<tr><th colspan="2">Category (As defined by IFRS 9)</th><th colspan="2">Class (as determined by the Bank)</th></tr>
<tr><td rowspan="7">Financial assets</td><td rowspan="6">Debt instruments at amortized cost</td><td colspan="2">Loans and advances to other banks</td></tr>
<tr><td colspan="2">Cash in hand</td></tr>
<tr><td colspan="2">Balances with BoT</td></tr>
<tr><td>Loans and advances to customers</td><td>Loans to individuals<br>Loans to commercial entities<br>Loans to salaried employees<br>Advances to staff</td></tr>
<tr><td>Investments in debt instruments</td><td>Government securities<br>Corporate bonds</td></tr>
<tr><td>Other assets</td><td>Sundry debtors<br>Imprest accounts</td></tr>
<tr><td>Fair value through other comprehensive income (FVOCI)</td><td colspan="2">Equity investments designated at FVOCI</td></tr>
<tr><td rowspan="3">Financial liabilities</td><td rowspan="3">Financial liabilities at amortised cost</td><td colspan="2">Deposits due to other banks</td></tr>
<tr><td colspan="2">Other liabilities</td></tr>
<tr><td>Deposits due to customers</td><td>Demand deposits<br>Time deposits</td></tr>
</table>

**Undrawn loan commitments**

The Bank issues loan commitments. 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. The nominal contractual value of the undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. However, since the commitments are under the scope of IFRS 9, if material, ECL amounts are recognized in the statement of financial position within provisions and the movement in the provision is recognized in profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Financial instruments (Continued)

**Financial assets**

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. The classification and subsequent measurement of financial assets depends on:

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

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

Based on these factors, the Bank classifies its financial assets into one of the following measurement categories.

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest and similar income' using the effective interest rate method.

- **Fair value through profit or loss (FVPL):** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in profit or loss within 'Other income' in the period in which it arises.

- **Fair value through other comprehensive income (FVOCI) with recycling:** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest and are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Other income'

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) Financial instruments (Continued)**

**Financial assets (Continued)**

- **Equity instruments:** Equity instruments are instruments that meet the definition of equity from the issuer's perspective, that is, instruments that do not contain a contractual obligation to pay cash and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares. The Bank subsequently measures all investments in equity instruments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

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

***De-recognition of financial assets***
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when the rights to receive cash flows from the financial asset have expired. The Bank also derecognizes the financial asset if it has both transferred the financial asset and the transfer qualifies for de-recognition. 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, but assumes a contractual obligation to pay those cash flows to one or more entities, when all the following conditions have been 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 flow 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 de-recognition 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.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Financial instruments (Continued)

**Financial assets (Continued)**

***Modification of financial assets***

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. The Bank renegotiates loans to customers in financial difficulty to maximize collection and minimize the risk of default.

If the terms are substantially different, the Bank derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. A loan will remain at its original stage until it meets the criteria of cure.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition. The Bank monitors the subsequent performance of modified assets until they are completely and ultimately derecognized. The Bank may determine that the credit risk has significantly improved after modification, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms. Differences in the carrying amount are recognized in profit or loss as a gain or loss on de-recognition.

If the terms are not substantially different, the renegotiation or modification does not result in de-recognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

***Impairment of financial assets***

The Bank records the allowance for expected credit losses on loans and other debt financial assets not held at FVPL. Equity instruments are not subject to impairment under IFRS 9.

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 (12-month ECL).

The 12-month ECL allowance is a portion of LTECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECL and 12 months' ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Financial instruments (Continued)

### Financial assets (Continued)

***Impairment of financial assets (Continued)***
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. Based on this 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 12 months expected credit losses. 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 lifetime expected credit losses. 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. The Bank records an allowance for the lifetime expected credit losses.

**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 ECL.

*Calculation of Expected Credit Losses*
The Bank calculates expected credit losses based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the expected credit losses calculations are outlined below and the key elements are, as follows:

**Probability of Default (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.

**The Exposure at Default (EAD):** 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.

**Loss Given Default (LGD):** 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. It is usually expressed as a percentage of the exposure at default.

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 amount.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Financial instruments (Continued)

### Financial assets (Continued)

***Impairment of financial assets (Continued)***

*Calculation of Expected Credit Losses (Continued)*
The mechanics of the Expected Credit Losses method are summarised below:

**Stage 1**: The 12-month expected credit loss is calculated as the portion of life time expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12-month expected credit loss 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 effective interest rate (EIR)..

**Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the life time expected credit losses. The mechanics are similar to those explained above, including the use of multiple scenarios, but PD and LGD 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, 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%.

**Loan commitments**: When estimating lifetime expected losses for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected credit losses 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 effective interest rate on the loan. The calculation of expected credit losses, including the estimation of the expected period of exposure and discount rate is made, on an individual basis for corporate and on a collective basis for retail loans products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

**Forward looking information:** In the expected credit losses models, the Bank relies on a broad range of forward-looking, information as economic inputs. The inputs and models used for calculating ECLs 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.

***Definition of default:*** IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. The Bank considers a default as and when a financial asset is past due for more than 90 days or the qualitative criterion by which the financial institution considers that the obligor is unlikely to pay its credit obligations in full, without recourse to actions such as realizing security. The analysis in this model is based on the consideration that any loans past due for more than 30 days or degraded 3 notches from the rating at initial recognition is an indication of increase in credit risk and subject to staging as per IFRS 9 requirements. The Bank also considers the following events: Significant financial difficulty of the borrower or issuer; A breach of contract such as a default or past due event; The lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider; The disappearance of an active market for a security because of financial difficulties; or, The purchase of a financial asset at a deep discount that reflects the incurred credit losses. It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments measured at amortised cost or FVOCI are credit-impaired at each reporting date.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) Financial instruments (Continued)**

**Financial assets (Continued)**

***Impairment of financial assets (Continued)***

*Collateral valuation*
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. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of expected credit losses. It is generally assessed, at a minimum, at inception and re-assessed on at least every three years. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as recognized property valuers.

*Collateral repossessed*
The Bank's policy is to sell the repossessed collateral and the proceeds obtained used to recover the loan outstanding. In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the properties under legal repossession processes are not recorded on the statement of financial position.

*Write off of financial assets*
Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. 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 the ECL expense.

The Bank may write off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include: (i) ceasing enforcement activity; and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full or there is no reasonable expectation of completing the recovery process because of litigation proceedings by the borrowers. The Bank generally considers that there is no reasonable expectation of recovering non-performing financial assets that have been in loss category for more than four (4) consecutive quarters. The assessment is done per specific borrower.

*Judgements and estimates applied in determining ECL*
The measurement of impairment losses under IFRS 9 across all categories of financial assets 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. The Bank's expected credit losses calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the expected credit losses 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 Lifetime expected credit losses basis and the qualitative assessment
- The segmentation of financial assets when their ECLs are assessed on a collective basis.
- Development of ECL models, including the various formulae and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as inflation levels and collateral values, 91 days Treasury Bill rates, changes in exchange rates and the effect on PDs, EADs and LGDs.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(e) Financial instruments (Continued)**

**Financial assets (Continued)**

***Impairment of financial assets (Continued)***

*Cure of non-performing financial assets including restructured loans*
An instrument is considered to no longer be SICR or in default (i.e. to have cured) when it has been established that the obligor is able to meet the requirements of the agreed terms and conditions. IFRS 9 allows credit exposures to migrate from higher credit risk categories to lower credit risk categories, that is, from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

Under migration from Stage 3 to Stage 2, the Bank considers criteria for upgrade of credit accommodations, whereby the obligor has timely paid three consecutive instalments. These periods have been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. The Bank has not used the low credit risk exemption for any financial instruments in the current year.

On the other hand, credit exposures may migrate from Stage 2 to Stage 1 when there is a significant improvement of the credit exposure. In determining whether an exposure should shift backward from Stage 2 to Stage 1, the Bank considers the following:

- All outstanding payments on the credit facility are made on time and there are no payments in arrears.
- Improvement of the quantitative and qualitative factors that caused significant increase of the credit risk.

For credit exposures that have cured, that is, shifted from Stage 2 to Stage 1, interest income is calculated on carrying amount of the asset at the beginning of the period before allowance for ECLs using the effective interest rate. The carrying amount of the exposure is determined as the amortized cost at the end of the period less the allowance for ECL computed.

For credit exposures that have shifted from Stage 3 to Stage 2, objective evidence of impairment still exists and accordingly interest income is computed on the carrying amount of the asset at the beginning of the period after allowance for ECLs using the effective interest rate. The carrying amount of the exposure is determined as the amortized cost at the end of the period less the allowance for ECL computed.

**Financial liabilities**

Financial liabilities are initially recognized at fair value plus transaction costs, except for financial liabilities recorded at fair value through profit or loss. Subsequent to initial recognition all financial liabilities other than derivatives are measured at amortized cost. Derivatives are initially recognized and subsequently measured at fair value. Financial liabilities measured at amortized cost are deposits and other liabilities.

*De-recognition of financial liabilities*
A financial liability is derecognised when the obligation under the liability is discharged or 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 de-recognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the original financial liability and the consideration paid is recognised in profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Financial instruments (Continued)

**Offsetting financial instruments**

Where a currently enforceable legal right of offset exists for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

### (f) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and all cash equivalent items maturing within 90 days from the date of acquisition including non-restricted balances with BoT and loans and advances to other banks maturing within three months. Cash and cash equivalents exclude the statutory minimum reserve requirement held with BoT.

### (g) Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. The carrying amounts of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable. If any such indication exists, and where the carrying amounts exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The impairment losses are recognized in profit or loss.

In determining the recoverable amount, the Bank considers the higher of the fair value of the asset less costs to disposal, and value in use. In estimating value in use, the Bank is cognisant of the estimated future cash flows discounted to the present value using a pre-tax discount rate that is reflective of the current market assessment of time value of money and the risks specific to the asset itself. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by available fair value indicators.

Where impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but limited to the extent that, the increased carrying amount does not exceed the carrying amount that would have been determined, net of accumulated depreciation or amortisation, had no impairment loss been recognised. Such reversal is recognised in profit or loss.

### (h) Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, foreign exchange rates, volatilities and counterparty spreads) existing at the reporting date.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (i) Taxes

Income tax expense represents the net of current income tax expenses and deferred tax charges or credits.

**Current tax**
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognised in OCI or directly in equity is recognised in OCI or equity, respectively, and not in profit or loss.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or 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.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition 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 the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits 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 has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted at the end of the reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(i) Taxes (Continued)**

**Value Added Tax (VAT)**

The Bank pays VAT on all its taxable purchases during the course of operation (input tax). The Bank also collects VAT, that is, output VAT, on the fees and commissions charged on the financial services according to the prevailing laws and remits the amount to Tanzania Revenue Authority (TRA).

Revenues, expenses and assets are recognised net of the amount of VAT except where the VAT incurred on a purchase of assets or services is not recoverable from the TRA, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, tax authorities is included as part of receivables or payables in the statement of financial position.

**(j) Equity**

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Share capital represents the aggregate of the paid-up and called-up amounts of shares issued. Share premium represents the excess of the amounts received on the issue of shares over the nominal value of shares. Statutory reserves are reserves such as credit risk reserves and other reserves that are normally set up according to regulatory requirements. Accumulated losses/retained earnings are the net financial results of the previous and current years.

**(k) Property and equipment**

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

The annual rates in use are:

| | |
|---|---|
| Machinery and equipment | 12.5% |
| Furniture, fixtures and fittings | 12.5% |
| Computer and IT equipment | 33.3% |
| Motor vehicles | 25.0% |
| Leasehold improvements | 20.0% |

An item of property and equipment is derecognised upon disposal 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 in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, 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 considered to modify the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Refer to Note 4(g) for the policy on impairment.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Intangible assets

Intangible assets comprise computer software licenses and other intangible assets. Intangible assets are initially recognised at cost and subsequently at cost less accumulated amortisation and impairment losses.

The useful lives of intangible assets are assessed to be finite. Intangible assets with a finite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 4 - 10 years. The amortisation period and the amortisation method are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense is recognised in profit or loss.

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

Refer to Note 4(g) for the policy on impairment.

### (m) Employees' benefits

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

*Post-retirement benefits*
The Bank operates a defined contribution plan whereby the employee and the Bank each contribute 10% of the employee's monthly salary to the National Social Security Fund, the state managed statutory fund. Apart from these monthly contributions, the Bank has no further commitments or obligations to the fund and it has no other postretirement benefit scheme. The contributions are charged to profit or loss in the year to which they relate.

*Other employee benefits*
The Bank provides free medical treatment to staff and their dependants. The cost is charged to profit or loss. The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognized as an expense accrual.

*Gratuity*
Certain senior personnel are entitled to gratuity payment of 25% at the completion of the contract. Provision is made for the gratuity in line with the respective contracts. The gratuity is a defined contribution arrangement.

### (n) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank Management Team, which is the chief operating decision maker for the Bank. Details of the Bank's operating segments are presented under Note 7.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(o) Leases**

***Accounting policies applicable in the prior period under IAS 17***

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Bank is classified as a finance lease. An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

***Accounting policies applicable under IFRS 16 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.

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The lease liabilities are recognised to make lease payments and right-of-use assets representing the right to use the underlying 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 re-measurement 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 useful lives for the recognised right-of-use assets are 1.5 – 16 years.

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 company 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.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in lease term, a change in the lease payments (e.g. change to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

## 5. FINANCIAL RISK MANAGEMENT

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

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

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

The directors have overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board approves written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and liquidity risk. Risk management is carried out by the Risk and Compliance Department under policies approved by the Board. The Risk and Compliance Department evaluates financial risk in close coordination with the operating units.

The main risks arising from the Bank's financial instruments are market risk, liquidity risk and credit risk. Market risk comprises of interest rate risk, foreign currency risk and price risk. The Bank does not have significant exposure to price risk as the equity investments held are not exposed to significant price risk.

### Management of financial risk

The Board reviews and agrees policies for managing each of the financial risks to which the Bank is exposed. These policies are applied to the following financial instruments by category:

| | Debt instruments at amortised cost TZS '000 | FVOCI TZS '000 | Total TZS '000 |
|---|---|---|---|
| **At 31 December 2019** | | | |
| ***Financial assets*** | | | |
| Cash and balances with BoT | 20,973,818 | - | 20,973,818 |
| Loans and advances to banks | 23,235,028 | - | 23,235,028 |
| Other assets[1] | 715,268 | - | 715,268 |
| Loans and advances to customers | 122,083,704 | - | 122,083,704 |
| Government securities | 23,780,209 | - | 23,780,209 |
| Investment in corporate bond | 2,002,220 | - | 2,002,220 |
| Equity investments | - | 539,000 | 539,000 |
| | **192,790,247** | **539,000** | **193,329,247** |
| ***Financial liabilities*** | | | |
| Deposits due to customers | 161,925,946 | - | 161,925,946 |
| Deposits due to banks | 16,799,185 | - | 16,799,185 |
| Other liabilities[2] | 3,495,498 | - | 3,495,498 |
| Lease liabilities | 4,597,117 | - | 4,597,117 |
| | **186,817,746** | **-** | **186,817,746** |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### Management of financial risk (Continued)

| | Debt instruments at amortised cost TZS '000 | FVOCI TZS '000 | Total TZS '000 |
|---|---|---|---|
| **At 31 December 2018** | | | |
| ***Financial assets*** | | | |
| Cash and balances with BoT | 17,478,962 | - | 17,478,962 |
| Loans and advances to banks | 24,942,547 | - | 24,942,547 |
| Other assets[1] | 384,355 | - | 384,355 |
| Loans and advances to customers | 99,035,944 | - | 99,035,944 |
| Government securities | 27,793,299 | - | 27,793,299 |
| Investment in corporate bond | 2,002,255 | - | 2,002,255 |
| Equity investments | - | 539,000 | 539,000 |
| | **171,637,362** | **539,000** | **172,176,362** |
| ***Financial liabilities*** | | | |
| Deposits due to customers | 136,466,747 | - | 136,466,747 |
| Deposits due to banks | 13,869,813 | - | 13,869,813 |
| Other liabilities[2] | 4,519,919 | - | 4,519,919 |
| | **154,856,479** | **-** | **154,856,479** |

[1]Comprises other assets as presented in the statement of financial position excluding items that are not financial assets like prepayments and stock of stationery.

[2]Comprises other liabilities as presented in the statement of financial position excluding items that are not financial liabilities like statutory liabilities and deferred fees.

### Excessive risk concentration

Concentration arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, 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.

Concentration indicates the relative sensitivity of the Bank's performance to developments affecting a particular counterparty, industry or geographical location. In order to avoid excessive concentration of risk, the directors ensure that the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio and that identified concentration of risk is controlled and managed accordingly.

### 5.1 Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from loans and advances to customers and other banks, and investments in government securities and corporate bonds. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

**Credit risk measurement**

In measuring credit risk, the Bank reflects two components, that is, the PD by the client or counterparty on its contractual obligations and current exposures to the counterparty and its likely future development, from which the Bank derives the EAD. These credit risk measurements, which reflect ECL, are embedded in the daily operational management and are in line with IFRS 9.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Credit Risk (Continued)

**Credit risk measurement (Continued)**
The Bank uses reasonable and supportable forward-looking information that is available without undue cost or effort in its assessment of significant increase in credit risk as well as in its measurement of ECL. External and internal information is used to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The key drivers of credit risk and credit losses for each portfolio of financial instruments are identified and documented using a statistical analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses.

The Bank has its internal credit rating tools tailored in accordance with the BoT guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

| Bank's rating | IFRS 9 Staging | Bank's description of the grade[1] |
|---|---|---|
| 1 | Stage 1 | Current |
| 2 | Stage 1 | Especially mentioned |
| 3 | Stage 2 | Sub-standard |
| 4 | Stage 2 | Doubtful |
| 5 | Stage 3 | Loss |

[1]Some of the financial assets in the grades could be classified in different IFRS 9 stages depending on criteria that is specific to the financial asset.

**Significant increase in credit risk**
The Bank monitors financial assets that are subject to ECL to assess whether there has been a significant increase in credit risk (SICR) since initial recognition. When there is a SICR since initial recognition, a financial asset is moved from Stage 1 to Stage 2 but is not yet deemed to be credit-impaired. If the financial asset is credit-impaired, the financial asset is then moved to Stage 3. The table below summarises the 'three-stage' model for impairment based on changes in credit quality since initial recognition.

| | Stage 1 (performing loans) | Stage 2 (non-performing loans) | Stage 3 (non-performing loans) |
|---|---|---|---|
| **Credit risk** | Financial instruments with low credit risk at the reporting date or which have not had SICR. | Financial instruments which have had a SICR since initial recognition but do not have objective evidence of a credit loss event. | Financial assets that have objective evidence of impairment at the reporting date. |
| **Recognition of expected credit losses** | 12 month expected credit losses are recognized. | Lifetime expected credit losses are recognised. | Lifetime expected credit losses are recognized. |
| **Recognition of interest** | Interest revenue is calculated on the gross carrying amount of the asset. | Interest revenue is calculated on the gross carrying amount of the asset. | Interest revenue is calculated based on the amortized cost net of the ECL allowance (net carrying amount). |

The Bank considers a debt instrument and loan commitment to have experienced a SICR when one or more of the following quantitative or qualitative criteria have been met:

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Credit Risk (Continued)

**Significant increase in credit risk (Continued)**

***Balances due from other banks***
The qualitative factors considered as indicators of significant increase in credit risk as follows:
- Significant counterparty management restructuring due to continues bad performance of the counterparty.
- Significant adverse change in the regulatory, economic or technology of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.
- Significant reductions in financial support from a parent company that resulted to significant adverse change of operating results of the counterparty.

***Loans and advances to customers and related commitments***

_Quantitative criteria_
Based on quantitative review for the purpose of ECL calculations, loans and advances and loan commitments are classified as follows:

- **0 – 30 days to be classified as Stage 1**: Loans and advances and related commitments which are performing according to contracted terms and conditions with low credit risk at the reporting date with 12-month expected credit losses being recognised.

- **31 – 90 days to be classified as Stage 2:** Loans and advances and related commitments which have had significant increase in credit risk since initial recognition but do not have objective evidence of credit loss event with lifetime expected credit losses being recognised.

- **91 days or more to be classified as Stage 3:** Loans and advances and related commitments which have objective evidence of impairment at the reporting date with lifetime expected credit losses being recognized (credit-impaired assets).

_Qualitative criteria_
For personal loans, if the borrower meets one or more of the following criteria:

- Short-term forbearance or restructuring.
- Adverse changes of external data from credit references agencies.

For corporate and SME portfolios, if the borrower is on the watch list (especially mentioned) and/or the instrument meets one or more of the following criteria:

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates.
- Actual or expected forbearance or restructuring.
- Actual or expected significant adverse change in operating results of the borrower.
- Significant change in collateral value which is expected to increase risk of default.
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.
- Significant adverse changes in political, regulatory and technological environment of the borrowers or in its business activities.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Credit Risk (continued)

**Risk limit control and mitigation policies**
The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, groups, and industries. The Bank structures the levels of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-statement of financial position exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through weekly analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits, where appropriate. Other specific control and mitigation measures are outlined below.

*Collateral*
This is the most traditional of the approaches applied to manage credit risk and involves taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances to customers are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

In order to minimise credit loss, the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for a facility.

*Credit-related commitments*
The primary purpose of these instruments is to ensure that funds are available to a customer as required. Loan commitments carry the same credit risk as loans and advances. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss of the amounts equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

*Internal reviews and audits*
Regular audit of the Credit Department processes is undertaken by the Internal Audit Department.

*Internal credit ratings*
The internal rating scale assists the directors to determine whether objective evidence of impairment exists under IFRS 9, based on the following criteria set out by the Bank:

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

The Bank’s policy requires the review of individual financial assets regularly and monitoring is on monthly basis.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Credit Risk (continued)

**Maximum exposure to credit risk**
The maximum exposure to credit risk in respect to loans and advances to customers before collateral held or other credit enhancements is analysed as follows:

| Bank's rating | 2019 Credit risk exposure | 2019 ECL allowance | 2018 Credit risk exposure | 2018 ECL allowance |
|---|---|---|---|---|
| | % | % | % | % |
| Current | 77 | 14 | 86 | 17 |
| Especially mentioned | 1 | 32 | 7 | 26 |
| Substandard | 2 | 13 | 1 | 3 |
| Doubtful | 11 | 19 | 1 | 16 |
| Loss | 9 | 22 | 5 | 38 |
| | **100** | **100** | **100** | **100** |

The directors are reasonably confident in the ability to continue to control and mitigate exposure to credit risk resulting from both the exposures for which the Bank holds collateral and other credit enhancements and for which none is held.

The carrying amounts which represent the maximum exposure to credit risk, including those for which no collateral or other credit enhancements are held, are indicated below:

| | 2019 TZS'000 | 2019 % | 2018 TZS'000 | 2018 % |
|---|---|---|---|---|
| Cash and balances with BoT | 12,229,817 | 6.6% | 11,645,593 | 7.0% |
| Loans and advances to banks | 23,235,028 | 12.5% | 24,942,547 | 14.9% |
| Other assets | 715,268 | 0.4% | 384,355 | 0.2% |
| Government securities | 23,780,209 | 12.8% | 27,793,299 | 16.6% |
| Investment in corporate bond | 2,002,220 | 1.1% | 2,002,255 | 1.2% |
| **No collateral held** | **61,962,542** | **33.3%** | **66,768,049** | **39.9%** |
| Loans and advances to customers | 122,083,704 | 65.6% | 99,035,944 | 59.2% |
| Loan commitments | 2,149,314 | 1.2% | 1,611,891 | 1.0% |
| **With collateral or other credit enhancements** | **124,233,018** | **66.7%** | **100,647,835** | **60.1%** |
| **Maximum exposure to credit risk** | **186,195,560** | **100.0%** | **167,415,884** | **100.0%** |

The above exposures are before considering the value of collateral held.

**Credit exposure per industry sector**
The following table indicates the Bank's credit exposure at carrying amounts, without taking into account any collateral held or other credit support, as categorized by the industry sectors of the Bank's counterparties.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.1 Credit Risk (continued)

**Credit exposure per industry sector**

| *All amounts are in TZS'000* | Financial institutions | Real estate | Wholesale and retail trade | Church institutions | Other | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | | |
| Balances with Bank of Tanzania | 12,229,817 | - | - | - | - | 12,229,817 |
| Loans and advances to banks | 23,235,028 | - | - | - | - | 23,235,028 |
| Other assets | - | - | - | - | 715,268 | 715,268 |
| Government securities | - | - | - | - | 23,780,209 | 23,780,209 |
| Investment in corporate bond | 2,002,220 | - | - | - | - | 2,002,220 |
| Loans and advances to customers | 3,568,435 | 7,985,265 | 49,989,316 | 51,696,898 | 8,843,790 | 122,083,704 |
| | **41,035,500** | **7,985,265** | **49,989,316** | **51,696,898** | **33,339,267** | **184,046,246** |
| Loan commitments | - | - | - | - | 2,149,314 | 2,149,314 |
| **At 31 December 2018** | | | | | | |
| Balances with Bank of Tanzania | 11,645,593 | - | - | - | - | 11,645,593 |
| Loans and advances to banks | 24,942,547 | - | - | - | - | 24,942,547 |
| Other assets | - | - | - | - | 384,355 | 384,355 |
| Government securities | - | - | - | - | 27,793,299 | 27,793,299 |
| Investment in corporate bond | 2,002,255 | - | - | - | - | 2,002,255 |
| Loans and advances to customers | 1,119,318 | 7,453,611 | 34,843,495 | 41,261,484 | 14,358,036 | 99,035,944 |
| | **39,709,713** | **7,453,611** | **34,843,495** | **41,261,484** | **42,535,690** | **165,803,993** |
| Loan commitments | - | - | - | - | 1,611,891 | 1,611,891 |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.2 Market Risk (continued)

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

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

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

**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. The Board sets limits on the level of exposure by currency which is monitored daily. The Bank's exposure to foreign currency risk was as follows:

| *All amounts are in TZS'000* | **USD** | **EURO** | **GBP** | **KSH** | **Total** |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| **Financial assets** | | | | | |
| Cash and balances with BoT | 3,441,720 | 4,477,260 | 219,240 | 440 | 8,138,660 |
| Loans and advances to banks | 9,490,660 | 2,305,370 | - | - | 11,796,030 |
| | 12,932,380 | 6,782,630 | 219,240 | 440 | 19,934,690 |
| **Financial liabilities** | | | | | |
| Deposits from customers | 12,927,380 | 6,759,470 | 24,660 | - | 19,711,510 |
| Other liabilities | 60,630 | 63,240 | 70 | - | 123,940 |
| | 12,988,010 | 6,822,710 | 24,730 | - | 19,835,450 |
| **Net open position** | **(55,630)** | **(40,080)** | **194,510** | **440** | **99,240** |
| **At 31 December 2018** | | | | | |
| **Financial assets** | | | | | |
| Cash and balances with BoT | 5,369,230 | 256,540 | 35,220 | - | 5,660,990 |
| Loans and advances to banks | 5,073,250 | 6,167,050 | - | - | 11,240,300 |
| | 10,442,480 | 6,423,590 | 35,220 | - | 16,901,290 |
| **Financial liabilities** | | | | | |
| Deposits from customers | 10,275,990 | 4,605,050 | 10,300 | - | 14,891,340 |
| Other liabilities | 55,270 | 723,770 | 30 | - | 779,070 |
| | 10,331,260 | 5,328,820 | 10,330 | - | 15,670,410 |
| **Net open position** | **111,220** | **1,094,770** | **24,890** | **-** | **1,230,880** |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.2 Market Risk (continued)

**Foreign exchange risk (Continued)**
The following table details the Banks's sensitivity to a 5% increase and decrease in the USD to TZS rate. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis is done for USD as this is the main foreign currency used by the Bank and considers only outstanding monetary items denominated in USD. A positive number indicates an increase in profit and equity while a negative number indicates the reverse.

| | | Amounts in TZS'000 | |
|---|---|---|---|
| | **Change in USD:TZS rate** | **(Loss)/profit before tax sensitivity** | **Equity sensitivity** |
| **At 31 December 2019** | | | |
| Foreign exchange rates | +5% | (2,782) | (1,947) |
| | -5% | 2,782 | 1,947 |
| **At 31 December 2018** | | | |
| Foreign exchange rates | +5% | 5,561 | 3,893 |
| | -5% | (5,561) | (3,893) |

Potential exposure to other foreign currencies is not considered significant.

**Interest rate risk**
The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest re-pricing that may be undertaken. Consequently, the interest sensitivity effects on profit or loss would not be significant given the re-pricing frequency.

With all other variables held constant, a change in interest rates by +/- 100 basis points on interest-bearing financial assets and liabilities would have resulted in lower/higher results before tax and equity as indicated below:

| | | Amounts in TZS'000 | |
|---|---|---|---|
| | **Change in interest rates** | **(Loss)/profit before tax sensitivity** | **Equity sensitivity** |
| **At 31 December 2019** | | | |
| Market interest rates | +1% | 1,006,537 | 704,576 |
| | -1% | (1,006,537) | (704,576) |
| **At 31 December 2018** | | | |
| Market interest rates | +1% | 1,081,666 | 757,166 |
| | -1% | (1,081,666) | (757,166) |

The table below summarizes the exposure to interest rates risks. Included in the table are the Bank's financial assets and liabilities at carrying amounts categorized by the earlier of contractual re-pricing or maturity dates. The Bank does not bear interest rate risk on off statement of financial position items.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.2 Market Risk (Continued)

**Interest rate risk (Continued)**

| *All amounts are in TZS'000* | Up to 1 month | >1 – 3 months | >3-12 months | Over 1 year | Fixed interest rate | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|
| | TZS'000 | TZS'000 | TZS'000 | TZS'000 | TZS'000 | TZS'000 | TZS'000 |
| **At 31 December 2019** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and Bank balances with BoT | - | - | - | - | - | 20,973,818 | 20,973,818 |
| Loans and balance due from banks | 4,983,713 | 11,119,400 | - | - | - | 7,131,915 | 23,235,028 |
| Other assets | - | - | - | - | - | 715,268 | 715,268 |
| Loans and advances to customers | 8,071,778 | 2,409,539 | 23,967,541 | 87,498,792 | - | 136,054 | 122,083,704 |
| Government securities | - | - | 2,920,283 | 20,859,926 | - | - | 23,780,209 |
| Investment in corporate bond | - | - | - | 2,002,220 | - | - | 2,002,220 |
| Equity investments | - | - | - | - | - | 539,000 | 539,000 |
| | **13,055,491** | **13,528,939** | **26,887,824** | **110,360,938** | **-** | **29,496,055** | **193,329,247** |
| **Financial liabilities** | | | | | | | |
| Deposits due to banks | 11,478,375 | - | - | 5,320,810 | - | - | 16,799,185 |
| Deposits due to customers | 17,556,001 | 4,724,201 | 18,241,270 | 5,858,839 | 74,349,338 | 41,196,297 | 161,925,946 |
| Other liabilities | - | - | - | - | - | 3,495,498 | 3,495,498 |
| Lease liabilities | - | - | - | - | 4,597,117 | - | 4,597,117 |
| **Total liabilities** | **29,034,376** | **4,724,201** | **18,241,270** | **11,179,649** | **78,946,455** | **44,691,795** | **186,817,746** |
| | | | | | | | |
| **Interest sensitivity gap** | **(15,978,885)** | **8,804,738** | **8,646,554** | **99,181,289** | | | |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.2 Market Risk (Continued)

**Interest rate risk (Continued)**

| *All amounts are in TZS'000* | Up to 1 month TZS'000 | >1 – 3 months TZS'000 | >3-12 months TZS'000 | Over 1 year TZS'000 | Fixed interest rate TZS'000 | Non-interest bearing TZS'000 | Total TZS'000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2018** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and Bank balances with BoT | - | - | - | - | - | 17,478,962 | 17,478,962 |
| Loans and balance due from banks | - | 15,904,782 | - | - | - | 9,037,765 | 24,942,547 |
| Other assets | - | - | - | - | - | 384,355 | 384,355 |
| Loans and balance with customers | 5,911,141 | 5,662,541 | 11,442,010 | 75,913,639 | - | 106,613 | 99,035,944 |
| Government securities | - | - | 7,122,063 | 20,671,236 | - | - | 27,793,299 |
| Investment in corporate bond | - | - | - | 2,002,255 | - | - | 2,002,255 |
| Equity investment | - | - | - | - | - | 539,000 | 539,000 |
| **Total assets** | **5,911,141** | **21,567,323** | **18,564,073** | **98,587,130** | **-** | **27,546,695** | **172,176,362** |
| **Liabilities** | | | | | | | |
| Deposits due to banks | - | 3,800,000 | 1,481,250 | 8,588,563 | - | - | 13,869,813 |
| Deposits due to customers | 14,795,716 | 25,321 | 6,097,416 | 1,674,771 | 62,147,760 | 51,725,763 | 136,466,747 |
| Other liabilities | - | - | - | - | - | 4,519,919 | 4,519,919 |
| **Total liabilities** | **14,795,716** | **3,825,321** | **7,578,666** | **10,263,334** | **62,147,760** | **56,245,682** | **154,856,479** |
| **Interest sensitivity gap** | **(8,884,575)** | **17,742,002** | **10,985,407** | **88,323,796** | | | |

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.3 Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

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

The Bank's treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid Government securities, loans and advances due from other banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity policies and procedures are subject to review by the Assets and Liabilities Committee and approval by the Board.

The Bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that the funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, the directors ensure that the mismatch is controlled in line with allowable risk levels. Liquidity management processes 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 are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

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

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed are the contractual undiscounted cash flows as liquidity is managed on this basis.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.3 Liquidity Risk

| *All amounts are in TZS'000* | Up to 1 month TZS'000 | >1-3 months TZS'000 | >3-12 Months TZS'000 | Over 1 year TZS'000 | Total TZS'000 |
|---|---|---|---|---|---|
| **At 31 December 2019** | | | | | |
| Deposits due to banks | 12,454,037 | - | - | 5,773,079 | 18,227,116 |
| Deposits due to customers | 91,772,712 | 5,135,206 | 19,828,260 | 59,277,324 | 176,013,502 |
| Lease liabilities | 104,800 | 209,602 | 1,230,700 | 7,354,124 | 8,899,226 |
| Other liabilities | 3,495,498 | - | - | | 3,495,498 |
| **Total financial liabilities** | **107,827,047** | **5,344,808** | **21,058,960** | **72,404,527** | **206,635,342** |
| | | | | | |
| **At 31 December 2018** | | | | | |
| Deposits due to banks | - | 4,123,000 | 1,607,156 | 9,318,591 | 15,048,747 |
| Deposits due to customers | 139,863,463 | 27,524 | 6,627,891 | 1,820,476 | 148,339,354 |
| Other liabilities | 4,519,919 | - | - | - | 4,519,919 |
| **Total financial liabilities** | **144,383,382** | **4,150,524** | **8,235,047** | **11,139,067** | **167,908,020** |

The undrawn loan commitments as at 31 December 2019 and 31 December 2018 were due within one year.

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would be able to meet unexpected net cash outflows by selling investment securities and accessing additional funding sources such as equity and external borrowing.

### 5.4 Fair value measurement

The fair values of the Bank's financial instruments reasonably approximate the carrying amounts because:

*Debt instruments at amortised cost*
These are either short term or long-term instruments which have interest rates that reasonably approximate prevailing market rates.

*Equity investments*
Share sales transactions by the issuers of the equity investments done at or about the reporting date did not differ materially from the share prices at which the Bank purchased and continues to carry the equity investments.

*Fair value hierarchy*
IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs form the basis for the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 5.4 Fair value measurement (Continued)

*Fair value hierarchy (Continued)*

- 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.

The following represents the Bank's assets that were measured at fair value:

| | TZS '000 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **At 31 December 2019** | | | | |
| Equity investments | - | 500,000 | 39,000 | 539,000 |
| **31 December 2018** | | | | |
| Equity investments | - | 500,000 | 39,000 | 539,000 |

The equity investments are valued using transaction prices for the same or similar investments done at or close to the reporting period. There were no transfers between levels during 2019 and 2018.

Refer to Note 24 for further disclosures on fair value.

### 5.5 Capital management

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

- To comply with the regulatory capital requirements set by the Banking and Financial Institutions Act, 2006 (the ''Act'') and related regulations;
- 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;
- To ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business; and,
- To maximize shareholders' value.

*Regulatory capital requirements*

The regulatory capital requirements are stipulated in the Act and the related regulations, that is, The Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 and The Banking and Financial Institutions (Capital Adequacy) (Amendment) Regulations, 2015. The Act and related regulations set, among other measures, the ratios and rules for monitoring adequacy of capital. These include requirements that a supervised bank shall at all times maintain:

a) Minimum core capital of not less than TZS 15 billion.

b) A ratio of core capital to the risk-weighted assets plus risk-weighted off-statement of financial position assets (the 'Basel ratio') plus market risks and operational risk charges at or above the required minimum of 12.5%.

## 5. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 5.5 Capital management (Continued)

c) A ratio of total capital of not less than 14.5% of the risk-weighted assets plus risk-weighted off-statement of financial position items plus market risks and operational risk charges.

The Bank's regulatory capital as managed by its Treasury Department is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Intangible assets other than software, deferred tax assets and prepaid expenses are deducted in arriving at Tier 1 capital; and

- Tier 2 capital: qualifying subordinated loan capital and regulatory general provisions for loans and advances.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of, and reflecting an estimate of credit, market and other risks associated with, each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

Limits are applied to elements of the capital base, for example, qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

The Banking and Financial Institutions (Credit Concentration and Other Exposures Limits) Regulations, 2014 prescribe limits for credit concentration and other exposures basing on core capital as the determinant of the limits. These include single borrower's limits, aggregate large exposure limits, equity investments limits, among others.

BoT monitors capital requirements for the supervised banks and financial institutions as a whole. Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines implemented by BoT for supervisory purposes. The required information is filed with BoT on a quarterly basis.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.5 Capital management (Continued)

The table below summarises the composition of regulatory capital and the Bank's capital adequacy ratios as at 31 December 2019 and 31 December 2018.

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital | 20,615,272 | 20,615,272 |
| (Accumulated losses)/retained earnings | (11,323,848) | 1,898,334 |
| Less: | | |
| Intangible assets[1] | - | (869,146) |
| Prepaid expenses | (685,031) | (556,581) |
| Lease hold improvements | - | (720,815) |
| Deferred tax asset | - | (1,144,631) |
| **Total qualifying Tier 1 capital** | **8,606,393** | **19,222,433** |
| **Tier 2 capital** | | |
| General reserve[2] | **-** | **780,919** |
| **Total qualifying Tier 2 capital** | **-** | **780,919** |
| **Total regulatory capital** | **8,606,393** | **20,003,352** |
| **Risk - weighted assets** | | |
| On statement of financial position risk weighted assets[3] | 138,232,936 | 110,859,415 |
| Off statement of financial position risk weighted exposures | 2,149,314 | 1,611,891 |
| Total adjusted capital required for operational risk | 8,873,650 | 10,924,517 |
| Total adjusted capital required for market risk | 194,518 | 1,958,493 |
| **Total risk-weighted on and off statement of financial position, operational and market risk weighted exposures** | **149,450,418** | **125,354,316** |
| **Capital adequacy ratio** | **%** | **%** |
| Tier 1 (Regulatory required minimum ratio 12.5%) | 5.76% | 15.33% |
| Tier 1 + Tier 2 (Regulatory required minimum ratio 14.5%) | 5.76% | 15.96% |

There were no changes in the regulatory capital requirements during the year. However, BoT made the following pronouncements which impact how the capital requirements are calculated:

[1]Abolishing, on 3 July 2019, the requirement to deduct the carrying amount of the investment in computer software when calculating core and total capital. Previously, the amount was directly deducted when calculating core and total capital.

[2]Abolishing, on 3 July 2019, the requirement for 1% general provision on unclassified loans. The general provision reserve was previously part of tier 2 capital.

[3]Guiding, on 2 April 2020, that right-of-use assets should be treated as tangible assets by applying a risk weight consistent with the risk weight that would be applied to the underlying asset if owned or acquired.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.5 Capital management (continued)

As at 31 December 2019, the Bank's core capital, core capital ratio and total capital ratio were TZS 8,606 million, 5.76% and 5.76%, which are below the minimum regulatory requirements of TZS 15,000 million, 12.5% and 14.5%, respectively. The Banking and Financial Institutions (Prompt Corrective Actions) Regulations, 2014 stipulate the actions to be taken by BoT in dealing with undercapitalised banks. The actions depend on whether a bank is undercapitalised (core capital ratio of below 12.5%), significantly undercapitalised (core capital ratio of less than 8.5%) or critically undercapitalised (core capital ratio of less than 6.5%). The following are the stipulated mandatory actions to be taken by BoT for critically undercapitalised banks:

- Requiring the bank to submit within such reasonable period as BoT may specify, a written plan for corrective action which identifies the existing weaknesses in the administration or operation of the bank, determines in detail the corrective measures required to remedy such weaknesses and offers a realistic time-table for implementing such measures;

- Prohibiting the bank from declaring and paying any dividends which would, in the opinion of BoT, likely cause the bank to fail to comply with the requirements prescribed under the Banking and Financial Institutions (Capital Adequacy) Regulations;

- Intensify its oversight and monitoring of the bank or financial institution in accordance with the principles of risk-based supervision;

- Directing the bank to submit within thirty days from the date of the directive, or such period as BoT may specify, a capital restoration plan which will ensure that the bank becomes adequately capitalised within such period as may be prescribed by BoT;

- Prohibiting the bank from all transactions with related parties, except for repayment of any outstanding credit accommodation or any transaction specifically permitted by BoT to facilitate recapitalisation;

- Prohibiting the bank from awarding any bonus or increments in the salary, emoluments and other benefits of its directors and officers;

- Prohibiting the bank from opening any branches or other expansion of operations;

- Requiring the bank to obtain prior approval from BoT before doing any of the following: entering into any material transaction not within the scope of an approved capital restoration plan; extending credit for transactions deemed highly leveraged by BoT; amending the bank's memorandum and articles of association, except to the extent necessary to comply with any law, regulation, guideline or directive; and making any material change in accounting methods and policies; or,

- Appointing, within ninety days after BoT has determined that a bank is critically undercapitalised, a statutory manager or liquidator where a bank's core capital ratio is 2% or less and the bank is not operating in compliance with a capital restoration plan accepted by BoT.

BoT shall, within thirty days after receiving a capital restoration plan, provide a written notice to the bank of whether the capital restoration plan has been approved or rejected. Where a capital restoration plan has not been approved by BoT, a bank shall submit a revised capital restoration plan within a period specified by BoT. Upon receiving notice that its capital restoration plan has not been approved by BoT, an undercapitalised bank shall be subject to any other actions that BoT may determine until such time as a new or revised capital restoration plan submitted by the bank has been approved by BoT.

## 5. FINANCIAL RISK MANAGEMENT (Continued)

### 5.5 Capital management (continued)

Without prejudice to the penalties and actions prescribed in the Banking and Financial Institutions Act, 2006 of Tanzania, BoT may impose on an undercapitalized bank a penalty of the amount to be determined by BoT; disqualification of the bank's directors, officers or employees from holding any position or office in any bank or financial institution under the supervision of BoT.

The capital position is dependent on the inputs into the calculations as indicated above which include financial results, issued share capital position and level of risk weighted assets. The capital position is sensitive to changes in the absolute core capital position with higher impact being through additional equity and/or financial results, with profitability improving the ratios and vice versa. With all other factors and inputs held constant, increase in the accumulated loss position as at 31 December 2019 by about TZS 4.8 billion would result into the core capital ratio decreasing to 2% while increase in equity by about TZS 10.5 billion would result into the core capital ratio increasing to about 12.5%.

The Bank's directors and management have prepared a capital restoration plan to be submitted to BoT for approval**.** The main elements of the plan comprise:

- Capital mobilization initiatives led by the Bank's anchor shareholder, Tanzania Episcopal Conference (TEC), aimed at raising additional equity of TZS 15 billion. This is in accordance with the May 2019 Annual General Meeting (AGM) resolution to raise this additional capital to meet the following needs: support strategic business growth and modernization initiatives; and meet regulatory compliance including covering the IFRS 9 and IFRS 16 impact on capital. Some offshore potential investors have been approached and preliminary discussions are ongoing with those who expressed interest in investing in the Bank. TEC is also working on options to raise own funds to invest additional equity in the Bank. The outbreak of the Covid-19 pandemic has slowed down the process as the potential investors are from the European countries affected by the pandemic.
- Turning around key non-performing loans which are expected to result into reversal of the regulatory provisions leading to the regulatory reserve. The non-performing loans are expected to be turned around through disposal of collateral and/or restructuring of the loans. The positive turnaround of this portfolio will lead to reversing of the regulatory provisions thus enhancing the capital position.
- Quality management of the existing loan book and ensuring quality loan origination processes. This, in addition to cost management initiatives, is expected to enhance profitability and growth.

The shareholders, directors and management are committed to ensuring that the capital restoration plan is executed as quickly as possible in order to return the Bank back to regulatory capital compliance, profitability and sustainable growth.

## 6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Judgments**
In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Going concern assessment*
In the process of applying the Bank's accounting policies, the Bank's management and directors have made significant judgements in determining that the Bank will successfully implement its business and capital restoration plans and will consequently continue in existence for the foreseeable future. Refer to Note 2.2 for further details on going concern.

## 6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### Judgments (Continued)

*Business model assessment*
The business model reflects how the Bank manages its assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the asset or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel and how risks are assessed and managed.

Refer to Note 5 for the disclosures of financial instruments by category.

*Significant increase of credit risk (SICR)*
SICR is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Whether a change in the risk of default is significant or not is assessed using quantitative factors, that is, financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a SICR. Financial assets that are 30 or less days past due are considered to have low credit risk. The Bank considers other qualitative factors that reasonably reflect SICR.

Refer to Notes 5 and 21 for further disclosures on the financial assets subject to ECL.

*Deferred tax assets*
Deferred tax assets are recognised in respect of tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which the tax losses and credits can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax-planning strategies.

Refer to Note 28 for further disclosures on deferred tax.

*Potential impact of the Covid-19 pandemic*
The directors have exercised significant judgement in assessing the potential impact of the Covid-19 pandemic on the Bank's going concern status.

Refer to Notes 2.2, 5.5 and 40 for further disclosures related to the pandemic.

*2018: Operating lease commitments – Company as a lessee*
The Bank has lease agreements for branch and office space. The Bank determined that it does not retain significant risks and rewards of ownership of these properties and so accounts for the leases as operating leases.

*Fair value of financial instruments*
The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by management. Changes in valuation assumptions could affect the reported fair value of the financial instruments.

Refer to Note 5.4 for further disclosures on fair value measurements.

## 6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### Estimates and assumptions

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next period. All estimates and assumptions required are in conformity with IFRS and are the best estimates undertaken in accordance with the relevant standard.

*Determination of ECL allowances*
The measurement of ECLs under IFRS 9 across all categories of financial assets requires judgement and estimations. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The elements of the ECL models that are considered accounting judgements and estimates are indicated below:

- *Cure rate:* Cure rate is a percentage of credit exposure accounts which were in default category, but as at assessment date have moved to a better category. Cure rate is factored in at the LGD level when assessing recovery rate. The rate reduces the percentage of LGD and is computed at the overall credit portfolio level. Consideration of movement of accounts is done annually. Qualitative criteria applied when checking whether the account has cured or not are those in line with BoT guidelines on IFRS 9 implementation. Accounts in default which are assessed whether they have cured exclude accounts which have been restructured or which have been charged off during the period.

- *Incorporation of forward-looking information:* The evolving economic environment is a key determinant of the ability of the Bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions held against potential future credit risk losses should depend not just on the health of the economy today but should also take account of changes to the economic environment in the future. To capture the effect of changes to the economic environment in the future, the computation of PD and LGD and hence ECLs incorporates forward-looking information. This includes assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Bank's clients. Such variables include inflation, GDP growth rates, oil prices fluctuation, average electricity generation, natural gas, population, total household spending, total food sales, total public debt, Government spending in priority sectors, unemployment rate, exchange rate movement, among others.

Refer to Notes 5.1 and 21 for further disclosures on ECLs.

*Useful lives, depreciation methods and residual values of property and equipment, intangible assets and right-of-use assets*
The Bank reviews the estimated useful lives, depreciation methods and residual values of property and equipment, intangible assets and right-of-use assets at the end of each annual reporting period. Factors considered when reviewing the useful lives and residual values include:

- The expected usage of the asset by the Bank, which is assessed by reference to the asset's expected capacity;
- The expected physical wear and tear, which depends on operational factors, the repair and maintenance programme of the Bank, and the care and maintenance of the asset while idle; and,
- Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

Refer to Notes 25, 26 and 27 for the carrying amounts of the right-of-use assets, intangible assets and property and equipment.

## 6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

### Estimates and assumptions (Continued)

*Incremental borrowing rate*
The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that would have to be paid 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) when available and is required to make certain entity-specific adjustments (such as the credit spread, debt-service ratio, inflation to reflect the terms and conditions of the lease).

Refer to Note 33 for further details.

*Determining the lease term of contracts with renewal and termination options*
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’s lease contracts 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 contracts. 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 and 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 customization to the leased asset).

The Bank includes the renewal period as part of the lease term for the leases recognised. The Bank typically exercises its option to renew for leases because there will be a significant negative effect on operations if a replacement asset is not readily available. The renewal periods for leases are not included as part of the lease term if they are not reasonably certain to be exercised. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Refer to Notes 25 and 33 for further details.

*Impairment of non-financial assets*
The Bank assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Refer to Notes 25, 26 and 27 for the carrying amounts of the non-financial assets.

## 7. OPERATING SEGMENTS

Operating segments are reported in a manner consistent with the internal reporting to the Bank's Management Team, which is the equivalent of the Chief Operating Decision-Maker and is responsible for allocating resources to the reportable segments and assessing their performances. The agreed allocation basis between operating segments did not changed during the year.

The following business segments represent the Bank's organization structure as reflected in the internal management reporting system:

*Treasury*
Includes treasury services, investment management services and asset management activities related to dealing, managing and custody of securities.

*Retail banking*
Includes services and products to individuals and small and medium enterprises, including deposits and lending.

*Other*
Includes services and products other than treasury and retail banking.

All the Bank's assets are domiciled in Tanzania. There was no revenue from a single customer that was 10% or more of the total reported revenue.

**Statement of profit or loss and other comprehensive income**

| | Retail banking TZS'000 | Treasury TZS'000 | Other TZS'000 | Total TZS'000 |
|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | |
| Net interest income-external customers | 10,256,517 | 2,006,699 | - | 12,263,215 |
| Fees, commission and other income | 2,537,409 | - | 907,760 | 3,445,169 |
| Foreign exchange income | - | 673,958 | - | 673,958 |
| **Operating income** | **12,793,926** | **2,680,656** | **907,760** | **16,382,342** |
| Expected credit losses | (4,540,169) | - | - | (4,540,169) |
| **Net operating income** | **8,253,757** | **2,680,656** | **907,760** | **11,842,173** |
| Personnel expenses | (6,269,717) | - | (2,243,394) | (8,513,111) |
| Depreciation and amortization | (2,169,538) | - | - | (2,169,538) |
| General and administration expenses | (5,109,206) | (194,230) | (1,294,390) | (6,597,826) |
| **(Loss)/profit before income tax** | **(5,294,704)** | **2,486,426** | **(2,630,024)** | **(5,438,302)** |
| Income tax expense | (1,144,631) | - | - | (1,144,631) |
| **(Loss)/profit for the year** | **(6,439,335)** | **2,486,426** | **(2,630,024)** | **(6,582,933)** |
| **Year ended 31 December 2018** | | | | |
| Net interest income-external customers | 13,443,088 | 2,815,091 | - | 16,258,179 |
| Fees, commission and other income | 2,176,907 | - | 544,227 | 2,721,134 |
| Foreign exchange income | - | 447,403 | - | 447,403 |
| **Other operating income** | **15,619,995** | **3,262,494** | **544,227** | **19,426,716** |
| Expected credit losses | (2,480,560) | (11,501) | - | (2,492,061) |
| **Net operating income** | **13,139,435** | **3,250,993** | **544,227** | **16,934,655** |
| Personnel expenses | (4,768,907) | (140,262) | (2,103,930) | (7,013,099) |
| Depreciation and amortization | (922,742) | (27,139) | (407,092) | (1,356,973) |
| General and administration expenses | (4,864,791) | (143,082) | (2,146,232) | (7,154,105) |
| **Profit/(loss) before tax** | **2,582,995** | **2,940,510** | **(4,113,027)** | **1,410,478** |
| Income tax expense | (411,015) | (12,089) | (181,330) | (604,434) |
| **Profit/(loss) for the year** | **2,171,980** | **2,928,421** | **(4,294,357)** | **806,044** |

## 7. OPERATING SEGMENTS (Continued)

### Statement of cash flows

| | Retail banking TZS'000 | Treasury TZS'000 | Other TZS'000 | Total TZS'000 |
|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | |
| Net cash flows from operating activities | 1,658,665 | 297,205 | 99,069 | 2,054,939 |
| Net cash flows from investing activities | - | 2,387,263 | - | 2,387,263 |
| Net cash flows used in financing activities | (1,293,661) | - | - | (1,293,661) |
| **Net increase in cash and cash equivalents** | **365,004** | **2,684,468** | **99,069** | **3,148,541** |
| **Year ended 31 December 2018** | | | | |
| Net cash flows from operating activities | 9,998,792 | 1,874,773 | 624,924 | 12,498,489 |
| Net cash flows used in investing activities | - | (17,066,774) | - | (17,066,774) |
| Net cash flows used in financing activities | (516,107) | - | - | (516,107) |
| **Net increase/(decrease) in cash and cash equivalents** | **9,482,685** | **(15,192,001)** | **624,924** | **(5,084,392)** |

### Statement of financial position

| | Retail banking TZS'000 | Treasury TZS'000 | Other TZS'000 | Total TZS'000 |
|---|---|---|---|---|
| **At 31 December 2019** | | | | |
| **Assets** | | | | |
| Cash and balances with BoT | 8,744,001 | 12,229,817 | - | 20,973,818 |
| Loans and balances to banks | - | 23,235,028 | - | 23,235,028 |
| Other assets | 902,524 | 451,262 | 150,420 | 1,504,206 |
| Current income tax recoverable | 245,310 | 122,655 | 40,885 | 408,850 |
| Loans and advances to customers | 122,083,704 | - | - | 122,083,704 |
| Government securities | - | 23,780,209 | - | 23,780,209 |
| Investment in corporate bond | - | 2,002,220 | - | 2,002,220 |
| Equity investments | - | - | 539,000 | 539,000 |
| Right-of-use assets | 4,551,141 | - | - | 4,551,141 |
| Intangible assets | 491,754 | 245,877 | 81,960 | 819,591 |
| Plant and equipment | 2,484,354 | 1,242,176 | 414,059 | 4,140,589 |
| **Total assets** | **139,502,788** | **63,309,244** | **1,226,324** | **204,038,356** |
| **Equity and liabilities** | | | | |
| **Liabilities** | | | | |
| Deposits due to customers | 161,925,946 | - | - | 161,925,946 |
| Deposits due to banks | - | 16,799,185 | - | 16,799,185 |
| Other liabilities | 3,727,7800 | - | - | 3,727,7800 |
| Provisions | - | - | 265,261 | 265,261 |
| Lease liabilities | 4,597,117 | - | - | 4,597,117 |
| | **170,250,863** | **16,799,185** | **265,261** | **187,315,309** |
| **Equity** | | | | |
| Share capital | - | 20,615,272 | - | 20,615,272 |
| Regulatory reserve | - | - | 7,431,623 | 7,431,623 |
| Accumulated losses | | - | (11,323,848) | (11,323,848) |
| | **-** | **20,615,272** | **(3,892,225)** | **16,723,047** |
| **Total liabilities and equity** | **170,250,863** | **37,414,457** | **(3,626,964)** | **204,038,356** |

## 7. OPERATING SEGMENTS (Continued)

### Statement of financial position (Continued)

| | Retail banking TZS'000 | Treasury TZS'000 | Other TZS'000 | Total TZS'000 |
|---|---|---|---|---|
| **At 31 December 2018** | | | | |
| **Assets** | | | | |
| Cash and balances with BoT | 5,833,369 | 11,645,593 | - | 17,478,962 |
| Loans and balances to banks | - | 24,942,547 | - | 24,942,547 |
| Other assets | 656,652 | 328,326 | 109,443 | 1,094,421 |
| Current income tax recoverable | 47,364 | 23,682 | 7,893 | 78,939 |
| Loans and advances to customers | 99,035,944 | - | - | 99,035,944 |
| Government securities | - | 27,793,299 | - | 27,793,299 |
| Investment in corporate bond | - | 2,002,255 | - | 2,002,255 |
| Equity investments | - | - | 539,000 | 539,000 |
| Intangible assets | 521,488 | 260,744 | 86,914 | 869,146 |
| Plant and equipment | 2,306,766 | 1,153,383 | 384,461 | 3,844,610 |
| Deferred tax asset | 686,779 | 343,389 | 114,463 | 1,144,631 |
| **Total assets** | **109,088,362** | **68,493,218** | **1,242,174** | **178,823,754** |
| **Equity and liabilities** | | | | |
| **Liabilities** | | | | |
| Deposits due to customers | 136,466,747 | - | - | 136,466,747 |
| Deposits due to banks | - | 13,869,813 | - | 13,869,813 |
| Other liabilities | 4,743,328 | - | - | 4,743,328 |
| Provisions | - | - | 437,886 | 437,886 |
| | **141,210,075** | **13,869,813** | **437,886** | **155,517,774** |
| **Equity** | | | | |
| Share capital | - | 20,615,272 | - | 20,615,272 |
| Regulatory reserve | - | - | 11,455 | 11,455 |
| General risk reserve | - | - | 780,919 | 780,919 |
| Retained earnings | - | - | 1,898,334 | 1,898,334 |
| | **-** | **20,615,272** | **2,690,708** | **23,305,980** |
| **Total liabilities and equity** | **141,210,075** | **34,485,085** | **3,128,594** | **178,823,754** |

The following were the additions to non-current assets by operating segment:

| | Retail banking TZS'000 | Treasury TZS'000 | Other TZS'000 | Total TZS'000 |
|---|---|---|---|---|
| **Year ended 31 December 2019** | | | | |
| Right-of-use assets | 1,321,840 | - | - | 1,321,840 |
| Intangible assets | 132,980 | 66,490 | 22,164 | 221,634 |
| Property and equipment | 848,055 | 424,027 | 141,342 | 1,413,424 |
| | **2,302,875** | **490,517** | **163,506** | **2,956,898** |
| **Year ended 31 December 2018** | | | | |
| Intangible assets | 345,459 | 172,730 | 57,576 | 575,765 |
| Property and equipment | 1,027,241 | 513,621 | 171,207 | 1,712,069 |
| | **1,372,700** | **686,351** | **228,783** | **2,287,834** |

## 8. INTEREST INCOME

Interest income calculated using the effective interest method comprises:

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| Loans and advances | 16,562,517 | 19,654,625 |
| Government securities and corporate bond | 3,233,165 | 2,761,604 |
| Placements | 767,958 | 1,354,234 |
| | **20,563,640** | **23,770,463** |

## 9. INTEREST EXPENSES

| | | |
|---|---|---|
| Interest expense calculated using the effective interest method comprises: | | |
| Time deposits | 5,920,851 | 6,026,925 |
| Savings deposits | 385,150 | 928,739 |
| Lease liabilities interest accretion (Note 33) | 559,995 | - |
| Deposits due to other banks | 1,434,429 | 556,620 |
| | **8,300,425** | **7,512,284** |

## 10. EXPECTED CREDIT LOSSES

| | | |
|---|---|---|
| Increase in ECL on other financial assets (Note 19) | - | 11,501 |
| Increase in ECL on loans and advances to customers (Note 21) | 4,540,169 | 2,480,560 |
| | **4,540,169** | **2,492,061** |

## 11. FEES, COMMISSION AND OTHER INCOME

| | | |
|---|---|---|
| Loan commitment fees | 1,862,079 | 1,634,168 |
| Service charges | 370,188 | 279,862 |
| Withdrawal fees | 206,873 | 142,840 |
| Commission on Western Union Transfers | 23,483 | 16,784 |
| Commission charged on transfers | 51,352 | 41,209 |
| Commission on ATM withdrawal charges | 23,434 | 44,459 |
| Other income[1] | 907,760 | 561,812 |
| | **3,445,169** | **2,721,134** |

[1]Includes dividend income TZS 5,365,598 (2018: TZS Nil).

## 12. NET FOREIGN CURRENCY TRADING AND TRANSLATION GAINS

| | | |
|---|---|---|
| Foreign currency trading gains | 609,421 | 490,762 |
| Net foreign currency translation gains/(losses) | 64,537 | (43,359) |
| | **673,958** | **447,403** |

## 13. PERSONNEL EXPENSES

| | | |
|---|---|---|
| Wages and salaries | 5,699,765 | 4,983,281 |
| Social security contributions and retirement benefits | 569,952 | 498,227 |
| Other staff costs | 2,243,394 | 1,531,591 |
| | **8,513,111** | **7,013,099** |

## 14. DEPRECIATION AND AMORTIZATION

| | | |
|---|---|---|
| Depreciation on right-of-use assets (Note 25) | 779,642 | - |
| Amortization of intangible assets (Note 26) | 271,278 | 151,848 |
| Depreciation on property and equipment (Note 27) | 1,118,618 | 1,201,812 |
| Other expenses | - | 3,313 |
| | **2,169,538** | **1,356,973** |

## 15. GENERAL AND ADMINISTRATION EXPENSES

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| Auditor's remuneration | 80,296 | 70,000 |
| Professional fees | 197,180 | 183,947 |
| Directors' emoluments | 61,000 | 72,869 |
| Communication cost | 309,994 | 392,110 |
| Travelling and accommodation | 404,986 | 371,623 |
| Local authority service charges | 106,466 | 90,433 |
| Maintenance cost - software | 357,809 | 266,897 |
| ATM management fees | 19,694 | 272,005 |
| Occupancy costs | 481,904 | 1,260,749 |
| Maintenance cost - motor vehicles | 23,572 | 31,215 |
| Insurance costs | 395,093 | 218,396 |
| Marketing and advertising costs | 587,728 | 612,102 |
| Training costs | 172,391 | 144,005 |
| Security costs | 453,796 | 250,689 |
| Data connectivity and bank charges | 552,730 | 311,842 |
| Printing and stationery | 453,033 | 383,690 |
| Repairs and maintenance of office equipment | 216,890 | 354,844 |
| Excise duty on commissions | 234,645 | 280,390 |
| Other operating costs[1] | 1,488,619 | 1,586,299 |
| | **6,597,826** | **7,154,105** |

[1]Other operating costs include publication expenses, donations, loss on disposal/write off of assets, and general office administration expenses.

## 16. INCOME TAX

| **Income tax expense** | | |
|---|---|---|
| Current income tax – current year | - | 668,329 |
| Deferred tax credit – current year (Note 28) | - | (63,895) |
| Deferred tax charge – deferred tax asset derecognised (Note 28) | 1,144,631 | - |
| | **1,144,631** | **604,434** |

The tax on the Bank's (loss)/profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

| | | |
|---|---|---|
| (Loss)/profit before tax | (5,438,302) | 1,410,478 |
| Tax calculated at a tax rate of 30% (2018: 30%) | (1,631,491) | 423,144 |
| *Tax effect of:* | | |
| Expenditure permanently disallowed | 21,000 | 170,774 |
| Non-qualifying capital expenditure | 13,697 | 10,516 |
| Income taxed at source (dividend and other income) | (20,971) | - |
| Deferred tax credit not recognised (Note 28) | 1,617,765 | - |
| Derecognition of deferred tax asset (Note 28) | 1,144,631 | - |
| | **1,144,631** | **604,434** |

| **Current income tax recoverable** | | |
|---|---|---|
| At 1 January | (78,939) | (454,636) |
| Payments during the year | (329,911) | (292,632) |
| Current income tax charge for the year | - | 668,329 |
| **At 31 December** | **(408,850)** | **(78,939)** |

## 17. (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted (loss)/earnings per share is calculated by dividing the loss)/profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

There were no dilutive potential ordinary shares. As such, basic and diluted loss/(earnings) per share are the same as follows:

| | 2019 | 2018 |
|---|---:|---:|
| (Loss)/profit attributable to ordinary shareholders (TZS'000) | (6,582,933) | 806,044 |
| Weighted average number of ordinary shares (Note 34) | 20,615,272 | 20,615,272 |
| Basic and diluted (loss)/earnings per share (TZS) | **(319)** | **39** |

## 18. CASH AND BALANCES WITH THE BANK OF TANZANIA

| | | |
|---|---:|---:|
| Cash in hand | 8,744,001 | 5,833,369 |
| Balances with BoT - Current accounts | 3,714,217 | 2,227,430 |
| Balances with BoT - Statutory minimum reserve (SMR) | 8,515,600 | 9,418,164 |
| | **20,973,818** | **17,478,962** |

Cash in hand and balances with BoT are non-interest bearing. The SMR is not available for the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the statement of cash flows (Note 36).

## 19. LOANS AND ADVANCES TO BANKS

| | 2019<br>TZS'000 | 2018<br>TZS'000 |
|---|---:|---:|
| Balances with other banks | 7,006,691 | 9,000,530 |
| Cheques in the course of collection with other banks | 215,224 | 37,235 |
| Placements with other banks | 16,024,623 | 15,916,292 |
| | **23,246,538** | **24,954,057** |
| Expected credit losses | (11,510) | (11,510) |
| **Current** | **23,235,028** | **24,942,547** |

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 ECL allowances. Details of the Bank's internal grading system are explained in Note 5 and the accounting policies on determination of ECL allowances are in Note 4.

| **Internal credit rating: Performing – current category** | **Stage 1** | |
|---|---:|---:|
| At 1 January | 24,954,057 | 31,353,194 |
| Originated during the year | 1,993,838 | 6,491,427 |
| Interest accrued | 767,958 | 1,354,234 |
| Received during the year | (4,469,315) | (14,244,798) |
| **At 31 December** | **23,246,538** | **24,954,057** |
| **ECL allowance** | | |
| At 1 January | 11,501 | - |
| Increase during the year | - | 11,501 |
| **At 31 December** | **11,501** | **11,501** |

## 19. LOANS AND ADVANCES TO BANKS (Continued)

Balances with other banks and money market placements bear interest rates of 3% to 14%. The amounts are unsecured.

## 20. OTHER ASSETS

| | 2019 TZS'000' | 2018 TZS'000' |
|---|---|---|
| Sundry debtors | 645,861 | 332,415 |
| Prepayments | 685,031 | 556,581 |
| Selcom Mkombozi mobile bank | 61,632 | 50,919 |
| Imprest accounts | 7,775 | 1,021 |
| Stock of stationery | 103,907 | 153,485 |
| **Current** | **1,504,206** | **1,094,421** |

Sundry debtors are non-interest bearing and due on 30 – 60 days terms. The amounts are unsecured.

## 21. LOANS AND ADVANCES TO CUSTOMERS

| | 2019 TZS'000' | 2018 TZS'000' |
|---|---|---|
| Commercial | 104,768,692 | 79,285,450 |
| Individuals | 1,585,321 | 3,674,199 |
| Salaried loans | 20,321,469 | 13,804,766 |
| Advances to staff | 136,054 | 106,613 |
| Interest receivable | 4,580,123 | 7,380,885 |
| **Gross loans and advances to customers** | **131,391,659** | **104,251,913** |
| Allowance for expected credit losses | (9,307,955) | (5,215,969) |
| | **122,083,704** | **99,035,944** |
| **Maturity analysis** | | |
| With maturity of 3 months or less | 10,617,371 | 11,680,295 |
| With maturity of between 3 months and 1 year | 23,967,541 | 11,442,010 |
| With maturity of more than 1 year | 87,498,792 | 75,913,639 |
| | **122,083,704** | **99,035,944** |

The interest rates charged on these loans range from 13% to 17% (2018: 13% to 17%).

The movement in the allowance for ECL was as follows:

| | 2019 TZS'000' | | | 2018 TZS'000' | | |
|---|---|---|---|---|---|---|
| | **Specific** | **Portfolio** | **Total** | **Specific** | **Portfolio** | **Total** |
| At 1 January | (4,737,220) | (478,749) | (5,215,969) | (2,939,283) | (478,749) | (3,418,032) |
| Application of IFRS 9 | - | - | - | (1,106,326) | - | (1,106,326) |
| At 1 January – restated | (4,737,220) | (478,749) | (5,215,969) | (4,045,609) | (478,749) | (4,524,358) |
| Increase | (4,127,605) | (412,564) | (4,540,169) | (2,480,560) | - | (2,480,560) |
| Write offs | 448,183 | - | 448,183 | 1,788,949 | - | 1,788,949 |
| **At 31 Dec** | **(8,416,642)** | **(891,313)** | **(9,307,955)** | **(4,737,220)** | **(478,749)** | **(5,215,969)** |

## 21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

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 ECL allowances. Details of the Bank's internal grading system are explained in Note 5 and the accounting policies on determination of ECL allowances are in Note 4.

| | Stage 1 TZS'000 | Stage 2 TZS'000 | Stage 3 TZS'000 | Total TZS'000 |
|---|---|---|---|---|
| **At 31 December 2019** | | | | |
| **Internal rating grade** | | | | |
| *Performing:* | | | | |
| Current | 71,320,868 | - | - | 71,320,868 |
| Especially mentioned | 4,266,669 | 18,748,169 | 20,558,342 | 43,573,180 |
| *Non-performing:* | | | | |
| Sub-standard | - | - | 5,402,278 | 5,402,278 |
| Doubtful | - | - | 2,164,607 | 2,164,607 |
| Loss | - | - | 8,930,726 | 8,930,726 |
| **Total** | **75,587,537** | **18,748,169** | **37,055,953** | **131,391,659** |
| **At 31 December 2018** | | | | |
| **Internal rating grade** | | | | |
| *Performing:* | | | | |
| Current | 52,815,891 | - | 5,493,363 | 58,309,254 |
| Especially mentioned | - | 37,519,229 | 2,664,116 | 40,183,345 |
| *Non-performing:* | | | | |
| Sub-standard | - | - | 500,690 | 500,690 |
| Doubtful | - | - | 1,684,906 | 1,684,906 |
| Loss | - | - | 3,573,718 | 3,573,718 |
| **Total** | **52,815,891** | **37,519,229** | **13,916,793** | **104,251,913** |

An analysis of the changes in the gross carrying amount of loans and advances to customers was as follows:

| | Stage 1 TZS'000 | Stage 2 TZS'000 | Stage 3 TZS'000 | Total TZS'000 |
|---|---|---|---|---|
| At 1 January 2019 | 52,815,891 | 37,519,229 | 13,916,793 | 104,251,913 |
| New assets originated | 32,867,328 | 11,071,056 | 4,051,396 | 47,989,780 |
| Accrued interest | 9,321,558 | 5,286,183 | 1,954,776 | 16,562,517 |
| Transfers to Stage 1 | 13,989,430 | (13,896,793) | (92,637) | - |
| Transfers to Stage 2 | (5,303,102) | 5,367,913 | (64,811) | - |
| Transfers to Stage 3 | (11,451,248) | (9,878,651) | 21,329,899 | - |
| Received and other changes | (16,652,320) | (16,720,768) | (3,591,280) | (36,964,368) |
| Amounts written off | - | - | (448,183) | (448,183) |
| **At 31 December 2019** | **75,587,537** | **18,748,169** | **37,055,953** | **131,391,659** |

## 21. LOANS AND ADVANCES TO CUSTOMERS (Continued)

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | TZS'000 | TZS'000 | TZS'000 | TZS'000 |
| At 1 January 2018 | 39,276,107 | 40,188,346 | 5,759,215 | 85,223,668 |
| New assets originated | 22,220,863 | 3,476,051 | 3,589,908 | 29,286,822 |
| Accrued interest | 10,555,364 | 7,494,574 | 1,604,687 | 19,654,625 |
| Transfers to Stage 1 | 10,144,821 | (9,827,164) | (317,657) | - |
| Transfers to Stage 2 | (10,533,126) | 10,765,193 | (232,067) | - |
| Transfers to Stage 3 | (4,067,504) | (4,546,133) | 8,613,637 | - |
| Received and other changes | (14,748,698) | (9,876,261) | (3,499,294) | (28,124,253) |
| Amounts written off | (31,936) | (155,377) | (1,601,636) | (1,788,949) |
| **At 31 December 2018** | **52,815,891** | **37,519,229** | **13,916,793** | **104,251,913** |

An analysis of the changes in the ECL allowance on loans and advances to customers was as follows:

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | TZS'000 | TZS'000 | TZS'000 | TZS'000 |
| At 1 January 2019 | 644,597 | 1,174,161 | 3,397,211 | 5,215,969 |
| New assets originated | 549,027 | 1,198,750 | 1,186,948 | 2,934,725 |
| Assets repaid | (628,392) | (339,151) | (1,940,529) | (2,908,072) |
| Transfers to Stage 1 | 805,751 | (746,044) | (59,707) | - |
| Transfers to Stage 2 | (72,118) | 103,354 | (31,236) | - |
| Transfers to Stage 3 | (53,590) | (189,530) | 243,120 | - |
| Model parameter changes | 51,285 | (901,621) | 5,363,852 | 4,513,516 |
| Amounts written off | - | - | (448,183) | (448,183) |
| **At 31 December 2019** | **1,296,560** | **299,919** | **7,711,476** | **9,307,955** |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | TZS'000 | TZS'000 | TZS'000 | TZS'000 |
| At 1 January 2018 | 609,147 | 975,290 | 2,939,922 | 4,524,359 |
| New assets originated | 398,314 | 651,384 | 63,388 | 1,113,086 |
| Assets repaid | (339,073) | (148,967) | (1,048,173) | (1,536,213) |
| Model parameter changes | 232,605 | (444,549) | 3,115,630 | 2,903,686 |
| Amounts written off | - | (4,982) | (1,783,967) | (1,788,949) |
| **At 31 December 2018** | **900,993** | **1,028,176** | **3,286,800** | **5,215,969** |

## 22. GOVERNMENT SECURITIES

| | 2019 | 2018 |
|---|---|---|
| | TZS'000' | TZS'000' |
| Treasury bills and bonds maturing between three months to one year | 2,920,283 | 7,122,063 |
| Treasury bills and bonds maturing after one year | 20,859,926 | 20,671,236 |
| | **23,780,209** | **27,793,299** |

These securities are due from the Government of the United Republic of Tanzania. The securities are unsecured and carry interest rates of 5% to 15% (2018: 7% to 15) per annum.

## 23. INVESTMENT IN CORPORATE BOND

| **Tanzania Mortgage Refinance Company Limited (TMRC)** | | |
|---|---|---|
| Maturing after one year | 2,002,220 | 2,002,255 |
| | **2,002,220** | **2,002,255** |

The bond is unsecured and carries an interest rate of 11.78% (2018: 11.79%). The bond will mature on 22 June 2023. The credit risk of corporate bonds is low.

## 24. EQUITY INVESTMENTS

| | 2019<br>TZS'000' | 2018<br>TZS'000' |
|---|---|---|
| Umoja Switch Co. Ltd | 39,000 | 39,000 |
| TMRC | 500,000 | 500,000 |
| | **539,000** | **539,000** |

The equity investments are classified as financial assets at fair value through other comprehensive income (FVOCI).

In 2014, the Bank acquired 8.67% of the ordinary shares of Umoja Switch Co. Ltd and was one of the founder members of this entity.

In 2018, the Bank acquired 308,261 ordinary shares of TMRC. As at year-end, the Bank's equity investment was 1.67% of the TMRC issued share capital. The directors have determined that the fair value of the equity investment remained as TZS 1,622 per share as at 31 December 2019 and 31 December 2018 basing on share sales transactions done by TMRC at the same price close to these dates.

## 25. RIGHT-OF-USE ASSETS

| | 2019<br>TZS'000' | 2018<br>TZS'000' |
|---|---|---|
| **Cost** | | |
| At 1 January | - | - |
| Impact of initial application of IFRS 16 (Note 3.2) | 4,008,943 | - |
| At 1 January – Restated | 4,008,943 | |
| Additions | 1,321,840 | - |
| **At 31 December** | **5,330,783** | **-** |
| | | |
| **Depreciation** | | |
| At 1 January | - | - |
| Charge for the year | 779,642 | - |
| **At 31 December** | **779,642** | **-** |
| | | |
| **Net carrying amount** | **4,551,141** | **-** |

The right-of-use assets comprise lease arrangements for office and branch space.

## 26. INTANGIBLE ASSETS

| | 2019<br>TZS'000' | 2018<br>TZS'000' |
|---|---|---|
| **Cost** | | |
| At 1 January | 1,552,617 | 1,103,781 |
| Additions | 221,634 | 575,765 |
| Disposals | (218,475) | (126,929) |
| **At 31 December** | **1,555,776** | **1,552,617** |
| | | |
| **Amortization** | | |
| At 1 January | 683,471 | 531,625 |
| Charge for the year | 271,278 | 151,848 |
| Disposals and write-off | (218,564) | (2) |
| **At 31 December** | **736,185** | **683,471** |
| | | |
| **Net carrying amount** | **819,591** | **869,146** |

The intangible assets comprise the core banking and other software used by the Bank. The intangible assets are amortised over the estimated useful life of 5 years.

## 27. PROPERTY AND EQUIPMENT

| | Machinery & Equipment | Furniture, fixture & fittings | Computer & IT equipment | Motor vehicles | Leasehold improvements | Work-in-progress | Total |
|---|---|---|---|---|---|---|---|
| | TZS '000 | TZS '000 | TZS '000 | TZS '000 | TZS '000 | TZS '000 | TZS '000 |
| **Cost** | | | | | | | |
| At 1 January 2018 | 1,323,250 | 1,263,833 | 1,873,529 | 143,139 | 2,777,168 | - | 7,380,919 |
| Additions | 310,272 | 244,236 | 473,440 | - | 89,307 | 594,814 | 1,712,069 |
| **At 31 December 2018** | **1,633,522** | **1,508,069** | **2,346,969** | **143,139** | **2,866,475** | **594,814** | **9,092,988** |
| Additions | 552,204 | 197,571 | 468,424 | 195,225 | - | - | 1,413,424 |
| Transfer from work-in-progress | - | 186,801 | - | - | 403,914 | (590,715) | - |
| Disposals and write offs | (53,342) | (9,590) | (12,694) | - | (1,646,195) | - | (1,721,821) |
| **At 31 December 2019** | **2,132,384** | **1,882,851** | **2,802,699** | **338,364** | **1,624,194** | **4,099** | **8,784,591** |
| **Depreciation** | | | | | | | |
| At 1 January 2018 | 412,566 | 500,588 | 1,181,266 | 86,480 | 1,865,666 | - | 4,046,566 |
| Charge for the year | 156,036 | 213,605 | 516,392 | 35,785 | 279,994 | - | 1,201,812 |
| **At 31 December 2018** | **568,602** | **714,193** | **1,697,658** | **122,265** | **2,145,660** | **-** | **5,248,378** |
| Charge for the year | 235,046 | 176,804 | 391,780 | 53,412 | 261,576 | - | 1,118,618 |
| Disposals and write offs | (41,735) | (22,369) | (12,694) | - | (1,646,196) | - | (1,722,994) |
| **At 31 December 2019** | **761,913** | **868,628** | **2,076,744** | **175,677** | **761,040** | **-** | **4,644,002** |
| **Net carrying amount** | | | | | | | |
| **At 31 December 2018** | **1,064,920** | **793,876** | **649,311** | **20,874** | **720,815** | **594,814** | **3,844,610** |
| **At 31 December 2019** | **1,370,471** | **1,014,223** | **725,955** | **162,687** | **863,154** | **4,099** | **4,140,589** |

Work in progress relates to fixtures and leasehold improvements.

Property and equipment was not pledged as collateral against liabilities.

## 28. DEFERRED TAX ASSET

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| At 1 January | 1,144,631 | 748,838 |
| Credit to retained earnings (initial impact of IFRS 9) | - | 331,898 |
| Credit to profit or loss – recognised (Note 16) | - | 63,895 |
| Credit for the year – not recognised | 1,617,765 | - |
| **At 31 December** | **2,762,396** | **1,144,631** |
| Derecognition of prior year deferred tax asset (Note 16) | (1,144,631) | - |
| Deferred tax credit not recognised | (1,617,765) | - |
| **Deferred tax asset recognised** | **-** | **1,144,631** |

Deferred income tax asset and deferred income tax credit to the profit or loss are attributed by the followin items:

| | 1 January | Credit/(charge) to Retained earnings | Credit/(charge) to Profit or loss | 31 December |
|---|---|---|---|---|
| | TZS'000 | TZS'000 | TZS'000 | TZS'000 |
| **Year ended 31 December 2019** | | | | |
| Property and equipment | 15,540 | - | (46,959) | (31,419) |
| Current income tax losses carried forward | - | - | 475,122 | 475,122 |
| General provisions | 1,129,091 | - | 1,189,602 | 2,318,693 |
| **Net deferred tax asset** | **1,144,631** | **-** | **1,617,765** | **2,762,396** |
| **Year ended 31 December 2018** | | | | |
| Property and equipment | 11,828 | - | 3,712 | 15,540 |
| Impairment provisions | 737,010 | 331,898 | 60,183 | 1,129,091 |
| **Net deferred tax asset** | **748,838** | **331,898** | **63,895** | **1,144,631** |

The deferred tax asset as at year-end has not been recognised having considered the uncertainty arising from the conditions disclosed in Note 2.2 and 40. Consequently, the deferred tax asset brought forward from the prior year has been derecognised. There is currently no time limit for carrying forward the unused income tax losses amounting to TZS 1,584 million and net deductible temporary differences amounting to TZS 7,624 million as at 31 December 2019.

## 29. DEPOSITS DUE TO CUSTOMERS

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| Current accounts | 42,089,956 | 34,899,158 |
| Savings deposits | 45,486,652 | 39,419,829 |
| Time deposits | 74,349,338 | 62,147,760 |
| | **161,925,946** | **136,466,747** |
| Current | 107,392,989 | 134,791,976 |
| Non-current | 54,532,957 | 1,674,771 |

The deposits are unsecured. The time deposits were at fixed interest rates of 5% to 13% and the other deposits at variable rates of 0% to 13.5% per annum.

## 30. DEPOSITS DUE TO BANKS

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| Time deposits | 11,478,375 | 12,173,739 |
| Call deposits | 5,320,810 | 1,696,074 |
| | **16,799,185** | **13,869,813** |
| **Maturity analysis** | | |
| Current | 11,478,375 | 5,281,250 |
| Non-current | 5,320,810 | 8,588,563 |
| | **16,799,185** | **13,869,813** |

The deposits are unsecured and carry interest rates of 4% to 10% per annum.

## 31. OTHER LIABILITIES

| | | |
|---|---|---|
| Accruals | 3,267,149 | 3,725,054 |
| Accounts payable | 352,964 | 155,583 |
| Deferred fees | 9,055 | 9,055 |
| Sundry creditors | 98,632 | 853,636 |
| | **3,727,800** | **4,743,328** |

Other liabilities are unsecured, interest free and due on 30 – 60 days terms.

Accruals and accounts payables include non-financial liabilities relating to statutory liabilities amounting to TZS 223,246,828 (2018: TZS 214,353,790).

## 32. PROVISIONS

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| At 1 January | 437,886 | 291,136 |
| Increase during the year | 282,500 | 146,750 |
| Utilized | (455,125) | - |
| **At 31 December** | **265,261** | **437,886** |

The provisions are due after one year. The provision relates to gratuity for the senior officers of the Bank. The benefit accrues at 25% of the annual basic salary for the contract period and is paid after two and a half years of service.

## 33. LEASE LIABILITIES

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| At 1 January | - | - |
| At Impact of initial application of IFRS 16 (Note 3.2) | 4,008,943 | - |
| At 1 January – Restated | 4,008,943 | - |
| Additions | 1,321,840 | - |
| Interest accretion | 559,995 | - |
| Payment – interest | (559,995) | |
| Payments – principal | (733,666) | - |
| **At 31 December** | **4,597,117** | - |

The weighted average discount rate applied as at year-end was 11.84% per annum.

## 33. LEASE LIABILITIES (Continued)

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| Maturity analysis for the lease liability: | | |
| Due in 1 year | 663,670 | - |
| Due after 1 year | 3,933,447 | - |
| | **4,597,117** | - |

The following were the expenses charged to profit or loss in respect to lease arrangements:

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| Occupancy costs - short term lease arrangements (Note 15) | 481,904 | - |
| Occupancy costs - rental expenses (Note 15) | - | 1,260,749 |
| Depreciation of right-of-use asset (Note 25) | 779,642 | - |
| Lease liabilities interest accretion (Note 9) | 559,995 | - |
| | **1,821,541** | **1,260,749** |

## 34. SHARE CAPITAL

| | | |
|---|---|---|
| **Authorised** | | |
| 50,000,000 ordinary shares of TZS 1,000 each | **50,000,000** | **50,000,000** |
| **Issued and fully paid ordinary shares** | | |
| 20,615,272 shares of TZS 1000 each | **20,615,272** | **20,615,272** |

## 35. REGULATORY AND GENERAL RESERVES

| | Regulatory TZS'000 | General TZS'000 | Total TZS'000 |
|---|---|---|---|
| At 1 January 2019 | 11,455 | 780,919 | 792,374 |
| Transfer from/(to) accumulated losses | 7,420,168 | (780,919) | 6,639,249 |
| **At 31 December 2019** | **7,431,623** | **-** | **7,431,623** |
| At 1 January 2018 | - | 721,166 | 721,166 |
| Transfer from retained earnings | 11,455 | 59,753 | 71,208 |
| **At 31 December 2018** | **11,455** | **780,919** | **792,374** |

The general reserve represented a regulatory 1% general provision on loans and advances classified as current. This was considered part of the Tier 2 capital as stipulated in the Bank of Tanzania (BOT) prudential guidelines. This reserve was not available for distribution to the equity holders. The requirement for this reserve was abolished effective from July 2019.

The regulatory reserve relates to the excess of the regulatory provisions for loans and advances above the IFRS 9 provisions. The regulatory provisions and reserve are determined in accordance with the Banking and Financial Institutions prudential regulations and guidelines. The reserve is not available for distribution to the shareholders and is excluded when determining regulatory core capital.

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| Regulatory provisions | 16,739,578 | 5,227,424 |
| Less: IFRS ECL allowance (Note 21) | (9,307,955) | (5,215,969) |
| **Regulatory reserve** | **7,431,623** | **11,455** |

## 36. CASH AND CASH EQUIVALENTS

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| Cash and balances with BoT (Note 18) | 20,973,818 | 17,478,962 |
| Less: SMR (Note 18) | (8,515,600) | (9,418,164) |
| Cash and balances with BoT excluding SMR | 12,458,218 | 8,060,798 |
| Loans and advances to Banks (Note 19) | 23,235,028 | 24,942,547 |
| | **35,693,246** | **33,003,345** |

## 37. RELATED PARTIES

The Bank's issued share capital is owned as follows:

| **Shareholder category** | **2019** | **2018** |
|---|---|---|
| Church dioceses and affiliated institutions | 28% | 26% |
| Other institutions | 10% | 9% |
| Tanzania Episcopal Conference (TEC) | 20% | 22% |
| Individuals (general public) | 42% | 43% |
| | **100%** | **100%** |

The following were the balances and transactions with related parties:

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| **Loans due from key management personnel** | | |
| At 1 January | 1,023,834 | 284,074 |
| Loans advanced during the year | 217,672 | 1,052,196 |
| Loan repayments during the year | (432,840) | (312,436) |
| **At 31 December** | **808,666** | **1,023,834** |

These loans are salary secured. The interest rates charged are in line with prevailing market rates for similar loans. No ECLs have been recognised on these loans.

| | | |
|---|---|---|
| Interest income earned on loans due from key management personnel | **63,897** | **83,053** |
| **Deposits due to directors and key management personnel** | | |
| At 1 January | 209,235 | 60,458 |
| Deposits received during the year | 2,329,321 | 2,926,876 |
| Deposits repaid during the year | (2,198,488) | (2,778,099) |
| **At 31 December** | **340,068** | **209,235** |

The deposits are on the Bank's normal commercial terms.

| | | |
|---|---|---|
| **Compensation for key management personnel** | | |
| Salaries and other short-term benefits | 1,167,500 | 1,440,000 |
| Post-employment benefits – Social security contributions | 116,750 | 144,000 |
| Gratuity (Note 32) | 282,500 | 146,750 |
| | **1,566,750** | **1,730,750** |
| Directors' remuneration (Note 15) | 61,000 | 72,869 |

Key management personnel comprise the persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including heads of department.

## 38. COMMITMENTS

| | 2019 TZS'000 | 2018 TZS'000 |
|---|---|---|
| **Capital commitments** | | |
| Capital expenditure that has been approved by the Board but not contracted for: | 4,885,169 | 3,470,958 |

The capital commitments as at year-end comprise TZS 1.9 billion for relocating to new premises, TZS 571 million for a customer transaction monitoring system called World Check, TZS 200 million for a call centre system, and acquisition of furniture and equipment for the planned expansion and digitization. The commitments are expected to be financed by cash flows from operations.

**Commitments to extend credit - undrawn loan commitments**

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

The Bank had the following commitments:

| | | |
|---|---|---|
| Undrawn commitments to lend | 2,149,314 | 1,611,891 |

The undrawn commitments to lend were under the current grade (Stage 1) credit risk category.

**Lease commitments**

The non-cancellable lease commitments as at 31 December 2018 were TZS 3,137,637,000.

## 39. CONTINGENT LIABILITIES

The Bank had no contingent liabilities as at year-end (2018: None).

## 40. EVENTS AFTER THE REPORTING PERIOD

**Capital restoration plan**

Following the undercapitalization of the Bank, management and the directors embarked on preparing a capital restoration plan and engaging stakeholders regarding the sufficiency of the plan. The capital restoration plan is expected to be submitted to BoT for approval. Refer to Note 5.5 for further disclosures.

**Covid-19 pandemic**

The COVID-19 pandemic continued to affect countries and businesses at the time of issuing these financial statements. The risks arising from this pandemic could include market, services and supply chain disruptions, unavailability of key personnel, locations being quarantined, increase credit risk, among others. The Bank's directors and management have assessed that, at the time of issuing these financial statements, it was impracticable to determine and disclose the quantitative extent of the possible effects of the pandemic on the Bank. The directors and management have qualitatively assessed the potential impact of the pandemic as follows:

## 40. EVENTS AFTER THE REPORTING PERIOD (Continued)

**Covid-19 pandemic (Continued)**

- The Bank’s loan portfolio composition, which is the mainstream revenue, constitutes limited direct exposures to export-oriented businesses and the significantly impacted sectors such as tourism, horticulture, hospitality and air travel. This limits the direct risk which comes with the pandemic. However, there could be an indirect impact due to value chain linkages with the downstream small and medium enterprises and consumer segments which constitute the Bank’s customer base.

- The Bank’s exposures are reasonably well spread-out in local trading and service sectors, for example, in education sector for which the recovery rate could be much faster post the pandemic given that necessity of the education services.

- On the liquidity aspect, which is another key pillar of the business, no significant negative impact is expected mainly because of the nature and structure of the liabilities and the liquidity investment portfolio base. Management will continue to take necessary mitigations including close monitoring of key liquidity metrics like liquidity outflows, close and tight management of positions and intraday flows, slowing down/prioritizing lending in order to minimize the risk of default and liquidity distress, and managing the loan portfolio closely in order to take necessary performance remedial actions timely.

- Safety will continue to be a priority. The Bank will continue to follow the Government guidelines in ensuring the safety of the people and customers. A two-group rotational weekly work shift will continue as long as necessary to mitigate the risk of having to stop service should a Covid-19 case be diagnosed among the work force.

- As disclosed in Notes 2.2 and 5.5, the pandemic could delay or otherwise negatively impact the implementation of the Bank’s capital restoration plan.

The Bank’s directors and management consider that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from the judgements and assumptions used, could require material adjustments to the carrying amounts of the assets or liabilities reported in the financial statements. The Bank’s directors and management will continue to manage the business closely during the pandemic including taking all necessary remedial actions to ensure continuity of the business. However, it is expected that overall, the consequences of this pandemic shall have a negative impact on the Bank’s business growth momentum and in achieving the desired performance targets in the short to medium term.

**Other events**

There were no other events after the reporting that required adjustment to or disclosure in the financial statements.