MKOMBOZI COMMERCIAL BANK PLC

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

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TABLE OF CONTENTS **PAGE NUMBER**

BANK INFORMATION

Registered Office:	Plot Number 40 Mansfield Street P.O. Box 38448 Dar es Salaam, Tanzania
Main Bankers:	**BHF BANK** Frankfurt am Main German 60302 Bockenheimer Landstrabe10 **United Bank for Africa Plc** 575 5th Avenue 32nd Floor New York, NY 10017
Bank's Lawyers:	**Galati Law Chambers,** **Plot No. 21 Block K** Kenyatta Road 3rd Floor, Exim Bank Building Mwanza, Tanzania **Maleta & Ndumbaro Advocates** P.O. Box 79944 Tancot House, Ground Floor Dar es Salaam, Tanzania **Mawala Advocates,** Ali Hassan Mwinyi Road, Plot No. 245, P.O. Box 4490, Dar es Salaam. **MM Attorneys,** Suite No. 1005 10th Floor, Uhuru Heights Tower, Plot No. 33, Bibi Titi Mohamed Road, P.o. Box 7281 Dar es Salaam **Locus Attorneys,** 2nd Floor, Peageout House, Bibi Titi Mohamed Road, P.o. Box 4110, Dar es Salaam.
Bank's Secretary:	*Balthazar Mbilinyi
Auditor:	PricewaterhouseCoopers Certified Public Accountants 369 Toure Drive, Oysterbay, P.O. Box 45 Dar es Salaam, Tanzania

*Balthazar Mbilinyi's contract with the Bank ended in May 2022. At the date of this report the Company Secretary was Paulina Kunjumu, who joined the bank on 26 January 2023.

BANK INFORMATION (CONTINUED)

The Directors of the Bank

Name	Position	Age	Profession/Qualification	Nationality	Date appointed/ Resigned
Mr. Gasper Njuu	Chairman	63 Years	Advanced Diploma in Banking, Post Graduate Diploma in Financial Management, MBA in International Business	Tanzanian	Appointed on 27 January 2022
Mr. Respige O. Kimati	Managing Director	49 Years	B. Com in Finance, MSc in Finance	Tanzanian	Appointed on 18 January 2020
Most Rev. Beatus Kinyaiya	Director	66 years	Archbishop of Archdiocese of Dodoma, MA in History, BA in Geography, BA in Spiritual Theology	Tanzanian	Reappointed on 30 May 2015
Mr. Martin Mdoe	Director	52 years	Advocate of the High Court of Tanzania, LLB, LLM and MBA.	Tanzanian	Appointed on 27 January 2022
Mr. Robert Mtendameма	Director	50 years	B. Computer Science and Master of Science in Data Communications Networks and Distributed Systems	Tanzanian	Appointed on 8 August 2018
Ms. Uphoo Swai	Director	51 years	Certified Public Accountant, Advanced Diploma in Accountancy, Master of Business Administration	Tanzanian	Appointed on 8 August 2018
Mr. Benedict Warisianga Sudi	Director	55 years	Certified Public Accountant, Advanced Diploma in Accountancy	Tanzanian	Appointed on 9 May 2019
Fr. Dr. Charles Kitima	Director	58 years	BA in Theology, Licentiate in Canon Law and Doctorate in Laws	Tanzanian	Appointed on 2 January 2019

MKOMBOZI COMMERCIAL BANK PLC

THE REPORT BY THOSE CHARGED WITH GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2022

1. INTRODUCTION

The Governing Board members have pleasure to submit their report together with the audited financial statements for the financial year ended 31st December 2022, 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, No12 of 2002.

3. BANK'S VISION AND MISSION

The Bank's vision is 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.

The Bank's Mission is 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.

4. 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.

5. 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 22,820,069,500 comprising 23,555,002 ordinary shares. of TZS 1,000 each.
Part of these shares were issued at discount as shown in note 35 to the financial statements.

6. SHAREHOLDING STRUCTURE

As at 31 December 2022, the shares of the Bank were held as follows:

Category	No of shares	Value of shares (TZS)	% of holding
Roman Catholic Church Dioceses and affiliated Institutions	7,049,049	6,731,213,750	29.50%
Other Institutions	2,235,141	2,207,832,500	9.67%
Tanzania Episcopal Conference (TEC)	4,133,995	4,133,995,000	18.12%
Individuals	10,136,817	9,747,028,250	42.71%
Total	23,555,002	22,820,069,500	100.0%

As at 31 December 2021, the shares of the Bank were held as follows:

Category	No of shares	Value of shares (TZS)	% of holding
Roman Catholic Church Dioceses and affiliated Institutions	7,049,049	6,731,213,750	29.50%
Other Institutions	2,235,141	2,207,832,500	9.67%
Tanzania Episcopal Conference (TEC)	4,133,995	4,133,995,000	18.12%
Individuals	10,136,817	9,747,028,250	42.71%
Total	23,555,002	22,820,069,500	100.0%

6. SHAREHOLDING STRUCTURE (CONTINUED)

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

Name of the director	Number of shares held 2022	Number of shares held 2021
Most Rev. Beatus Kinyaiya	13,574	13,574
Prof. Marcellina Mvula Chijoriga	17,000	17,000
Mr. Ayoub Mtafya	6,250	6,250
Mr. Robert Mtendamema	1,190	1,190
Mr. Respige Onesmo Kimati	260	260
Total shares held by directors	**38,274**	**38,274**

* Prof. Marcelina Chijoriga's and Mr. Ayoub Mtafya's membership to the Board of Directors ceased on 26th January 2022.

No director owned more than 0.1% of total issued share capital of the Bank.

7. CRITICAL ACCOUNTING POLICIES AND JUDGEMENTS

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

8. COMPOSITION OF THOSE CHARGED WITH GOVERNANCE

Those charged with the governance "the Board" of the Bank at the date of this report, who held office during the year, except where otherwise indicated, are set out on Page 3.

9. CORPORATE GOVERNANCE

The Board of Directors ("the Board") comprises of 8 Directors. Apart from the Managing Director, no other director holds an executive position at the Bank. The Board takes overall responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance and management of business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The appointments of those charged with governance are made on merit, and candidates are considered against objective criteria, having due regard to the benefits of the diversity of the Board. A rigorous selection process is followed in relation to the appointment of Directors.

The Board delegates the day to day management of the business to the Managing Director who is assisted by senior management. Senior management are invited to attend Board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

During the year, the Board met four times as required by the Bank's policy.

The Bank is committed to the principles of effective corporate governance. The Directors also recognise the importance of integrity, transparency and accountability. The Board retains effective control over operations and has established committees to assist in providing detailed attention to specific areas of expertise. Board delegated authorities are reviewed regularly and Directors have full access to Board and Committee documentation.

9. CORPORATE GOVERNANCE(CONTINUED)

During the year, the Board held four ordinary meetings and four 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.	Mr. Gasper Njuu	Board Chairperson	9	9	100%
2.	Most Rev. Beatus Kinyaiya	Director	9	9	100 %
3.	Mr. Benedict Sudi Warisianga	Director	9	9	100%
4.	Mr. Robert Mtendamema	Director	9	9	100%
5.	Ms. Uphoo Swai	Director	9	9	100%
6.	Fr. Dr. Charles Kitima	Director	9	9	100%
7.	Mr. Robert Mtendamema	Director	9	8	89%
8.	Prof. Marcellina Chijoriga *	Director	9	1	11%
9.	Mr. Ayoub Mtafya*	Director	9	1	11%

* Prof. Marcelina Chijoriga's and Mr. Ayoub Mtafya's membership to the Board of Directors ceased on 26th January 2022.

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 (BARC)

During the year the committee held four (4) ordinary meetings as per Bank's policy and four (4) extra ordinary meetings. The purpose of the BARC includes among others:

(i) To assist the Board of Directors in fulfilling its oversight responsibility with regard to audit and control.

(ii) To monitor and assess the overall integrity of the financial statements and disclosures of the financial condition and results of operations of the Bank.

(iii) To monitor management's responsibilities to ensure effective systems of financial and internal controls are in place.

(iv) To assist the Board in discharging its responsibility on Information Technology (IT) as it relates to financial reporting and the status of the Bank as a going concern.

(v) To monitor and evaluate on a regular basis the qualifications, independence and

(vi) performance of both the external auditors and the internal audit and control department.

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

No.	Name of director	Position	Total meetings	Meetings attended	%
1.	Ms. Uphoo Swai	Chairperson	8	8	100%
2.	Most Rev. Beatus Kinyaiya	Director	8	8	100%
3.	Mr. Benedict Warisianga Sudi	Director	8	8	100%

9. CORPORATE GOVERNANCE (CONTINUED)

Board Credit Committee (BCC)

During the year the committee held four (4) ordinary meetings as per Bank's policy and four (4) extra ordinary meetings. The purpose of the BCC includes among others:

(i) Review the adequacy of the Bank's capital and its allocation to the Bank's business.
(ii) To assist the Board of Directors to discharge the responsibility to exercise due care, diligence and skill to oversee, direct and review the management of the credit portfolio of the Bank.
(iii) To review and recommend to the Board for approval the Bank's credit policies and strategies.

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

No.	Name of director	Position	Total meetings	Meetings attended	%
1.	Mr. Robert Mtendamema	Chairperson	8	8	100%
2.	Mr. Martin Mdoe	Director	8	7	88%
3.	Fr. Charles Kitima	Director	8	7	88%
4	Mr. Benedict Warisianga Sudi*	Director	8	1	13%
5	Mr. Ayoub Mtafya	Director	8	1	13%

* Mr. Benedict Sudi Warisianga remained only in Audit, Risk and Compliance Committee in compliance with the existing Regulations.

The Board Human Resources and Operations Committee

The purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities in the field of human resources management.

The Committee's primary focus is with respect to the recruitment, development, succession planning and compensation of senior executives and the identification, oversight and management of risk related to the Human Resources policies, disciplinary procedures and practices of the bank. The Committee also assists the Board in establishing the compensation philosophy and the compensation and benefit plans for the workforce of the bank's business.

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

No.	Name of director	Position	Total meetings	Meetings attended	%
1.	Mr. Martin Mdoe	Chairperson	5	4	80%
2.	Mr. Robert Mtendamema	Director	5	5	100%
3.	Fr. Charles Kitima	Director	5	4	80%
4	Mr. Ayoub Mtafya	Director	5	1	20%

10. MANAGEMENT TEAM

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

• Chief Financial Officer • Chief Operations Officer • Head of Treasury • Head of Credit • Chief Internal Auditor • Chief Commercial Officer	• Head of Legal Services (Company Secretary) • Manager, Risk and Compliance Department • Assistant Manager, Human Resources Department

11. FINANCIAL PERFORMANCE AND POSITION

The Bank posted the Profit Before Tax of TZS 5,145 million during the year ended 31 December 2022 (2021: Restated Loss before tax TZS (2,707) million), which was attributed to the following key performance parameters: -

- The Net Operating income was TZS 21,096 million compared with TZS 12,954 million in 2021; reflecting a drop-in interest expenses of TZS 1,298 million (16%) attributed to cheap deposit mobilization, increase in interest income by TZS 3.6billion (21%) predominantly attributed to increase in loans and advances and loans modification gain of TZS 1.02billion (2021: TZS 2.7billion loss).
- The customers deposits increased to TZS 184,578million (2021: TZS 181,512million). The increase in 2022 (2%) is attributed to deposit mobilization initiatives and streamlined banking infrastructures (digital channels).
- The total assets increased to TZS 221,722 million (2021: Restated TZS 210,379 million) reflecting a TZS 9,483 increase in loans and advances to customers and banks. The increase compared with the preceding period was largely attributed to the bank's improved lending capacity.
- The total operating expenses were TZS 15,951 million compared with TZS 15,661 million in 2021, the slight increase (2%) reflecting the increased levels of business operations.
- The Loans and Advances portfolio increased to TZS 115,039 million (2021: restated TZS 106,860 million). The increase in 2022 (9%) is predominantly attributed to enhanced credit origination process as well as improved capital adequacy positions compared with the preceding period.

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

Performance Indicator	Definition and calculation method	2022	2021 Restated
Return on Equity	Profit/(loss) Before Tax/Total Equity	20%	(15%)
Return on Assets	Profit/(loss) Before Tax/Total Assets	2%	(1%)
Cost to Income Ratio	Operating Costs/Net Interest + Non-Interest Income	62%	90%
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%	13%
Non - Interest Income to Gross Income	Non - Interest Income/Total Income	18%	23%
Earnings Per Share	Basic Earnings/ Number of Ordinary Shares in Issue (TZS)	239	(79)
Gross Loans to Customers Deposits	Total Loans and Advances to Customers/Total Deposits due to Customers	63%	59%
Non - performing Loans to Gross Loans	Non - performing Loans/Gross Loans and Advances	9%	9%
Earning Assets to Total Assets	Earning assets/Total assets	84%	84%
Growth in Total Assets	Trend (2022 Total Assets – 2021 Total Assets)/(2021 Total Assets)	5%	(3%)

11. FINANCIAL PERFORMANCE AND POSITION (CONTINUED)

The key performance indicators (KPIs) of the Bank (Continued)

Performance Indicator	Definition and calculation method	2022	2021 Restated
Growth in Loans and Advances to Customers	Trend (2022 loans and advances – 2021 loans and advances) /2021 loans and advances)	9%	(9%)
Growth in Deposits due to Customers	Trend (2022 Deposits – 2021 Deposits)/2021 Deposits)	2%	(1%)
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	13.05%	9%
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	14.84%	9%

The Bank posted the Profit Before Tax of TZS 5,145 million during the year ended 31 December 2022 (2021: Restated TZS (2,706) million). The Core Capital and Total Capital Ratio were at TZS 19,621 million and TZS 22,321 million, translating to 13.05% and 14.84% respectively (2021: restated TZS 12,190 million, 9% and 9%). The current year compares favourably with the minimum regulatory requirement of TZS 15,000 million, 12.5% and 14.5% respectively in Core Capital, Core and Total Capital Ratio respectively. The directors confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

13. NETWORK AND OUTREACH

The Bank had eleven branches as at 31 December 2022; four located in Dar es Salaam, and one each in Mwanza, Bukoba, Morogoro, Dodoma, Iringa Njombe and Moshi. The Bank's total number of depositors and borrowers as at the respective year-ends were as shown below:

	2022	2021
Account type		
Current accounts	4,177	3,615
Savings accounts	88,804	72,417
Time deposits	727	878
Total number of deposit accounts	**93,708**	**76,910**
Loan to customers' accounts	**13,991**	**10,883**

14. DIVIDEND

The directors do not propose payment of dividends for the year 2022 (2021: None).

15. KEY DEVELOPMENTS DURING THE YEAR

- The Bank's commitment and focus on financial inclusion remains to be a key strategic priority. We successfully completed integration with key partners in the provision of digital services especially Mobile Network Operators (MNOs) and other digital solution integrators.

- We registered good traction in rolling out of Agency Banking Channel (Mkombozi WAKALA), Church Cash Collection Solution (SADAKA Digital) and Internet Banking. We enhanced our Mobile Banking Channel by launching the Mobile Application in addition to the existing USSD code platform.

- We finalized plans for opening of new branch outlets in Arusha and Mwanza which shall be operational by quarter three of 2023.

15. KEY DEVELOPMENTS DURING THE YEAR (CONTINUED)

- We finalized plans to relocate the current Head Office and St. Joseph's Branch outlets to the new St. Joseph's House, which is a strategic location to enhance both our corporate image and service excellence. This relocation is expected to happen in quarter three of 2023.

- We strengthened our human resource base by recruiting key senior officers in strategic segments especially Finance and Commercial Banking. We enhanced the front office Sales and Relationship/Service Management team across the network that is necessary to support our growth and service excellency ambitions.

  Overall, our business consolidation and growth ambitions continue to bear positive fruits as translated through increased clientele base, enhanced revenue levels, efficient cost management and quality of risk management.

16. RELATED PARTY TRANSACTIONS AND BALANCES

The related party transactions and balances are disclosed in Note 38 to the financial statements.

17. PLANNED DEVELOPMENT

The Bank continues to focus on the following strategic initiatives in the medium-term in order to achieve its profitability and growth ambitions: -

- Business Repositioning through Digitalization Interventions; namely, Agency Banking, Mobile Banking Application, Internet Banking and Cash Management Solutions;

- To expand the Bank's physical outreach through Agency Banking and Mini Branch/Service Centre outlets;

- To focus on the niche market to drive business development ambitions with strategic emphasis in transforming the deposits mix between CASA Deposits (Current and Savings) and FD (Fixed Deposits) to 70% and 30% respectively in a medium term (1-3 years);

- To enhance the Credit Framework (Origination, Management and Remedial) to achieve good loan formation in order to efficiency and profitability in a medium term (1-3 years);

- To intensify cost optimization initiatives with a strategic focus to achieve a cost/income ratio of 55% in a medium term (1-3 years);

- To drive staff productivity through upskilling of staff and implementation of robust Performance Management Framework;

- To enhance Customer Service Management Framework to improve service delivery across the board in order to improve customer experience;

- To enhance innovation and investment in technology in order to deliver quality service and improve customer experience, (investment in new Core Banking System).

18. OPERATING ENVIRONMENT

Macro and micro economic overview
Strong macro fundamentals allowed Tanzania to emerge from the COVID-19 pandemic in good shape, though economic recovery has been relatively modest due to strong headwinds created by the ongoing war in Ukraine, tightening global financial conditions, and global economic slow-down.

In 2022, a relatively stable exchange rate, coupled with fuel subsidies, helped contain consumer price inflation to just 4.8%, well below the regional average of 10%. Global food prices rose sharply, and a severe drought damaged domestic food production, pushing cumulative food-price inflation to 6.6% during the first nine months of 2022. Transportation accounted for 14% of the consumer price basket, and mounting fuel costs increased transportation prices by 7.9% (year-on-year). Elevated food and fuel prices undermined consumption among lower-income households.

The credit extended to the private sector and central government by the banking system grew at an average of 20% during the year (2022). This was almost twice as much compared to 10.2% in the financial year 2021. Credit to agriculture, mining, and personal loans—primarily to micro, small and medium undertakings, trade, and manufacturing registered the highest growth rates. Personal loans and loans to trade, manufacturing, and agriculture continued to account for the largest share of outstanding credit to private.

Lending rates (Market) remained almost unchanged at around 16%, with some banks' lending to the agriculture sector at less than 10% under special loan facilities established by the central bank to support the recovery of the economy from the COVID-19 pandemic.

The strong growth in credit was largely attributed to improved business conditions, recovery of economic activities, as well as supportive monetary and fiscal conditions.

The Bank's focus remained on its niche market and credit management; the execution of which has had significant contribution in turning around business performance through cheap deposits mobilization, good loan formation and portfolio management.

19. OPERATING MODEL

We offer banking services to Individuals, Small to Medium sized Businesses, as well as large corporate clients. We have a wide branch network of over 11 branches, over 400 Mkombozi Wakala

Agents and over 250 Umoja switch ATMs serving over 2 million customers across the country.
Our key client servicing segments are Retail banking, Micro Group Lending, Business banking, Corporate banking and Treasury services.

Retail Banking
Our Retail banking segment offers a wide range of products to individual customers including different types of savings accounts, time deposits and loans and advances. Customers have access to digital products such as mobile banking, internet banking, Access to ATM and Agencies across the country.

Micro Group Lending
This segment offers banking solutions to solidarity groups. The products are structured to align with the business needs and cashflows from small business ventures engaged by solidarity group members. Customers are given access to financial wellbeing knowledge through well trained bank officers.

19. OPERATING MODEL (CONTINUED)

Business Banking
Our Small and Medium sized business customers are offered banking solutions tailored to their needs. Innovative banking products covering sole proprietors, partnerships and companies are tailored to give our customers a world class banking experience and solutions.

Corporate Banking
Premium products for our corporate and high net worth clients to meet their business and personal banking needs. First class access to our business and sector specific knowledge and expertise tailored to their unique business needs.

Treasury Services
The segment offers foreign currency services and money market services to Individuals, SME's, Institutions and Corporate customers.

20. 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.

21. PRINCIPAL RISKS, UNCERTAINTIES AND OPPORTUNIES

Risk Management Framework

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

Risk Governance

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

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

The Board assessed the internal control systems throughout the financial year ended 31 December 2022 and is of the opinion that they met accepted criteria. The Board carries out risk and internal control assessment through the Board Audit and Risk Committee.

21. PRINCIPAL RISKS, UNCERTAINTIES AND OPPORTUNIES(CONTINUED)

Risk Management Culture

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

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

Second Line of Defence: This comprises the independent risk function and is responsible for ensuring that the risks remain within the Bank's risk appetite.
Third line of defence: The independent assurance provided by the Internal Audit Department. Its role is defined and overseen by the Board Audit Committee.
In servicing its clients Mkombozi Commercial bank Plc assumes numerous risks. Principal risks that the Bank is exposed to are:

Risk	Mitigation Actions
Credit Risk Risk of loss arising from failure of customers to meet their contractual obligations when they fall due. These obligations can be financial and non-financial.	• Enhanced customer onboarding procedures within creased scrutiny on customer's past credit performance and present capacity. • Recovery process monitoring and reporting on monthly basis. • Proper loan monitoring procedures to flag out customers with elevated credit risk for quicker actions and remediation plans.
Compliance Risk Potential risk of penalties, sanctions, reputational damage and material loss resulting from failure to adhere to regulatory requirements.	• Periodic assessment of the bank's compliance with existing regulatory requirements. • Assessment of the adequacy of the bank's internal controls put in place to mitigate and manage compliance risk.
Strategic Risk Strategic risk can have severe consequences that impact organizations in the long term. Unmanaged strategic risks pose a risk to the bank. As such the bank manages its strategic risks in order to ensure that long term objectives are achieved.	• Formulation of a strategic plan that maps out the strategic activities and initiatives that are taken by the bank. • Monitoring of key performance indicators quarterly and discussed during the meeting of the Board Audit Risk and Compliance Committee. • Develop a performance evaluation system that tracks progress towards achieving both financial and non-financial targets. • Proper succession plan for the board of directors' critical positions (Chairman of the Board and the Managing Director) and management succession plan.
Liquidity Risk Inability of the bank in meeting its repayment obligations in full when they fall due or from being unable to do so at a sustainable cost.	• Ensure that the agreed commitments to the Bank's creditors can be met in the long term (solvency) and at the right time (liquidity). • Maintain combined liquidity reserves of cash and securities and unused bank lines of credit as a buffer just in case. • Ensure that the bank's assets and liabilities are diversified across currencies, geographic areas and business.

21. PRINCIPAL RISKS, UNCERTAINTIES AND OPPORTUNIES (CONTINUED)

Risk Management Culture (Continued)

Risk	Mitigation Actions
Operational Risk The risk of loss resulting from inadequate or failed internal processes, people, and systems, or external events	• Risk transfer through outsourcing and insurance. • Establishment of controls through policies and procedures. • Business Continuity Planning by ensuring Disaster Recovery Site is in place and all core systems are replicated at the site.
Market Risk The risk of adverse movement of interest rates, foreign exchange fluctuations and or commodities prices.	• Hedging of foreign currency. • Timely evaluation and monitoring of market interest rates and prices movements.
Technology and Cyber Risk Risk of inability to manage Confidentiality of information, integrity of data, protection of physical IT assets and system availability which could results in loss of data, reputational damage and significant financial loss.	• Enhancement of modules in the core banking system. • Enhancement of the resilience of system security • Improvement of system stability.

Technology and Innovation

The Bank has gone through significant transformation in key aspects of technology and innovation over the past three years in an effort to build a robust operating platform to deliver competitive products and service solution to customers. This transformation journey was anchored on the digital platform, which was rolled out in 2021. The platform has facilitated implementation of various services solutions such as Agency Banking, Internet Banking, Cash Collection Solutions and enhanced Mobile Banking. The technology and innovation initiatives have been executed in the following phases:

- Information Gathering Phase:

This involved identifying key service pain points and possible remedial interventions

- Stabilization & Catch-up Phase:

This entailed stabilizing the Bank's technology environment to foster business growth and catching up with the market in terms of the products and services offering.

- Business Growth Phase:

This involves strategic clients' acquisition and product penetration initiatives in line with profitability and growth ambitions of the Bank laid down the strategic business plan 2020 - 2023, with emphasis on the matters tabulated below:

21. PRINCIPAL RISKS, UNCERTAINTIES AND OPPORTUNIES (CONTINUED)

Technology and innovation (Continued)

Niche Market Proposition	Focus on key segments namely Retail Consumers, JNN, VVK, Parishes, Dioceses, Congregations, Schools, Hospitals
Digitalization	Roll out of digital solution to drive customer acquisition, transaction and liquidity mobilization
Expansion	Physical, Digital
Cost Rationalization	Building the Culture
Credit	Origination, Management, Remedial
People	Alignment, Motivation, Responsibility, Productivity
Processes and Service Excellence	Customer Centricity

22. RISK MANAGEMENT AND INTERNAL CONTROLS

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 BARC and BCC.

23. SERIOUS PREJUDICIAL MATTERS

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

24. 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 89.0 million on training of staff (2021: TZS 70.3 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.

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.

25. 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	2022	2021
Female	71	70
Male	96	94
Total	**167**	**164**

26. POLITICAL DONATIONS

The Bank did not make any political donations during the year (2021: Nil).

27. RELATIONSHIP WITH STAKEHOLDERS

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

28. 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 23.42 million (2021: TZS 12.68 million). The Bank made donations to various institutions including orphanage centres as education support for orphans.

29. AUDITOR

Name: PricewaterhouseCoopers
Physical address: Pemba House, 369 Touré Drive, Oysterbay
Registration number: 117633
TIN number: 100212285
PF Number: 40

PricewaterhouseCoopers was the auditor of the Bank for the year ended 31 December 2022. A proposal appointing the external auditor of the Bank for the year ending 31 December 2022 was approved by shareholders in the Thirteenth's Annual General Meeting which resolved that PricewaterhouseCoopers will be the auditor of the Bank for a period of three years from 2022.

30. RESPONSIBILITY OF THOSE CHARGED WITH GOVERNANCE

The members charged with governance accepts responsibility for preparing these financial statements which shows true and fair view of the company to the date of approval of audited financial statements in accordance with the applicable standards, rules, regulations and legal provisions.

The members also confirm compliance with the provisions of the requirements of TFRS1 and all other statutory legislations relevant to the bank.

The Directors' Report was approved by the Board of Directors on 4th May 2023 and signed on behalf of the Board per the resolution of the Board by:

Gaspar Casmir Njuu
Chairperson of the Board

Ms. Uphoo Swai
Board Member and Chairperson of the BARC

STATEMENTS OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2022

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 assessed the Bank's ability to continue as a going concern for the foreseeable future and have no reason to believe that the business will not be a going concern in the year ahead.

The financial statements were approved by the Board of Directors on 4th May 2023 and were signed on its behalf by:

____
Gaspar Casmir Njuu
Chairperson of the Board

____
Ms. Uphoo Swai
Board Member and Chairperson of the BARC

MKOMBOZI COMMERCIAL BANK PLC

DECLARATION BY THE HEAD OF FINANCE
FOR THE YEAR ENDED 31 DECEMBER 2021

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, **Vitalis Constantine Michael,** being the Chief Financial Officer of Mkombozi Commercial Bank Plc hereby acknowledge my responsibility of ensuring that the financial statements for the year ended 31 December 2022 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 Financial Officer

NBAA Membership No: GA 9176

Date: 4 May 2023

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF MKOMBOZI COMMERCIAL BANK PLC

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Mkombozi Commercial Bank Plc (the Bank) as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002.

What we have audited

The financial statements of Mkombozi Commercial Bank Plc as set out on pages 25 to 104 comprise:

- Statement of financial position as at 31 December 2022;
- Statement of profit or loss and other comprehensive income for the year then ended;
- Statement of changes in equity for the year then ended;
- Statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statement of Mkombozi Commercial Bank Plc for 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.

Report on the audit of the financial statements (continued)

Key audit matter (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
<u>Impairment of loans and advances to customers</u>

Management exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provisions in the following areas:
-

• Quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default;
• Determination of the probability of defaults (both 12 months and lifetime);
• Determination of the forward-looking parameters to be incorporated in the estimation of expected credit losses; and
• Estimation of the expected cash flows (including from collateral realization) used in the determination of the loss given default.

The judgments together with the value of the gross loans and advance to customers (TZS 118,881 million, 2021:TZS 110,490 million) and impairment provision (TZS 3,842 million, 2021:TZS 3,630 million) make this a key audit matter.

Further details on loans and advances to customers have been disclosed in Note 5.1 and Note 22 of the financial statements.
.
</td><td>
• We tested management's determination of the quantitative and qualitative criteria used in the classification of loans and advances.
• As the quantitative basis of classification of loans and advances is reliant on information systems, we understood and tested key information technology general and application controls including the accurate calculation of the number of days past due.
• We tested management's application of the qualitative criteria in the classification of loans and advances.
• We tested the information used for estimating, exposure at default, probability of default and loss given default. We also tested the methodology used for estimating exposure at default, probability of default and loss given default for compliance with IFRS 9 requirements.
• We tested the forward-looking parameters considered by management.
• We challenged management's basis for establishing the correlation between forward looking parameters and the Bank's non-performing loan trends.
• We agreed the collateral values used in the impairment model to valuation reports.
• We tested the expected cash flows and challenged management's assumptions of recovery estimates, including timing of cash flows.
• We tested recovery costs and recovery periods used to estimate the recoverable amount of collateral for secured facilities.
• We tested adequacy of disclosures.
</td></tr>
</table>

Report on the audit of the financial statements (continued)

Key audit matter (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>
<u>Restatement of prior year financial statements</u>

Significant errors were identified in prior year financial statements as summarized below:

• Interest receivable carried on non-existed loans or loans which have been modified such that the interest is not recoverable through modified cash flows;
• Some of loans and advances to customers were not carried at fair value at initial recognition and also no modification gain or losses was assessed upon restructuring of these financial assets;
• Error in determination and accounting for lease liabilities;
• Some government securities accounted as held to collect contractual cashflows contrary to the business model;
• Property and equipment balances were included as other assets and consequently included in IFRS 7 disclosures in note 5 as financial assets; and
• Some other assets balances were classified under cash and balances with Bank of Tanzania and loans and advances to banks.
• Incomplete disclosure of cash and cash equivalents balance.
• The share discount was not disclosed on the financial statements.
• Loans and advances to customers did not include the staff loans fair value adjustment hence overstated.

Management corrected the prior year numbers by way of restatement.

Given the significance and impact of these corrections to the financial statements this is considered to be a key audit matter.

Further details on the prior year restatement have been disclosed in Note 40 of the financial statements.
</td><td>
• We validated that there was an error, and that reliable information was available when financial statements for those periods were authorized for issue for management to have correctly considered in preparation of those financial statements.
• We tested management's determination of the quantitative and qualitative magnitude of the errors in prior years including the earliest period the errors occurred.
• We validated materiality of the errors individually and in aggregate to qualify for prior year restatement.
• We tested adequacy of disclosures for a prior period error.
</td></tr>
</table>

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

Report on the audit of the financial statements (continued)

Other information

The directors are responsible for the other information. The other information comprises Bank information, The Report of those charged with governance, Statement of directors' responsibilities and Declaration of the Head o Finance (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and other information that will be included in the Annual Report which is expected to be made available to us after the date of this auditor's report.

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

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

If, based on the work we have performed on the other information 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.

When we read the other information that will be included in the Annual Report which will be made available to us after the date of this auditor's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the 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 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 judgement and maintain professional scepticism throughout the audit. We also:

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

Report on the audit of the financial statements (continued)

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

- 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.

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, No. 12 of 2002 and for no other purposes.

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

Cletus Kiyuga ACPA- PP 1981
For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam
Date: 5th May 2023

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2022	2021 Restated*
		TZS'000	TZS'000
Interest income calculated using the effective interest method	8	25,666,314	22,075,616
Interest expense calculated using the effective interest method	9	(7,319,903)	(8,787,173)
Net interest income		**18,346,411**	**13,288,443**
Expected credit losses – financial assets	10	(2,943,622)	(1,979,217)
Net interest income after expected credit losses		**15,402,789**	**11,309,226**
Modification of financial assets		**1,020,898**	**(2,757,741)**
Fees and commission income	11	2,950,155	3,235,526
Other income	12	689,767	367,675
Net foreign currency trading and translation gains	13	1,033,281	800,258
Total non-interest income		**4,673,203**	**4,403,459**
Net operating income		**21,096,890**	**12,954,944**
Personnel expenses	14	(7,877,382)	(8,407,309)
Depreciation and amortization	15	(2,064,688)	(2,040,283)
Other operating expenses	16	(6,009,348)	(5,214,190)
Total operating expenses		**(15,951,418)**	**(15,661,782)**
Profit/(Loss) before income tax		**5,145,472**	**(2,706,838)**
Income tax credit	17	476,421	847,328
Profit/(Loss) for the year		**5,621,893**	**(1,859,510)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
FVOCI investment securities;			
-Fair value gain/(loss) arising during the year		1,682,521	(52,825)
-Tax Thereon		(504,756)	15,847
Other comprehensive income, net of tax		1,177,765	(36,978)
Total comprehensive income/ (loss) for the year, net of tax		**6,799,658**	**(1,896,488)**
		TZS	**TZS**
Basic and diluted earnings per share	**18**	**239**	**(79)**

*Certain amounts here do not correspond to the 2021 financial statements and reflect adjustments made to correct errors in prior year, refer to note 40 for details. refer to note 40.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

STATEMENT OF FINANCIAL POSITION

	Notes	2022 TZS '000	2021 *Restated TZS '000	01 Jan 2021 Restated* TZS'000
ASSETS				
Cash and balances with Bank of Tanzania	19	21,935,859	21,864,924	22,088,102
Loans and advances to banks	20	24,133,243	23,137,105	35,819,175
Government securities – FVOCI	23(a)	12,099,332	9,970,853	-
Government securities – amortised cost	23(b)	31,108,527	32,698,014	28,037,348
Loans and advances to customers	22	115,038,724	106,859,941	118,743,143
Investment in corporate bond	24	2,001,614	2,002,903	2,002,258
Equity investments	25	539,000	539,000	539,000
Right-of-use assets	26	4,290,588	4,164,289	4,382,734
Other assets	21	4,987,106	3,715,082	1,450,845
Property and equipment	28	3,003,051	2,824,006	3,223,974
Intangible assets	27	440,639	818,153	900,351
Current income tax recoverable	17	1,017,432	647,743	641,682
Deferred tax asset	29	1,127,429	1,129,667	-
TOTAL ASSETS		**221,722,544**	**210,371,680**	**217,828,612**
LIABILITIES AND EQUITY				
Liabilities				
Deposits due to customers	30	184,578,821	181,512,718	183,907,938
Borrowings	31(a)	1,497,942	3,833,014	8,894,206
Subordinated loan	31(b)	2,913,750	-	-
Other liabilities	32	1,633,919	1,518,358	1,620,711
Provisions	33	788,285	751,470	536,220
Lease liabilities	34	5,121,743	4,367,694	4,789,421
		196,534,460	**191,983,254**	**199,748,496**
Equity				
Share capital	35	23,555,002	23,555,002	20,615,272
Share discount	35	(734,932)	(734,932)	-
Accumulated losses		(1,498,956)	(9,055,650)	(6,066,474)
Regulatory reserve	36(a)	2,726,183	4,660,984	3,531,318
Other reserves-FVOCI	36(b)	1,140,787	(36,978)	-
		25,188,084	**18,388,426**	**18,080,116**
TOTAL LIABILITIES AND EQUITY		**221,722,544**	**210,371,680**	**217,828,612**

*Certain amounts here do not correspond to the 2021 and 2020 financial statements and reflect adjustments made to correct errors in prior years, refer to note 40 for details.

These financial statements were authorised for issue by the Board of Directors on 4th May 2023, and were signed on behalf of the Board of Directors by:

Gaspar Casmir Njuu
Chairperson of the Board.

Ms. Uphoo Swai
Board Member and Chairperson of the BARC

STATEMENT OF CHANGES IN EQUITY

	Share capital TZS' 000 (Note 35)	Share discount TZS' 000 (Note 35)	Retained earnings TZS' 000	Regulatory reserve** TZS' 000 (Note 36(a))	Fair Value reserve TZS' 000 (Note 36(b))	Total TZS' 000
Balance as at 1 January 2021- As previously stated	20,615,272	-	(3,573,857)	3,531,318	-	20,572,733
Prior year adjustments (note 40(III))	-	-	(2,492,617)	-	-	(2,492,617)
Restated balance 1 January 2021*	-	-	(6,066,474)	-	-	18,080,116
Profit for the year:						
As previously reported	-	-	3,046,104	-	-	3,046,104
Prior year adjustments (note 40(I)) *	-	-	(4,905,614)	-	-	(4,905,614)
As restated*	-	-	(1,859,510)	-	-	(1,859,510)
Other comprehensive income-(restated)*	-	-	-	-	(36,978)	(36,978)
Total comprehensive income for the year (restated)	-	-	(1,859,510)	-	(36,978)	(1,896,488)
Advance towards share capital	2,939,730	(734,932)	-	-	-	2,204,798
Transfer to regulatory reserve	-	-	(1,129,666)	1,129,666	-	-
Balance as at 31 December 2021 (restated)	**23,555,002**	**(734,932)**	**(9,055,650)**	**4,660,984**	**(36,978)**	**18,388,426**
Balance as at 31 December 2021 - As previously stated	22,820,070	-	(1,657,419)	4,660,984	-	25,823,635
Prior year adjustments (note 40(II)) *	734,932	(734,932)	(7,398,231)	-	(36,978)	(7,435,209)
Restated balance 1 January 2022	23,555,002	(734,932)	(9,055,650)	4,660,984	(36,978)	18,388,426
Profit for the year	-	-	5,621,893	-	-	5,621,893
Other comprehensive income	-	-	-	-	1,177,765	1,177,765
Total comprehensive income for the year	-	-	5,621,893	-	1,177,765	6,799,658
*Transfer from regulatory reserve	-	-	1,934,801	(1,934,801)	-	-
At 31 December 2022	**23,555,002**	**(734,932)**	**(1,498,956)**	**2,726,183**	**1,140,787**	**25,188,084**

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

*Certain amounts here do not correspond to the 2021 and 2020 financial statements and reflect adjustments made to correct errors in prior years, refer to note 40 for details.

MKOMBOZI COMMERCIAL BANK PLC

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2022

STATEMENT OF CASHFLOWS

	Notes	2022 TZS'000	2021 restated TZS'000
Operating activities			
Profit/(loss) before tax		5,145,472	(2,706,838)
Adjustments:			
Interest expense on lease liabilities	9	426,557	597,227
ECL on loans and advances to customers	10	2,943,622	1,979,217
Depreciation on right-of-use assets	14	885,268	776,713
Amortization of intangible assets	14	377,514	387,114
Non-trading foreign exchange (gain)/loss	34	17,488	(26,222)
Depreciation on property and equipment	14	801,906	876,456
Effective interest receivable Write off		841,185	2,026,792
Interest expense on borrowings		335,803	707,982
Increase in provisions	33	511,815	384,000
Unwinding of modification loss-interest		(511,269)	(86,954)
Modification (Gain) /Loss on financial assets		(1,020,898)	2,757,741
		10,754,463	**7,673,228**
Changes in operating assets and liabilities:			
Increase in statutory minimum reserve		(460,685)	(51,201)
Other assets		(1,382,349)	(247,736)
Loans and advances to customers		(10,431,424)	5,206,405
Deposits due to customers		3,066,103	(2,395,220)
Payment of gratuities		(475,000)	(168,750)
Other liabilities		115,560	(102,354)
Cash generated from operations		**1,186,668**	**9,914,372**
Income tax paid	17	(395,785)	(272,552)
Net cash flows from operating activities		**790,883**	**9,641,820**
Investing activities			
Decrease/(Increase) in government securities		1,143,528	(14,684,344)
Decrease/(Increase) in investment in corporate bond		1,289	(645)
Purchase of intangible assets	27	-	(304,916)
Purchases of property and equipment	28	(980,950)	(477,088)
Net cash flows from/ (used in) investing activities		**163,867**	**(15,466,993)**
Financing activities			
Lease liabilities paid – principal	34	(431,413)	(955,773)
Lease liabilities interest paid	34	(270,150)	(595,227)
Proceeds from new borrowings		2,700,000	-
Repayment of borrowings		(2,457,124)	(5,769,174)
Issue of shares during the year (Right Issue)	35	-	2,204,798
Net cash flow used in financing activities		**(458,687)**	**(5,115,376)**
Net increase in cash and cash equivalents		**496,063**	**(10,940,549)**
Cash and cash equivalents at 1 January		36,295,552	47,236,101
Net foreign exchange differences		-	-
Cash and cash equivalents at 31 December	37	**36,791,615**	**36,295,552**

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. BASIS OF PREPARATION(CONTINUED)

2.2 Going concern

The Bank's core capital, core capital ratio and total capital ratio were TZS 19,621 million (2021: restated TZS 12,190million) equivalent to 13.05% and 14.84% (2021: 9% and 9%). Both the absolute core capital and Capital Adequacy Ratios were within regulatory benchmark of TZS 15,000 million, and the regulatory requirements of 12.5% and 14.5% respectively.

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 Bank's management and directors have made an assessment of the Bank's ability to continue as a going concern and have concluded that there are no reasons to believe that the Bank will not be a going concern. The financial statements have therefore been prepared on the going concern assumption.

The Bank's liquidity position is expected to be reasonably sufficient to meet the maturing obligations and other business requirements. 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, 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.

3. CHANGES IN 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. New and amended standards and interpretations effective during the year

The following standards have been adopted by the Bank for the first time for the financial year beginning on 1 January 2022:

Number	Effective date	Executive summary
IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment	Annual periods beginning on or after 1 April 2021 (early adoption is permitted) (Published March 2021)	The IASB has provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification, provided that the concession meets certain conditions. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The March 2021 amendment will only be available if an entity chose to apply the May 2020 optional practical expedient. The Bank performed an assessment and concluded that amendments do not have material impact to the bank 's financial statements.

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

Number	Effective date	Executive summary
Annual improvements cycle 2018 - 2020	Annual periods beginning on or after 1 January 2022 (Published May 2020)	These amendments include minor changes to: • IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation. • IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives. The Bank performed an assessment and concluded that amendments do not have material impact to the bank 's financial statements.
Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract. Based on management assessment, the amendment does not have a significant impact to the Bank's financial statements.
Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use	Annual periods beginning on or after 1 January 2022 (Published May 2020)	The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss. Based on management assessment, the amendment does not have a significant impact to the Bank's financial statements.

3 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) New and amended standards not yet effective and not early adopted by the Bank

Below are International Financial Reporting Standards, interpretations and amendments issued but not effective and management has not early adopted:

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023 Early application is permitted for entities that apply IFRS 9, 'Financial Instruments', and IFRS 15, 'Revenue from Contracts with Customers', at or before the date of initial application of IFRS 17. (Published May 2017)	The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators. Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period. Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract. Management has performed a preliminary assessment and it is expected that IFRS 17 will not have a material impact on Bank's portfolio of performance bonds which meet the definition of insurance contract. The majority of Bank's performance bond are short term, and these will qualify for the premium allocation approach. As at 31 December 2022 performance bonds with carrying value TZS 2.84 billion. Management made an impact analysis and determined that all Performance guarantees facilities issued by the Bank are Demand Guarantees and not Surety Guarantees because as per Bank policy they are all supposed to be covered by more than 100% of the facility value. Therefore, they do not meet definition of insurance contracts as per IFRS 17.

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) New and amended standards not yet effective and not early adopted by the Bank (Continued)

IFRS 17, 'Insurance contracts'(continued)		Under the premium allocation approach the measurement of insurance contracts will follow the following IFRS 17 principles; - The liability for remaining coverage as the amount of premiums received net of acquisition cash flows paid, less the net amount of premiums and acquisition cash flows that have been recognized in profit or loss over the expired portion of the coverage period based on the passage of time. - For group of contracts that are assessed as onerous at initial recognition (loss making groups), an onerous loss will be recognized in profit or loss with the corresponding increase in the liability of remaining coverage. - The liability for incurred claims will be measured at the amount of the fulfilment cash flows relating to incurred claims, in accordance with the fulfilment cash flow requirements of the general measurement model. Based on management assessment, the amendment is not expected to have a significant impact to the Bank's financial statements.
IFRS 17, Insurance contracts Amendments	Annual periods beginning on or after 1 January 2023 (Published June 2020)	In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway. Based on management assessment, the amendment is not expected to have a significant impact to the Bank's financial statements.
Amendment to IAS 1, 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current	Annual periods beginning on or after 1 January 2023 (Published Jan 2020)	The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. A number of requirements are required to be met in conjunction with this amendment. The Bank assessed the impact of the amendments and they do not have an impact to the Bank.
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Annual periods beginning on or after 1 January 2023. Earlier application is permitted. (Published May 2021)	The amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences. The Bank is currently assessing the impact of the amendments to determine the impact. The Bank is expecting to apply the standard/ amendment on 1 January 2023.

3. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) New and amended standards not yet effective and not early adopted by the Bank (Continued)

International Financial Reporting Standards, interpretations and amendments issued but not effective		
Number	**Effective date**	**Executive summary**
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	Annual periods beginning on or after 1 January 2023. Earlier application is permitted. (Published February 2021)	The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates. The Bank is currently assessing the impact of the amendments to determine the impact. The Bank is expecting to apply the standard/ amendment on 1 January 2023.

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.

(b) Fees and commission income

The Bank earns fees and commission income from diverse range of services it provides to its customers. The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not include multiple performance obligations.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time. The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees and commissions that form an integral part of the effective interest rate are excluded from fees and commissions from customers.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(b) Fees and commission income (continued)

Fee and commission income from services where performance obligations are satisfied over time

Performance obligations satisfied over time include asset management and other services, where the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs.

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

Loan syndication fees: These are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

Unearned fees and commissions included under 'Other liabilities', which represent the Bank's obligation to transfer services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Bank performs.

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

Transactional fees: Transactional fees are service charges on deposit accounts, cash management services and transactional processing fees such as fees income generated from credit applications. Fees earned on the execution of a significant act typically includes transactional fees. Transaction and processing fees are recognised at the point in time the transaction occurs, or service is performed. They include banking services such as Automated Teller Machine (ATM) fees, wire transfer fees, overdraft or late fees and foreign exchange fees, among others.

These fees are received, and the Bank's provides the service, monthly; the fees are recognised in income on this basis. The Bank also receives certain fees in respect of its asset finance business where the performance obligations are typically fulfilled towards the end of the customer contract; these fees are recognised in income on this basis.

Services provided where the Bank's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria.

These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such a for bancassurance arrangements where the Bank act as an intermediary in underwiring insurance policies on behalf of insurance companies, sale of cheque books, ATM withdrawal charges, statement charges, salary processing fees and other fees and commissions of that nature

(c) Other income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities measured at fair value through profit or loss if any. Other income is recognized in the period in which it is earned.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(d) 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.

(e) 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.

(f) 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:

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(f) Financial instruments (continued)

<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="12">Financial assets</td><td rowspan="11">Debt instruments at amortized cost</td><td colspan="2">Loans and advances to other banks</td></tr>
<tr><td colspan="2">Cash at bank</td></tr>
<tr><td colspan="2">Balances with BoT</td></tr>
<tr><td rowspan="4">Loans and advances to customers</td><td>Loans to individuals</td></tr>
<tr><td>Loans to commercial entities</td></tr>
<tr><td>Loans to salaried employees</td></tr>
<tr><td>Advances to staff</td></tr>
<tr><td rowspan="2">Investments in debt instruments</td><td>Government securities</td></tr>
<tr><td>Corporate bonds</td></tr>
<tr><td rowspan="2">Other assets</td><td>Sundry debtors</td></tr>
<tr><td>Imprest accounts and other financial assets</td></tr>
<tr><td>Fair value through other comprehensive income (FVOCI)</td><td colspan="2">Equity investments designated at FVOCI
Government Securities at FVOCI</td></tr>
<tr><td rowspan="4">Financial liabilities</td><td rowspan="4">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 rowspan="2">Deposits due to customers
Borrowings
Subordinated Loan</td><td>Demand deposits</td></tr>
<tr><td>Time deposits and other deposits</td></tr>
<tr><td>Off balance sheet Items</td><td></td><td>Bank Guarantees
Undrawn loan commitments</td><td>Letters of Credit</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.

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:

The Bank's business model for managing the asset; and,
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').

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

(f) Financial instruments (Continued)

Financial assets (continued)

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:** Debt instruments are held for collection of contractual cash flows and for selling the assets, where the debt instruments' 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 are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the debt instrument is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Other income'

- **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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

Financial assets (Continued)

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 flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for 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.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade date (the date on which the Bank commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in the statement of profit and loss but is amortised or released to the statement of profit and loss as the inputs become observable, or the transaction matures or is terminated.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

Financial assets (Continued)

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are initially carried at amortised cost and subsequently carried at amortised cost using the effective interest method. Foreign exchange gains and losses are recognised in the statement of profit and loss.

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Changes in expected credit losses are recognised in the profit or loss and are accumulated in equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to the profit or loss.

Financial assets held at fair value through profit or loss

Financial assets mandatorily held at fair value through profit or loss and financial assets designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value recorded in the net trading income line in the profit or loss unless the instrument is part of a cash flow hedging relationship. Contractual interest income on financial assets held at fair value through profit or loss is recognised as interest income in a separate line in the profit or loss.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

Financial assets (Continued)

Subsequent measurement (continued)

Modification of financial assets (Continued)
(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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

Financial assets (Continued)

Subsequent measurement (continued)

Impairment of financial assets (Continued)

The Exposure at Default (EAD): Is an estimate of the exposure at a future default date, considering 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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

Financial assets (Continued)

Subsequent measurement (continued)

Impairment of financial assets (Continued)

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.

Qualitative criteria
The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The borrower is in long-term forbearance
- The borrower is deceased
- The borrower is insolvent
- The borrower is in breach of financial covenant(s)
- An active market for that financial asset has disappeared because of financial difficulties
- Concessions have been made by the lender relating to the borrower's financial difficulty
- It is probable that the borrower will enter bankruptcy

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

Financial assets (Continued)

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.

Cure of non-performing financial assets including restructured loans
An instrument is considered to no longer be credit-impaired (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 two 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 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial instruments (Continued)

Financial assets (Continued)

For credit exposures that have shifted out of Stage 3, the Bank, in a reporting period, calculates the interest income by applying the effective interest rate to the gross carrying amount. This is because the credit risk on the financial instrument has improved and the financial asset is no longer credit-impaired.

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.

Offsetting financial instruments
Where a currently enforceable legal right to 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.

(g) 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.

(h) 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) 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, government securities yields, foreign exchange rates, volatilities and counterparty spreads) existing at the reporting date.

(j) 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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Taxes (Continued)

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.

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.

(k) 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.

(l) Fair value through OCI Reserve

The reserves recorded in equity (OCI) on the Bank's statement of financial position include:

Fair value reserves which comprises the cumulative net change in the fair value of debt instruments classified at FVOCI and the cumulative net change in fair value of equity instruments at FVOCI

(m) 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	20.0%
Leasehold improvements	As per the contract tenure

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Property and equipment (continued)

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.

(n) 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.

(o) 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% of the employment contract at the completion of the contract. Provision is made for the gratuity in line with the respective contracts. The gratuity is a defined benefit.

(p) 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)

(q) Leases

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 by 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.

Refer note 6 for information regarding the estimates and assumptions used in determining the incremental borrowing rate and the lease term.

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.

5. FINANCIAL RISK MANAGEMENT(CONTINUED)

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 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 risks
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:

	At amortised cost TZS '000	FVOCI TZS '000	Total TZS '000
At 31 December 2022			
Financial assets			
Cash and balances with BoT	21,935,859	-	21,935,859
Loans and advances to banks	24,133,243	-	24,133,243
Other assets[1]	2,893,523	-	2,893,523
Loans and advances to customers	115,038,724	-	115,038,724
Government securities – FVOCI	-	12,099,332	12,099,332
Government securities – amortised cost	31,108,527	-	31,108,527
Investment in corporate bond	2,001,614	-	2,001,614
Equity investments	-	539,000	539,000
	197,111,490	**12,638,332**	**209,749,822**
Financial liabilities			
Deposits due to customers	184,578,821	-	184,578,821
Borrowings	1,497,942	-	1,497,942
Subordinated loans	2,913,750		2,913,750
Other liabilities[2]	683,640	-	683,640
Lease liabilities	5,121,743	-	5,121,743
	194,795,896	**-**	**194,795,896**
At 31 December 2021-Restated			
Financial assets			
Cash and balances with BoT	21,864,924	-	21,864,924
Loans and advances to banks	23,137,105	-	23,137,105
Other assets[1]	2,222,584	-	2,222,584
Loans and advances to customers	106,859,941	-	106,859,941
Government securities – FVOCI	-	9,970,853	9,970,853
Government securities – amortised cost	32,698,014	-	32,698,014
Investment in corporate bond	2,002,903	-	2,002,903
Equity investments	-	539,000	539,000
	188,785,471	**10,509,853**	**199,295,324**
Financial liabilities			
Deposits due to customers	181,512,718	-	181,512,718
Borrowings	3,833,014	-	3,833,014
Other liabilities[2]	1,013,150	-	1,013,150
Lease liabilities	4,367,694	-	4,367,694
	190,726,576	**-**	**190,726,576**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Management of financial risks (continued)

[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	Description of the grade	Number of days outstanding	Bank's description of the grade[1]
1	Current	0-30	Stage 1
2	Especially mentioned	31-90	Stage 1
3	Sub-standard	91-180	Stage 3
4	Doubtful	181-360	Stage 3
5	Loss	361 and above	Stage 3

[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 continuous 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:

	2022		2021	
Bank's rating	**Credit risk exposure**	**ECL allowance**	**Credit risk exposure**	**ECL allowance**
	%	%	%	%
Current	92	40	88	26
Especially mentioned	0	0	0	0
Substandard	3	5	6	8
Doubtful	2	14	1	6
Loss	3	41	5	60
	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:

	2022		2021 Restated	
	TZS'000	%	**TZS'000**	%
Balances with BoT	12,748,062	6%	13,550,665	7%
Loans and advances to banks	24,133,243	12%	23,137,105	12%
Other assets	2,893,523	2%	2,222,584	1%
Government securities – FVOCI	12,099,332	6%	9,970,853	5%
Government securities – amortised cost	31,108,527	15%	32,698,014	17%
Investment in corporate bond	2,001,614	1%	2,002,903	1%
No collateral held	**84,984,301**	42%	**83,582,124**	43%
Loans and advances to customers	115,038,724	57%	106,859,941	56%
Loan commitments	2,494,785	1%	1,317,076	1%
With collateral or other credit enhancements	**117,533,509**	**58%**	**108,177,017**	**57%**
Maximum exposure to credit risk	**202,517,810**	**100%**	**191,759,141**	**100%**

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

The next table shows internal rating of the financial assets at the end of the year.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.1 Credit exposure internal rating

	Current TZS'000	Special mention TZS'000	Sub standard TZS'000	Doubtful TZS'000	Loss TZS'000	Total TZS'000
As at 31 December 2022						
Balances with BoT	12,748,062	-	-	-	-	12,748,062
Loans and advances to banks	24,133,243	-	-	-	-	24,133,243
Government securities – FVOCI	12,099,332	-	-	-	-	12,099,332
Government securities – amortised cost	31,108,527	-	-	-	-	31,108,527
Loans and advances to customers	105,793,190	71,412	2,825,948	2,358,131	3,990,043	115,038,724
Investment in corporate bond	2,001,614	-	-	-	-	2,001,614
Other assets	2,893,523	-	-	-	-	2,893,523
	190,777,491	**71,412**	**2,825,948**	**2,358,131**	**3,990,043**	**200,023,025**
% Contribution	**95%**	**0%**	**1%**	**1%**	**3%**	**100%**
As at 31 December 2021						
Balances with BoT	13,550,665	-	-	-	-	13,550,665
Loans and advances to banks	23,137,105	-	-	-	-	23,137,105
Government securities – FVOCI	9,970,853	-	-	-	-	9,970,853
Government securities – amortised cost	32,698,014	-	-	-	-	32,698,014
Loans and advances to customers	94,485,156	58,327	5,964,439	661,499	5,690,520	106,859,941
Investment in corporate bond	2,002,903	-	-	-	-	2,002,903
Other assets	2,222,584	-	-	-	-	2,222,584
	178,067,280	**58,327**	**5,964,439**	**661,499**	**5,690,520**	**190,442,065**
% Contribution	**94%**	**0%**	**3%**	**0%**	**3%**	**100%**

The Bank does a detailed internal rating with consideration of both quantitative and qualitative factors for the portfolio with the most credit risk i.e., loans and advances to customer, the analysis of this is included in note 22 of the financial statements.

Base on the nature of other financial assets, the assets have been internally graded as current and performing, with exception of an exposure in other assets which has demonstrated significant increase n credit risk.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Credit Risk (continued)

5.1.2 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.

All amounts are in TZS'000	**Financial institutions**	**Real estate**	**Wholesale and retail trade**	**Church institutions**	**Other**	**Total**
At 31 December 2022						
Balances with Bank of Tanzania	12,748,062	-	-	-	-	12,748,062
Loans and advances to banks	24,133,243	-	-	-	-	24,133,243
Other assets	852,365	-	-	125,299	1,915,859	2,893,523
Government securities – FVOCI	12,099,332	-	-	-	-	12,099,332
Government securities – amortised cost	31,108,527	-	-	-	-	31,108,527
Investment in corporate bond	2,001,614	-	-	-	-	2,001,614
Loans and advances to customers	-	10,216,644	61,843,416	39,724,807	3,253,857	115,038,724
	82,943,143	**10,216,644**	**61,843,416**	**39,850,106**	**5,169,716**	**200,023,025**
At 31 December 2021-restated						
Balances with Bank of Tanzania	13,550,665	-	-	-	-	13,550,665
Loans and advances to banks	23,137,105	-	-	-	-	23,137,105
Other assets	-	-	-	-	2,222,584	2,222,584
Government securities – FVOCI	9,970,853	-	-	-	-	9,970,853
Government securities – amortised cost	32,698,014	-	-	-	-	32,698,014
Investment in corporate bond	2,002,903	-	-	-	-	2,002,903
Loans and advances to customers	-	6,649,222	59,322,498	37,792,629	3,095,592	106,859,941
	81,359,540	**6,649,222**	**59,322,498**	**37,792,629**	**5,318,176**	**190,442,065**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.3 Collateral and other credit enhancements

The amount and type of collateral required to secure loan and advances depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. In its normal course of business, the Bank engages external agents to recover funds from repossessed properties or other assets in its retail portfolio, generally at auction, to settle outstanding debt.

Any surplus funds are returned to the customers/obligors. 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.

Type of collateral or credit enhancement for credit accommodations and associated ECL

In TZS' Million

31 December 2022	**Maximum exposure to credit risk**	**Landed Property**	**Cash**	**Total collateral**	**Net Exposure**
Loans and advances to customers					
Agriculture and General Commerce	39,376,569	70,629,328	9,558,673	80,188,001	-
Consumer Credit	15,248,249	913,654	727,718	1,641,372	13,606,878
General Services	55,157,741	137,670,641	12,283,889	149,954,530	-
Microfinance	5,256,165	-	8,235,033	8,235,033	-
	115,038,724	**209,213,623**	**30,805,313**	**240,018,936**	**13,606,878**
31 December 2021					
Loans and advances to customers					
Agriculture and General Commerce	43,863,665	116,926,046	2,767,544	119,693,590	-
Consumer Credit	16,160,514	3,462,179	-	3,462,179	12,698,335
General Services	43,305,092	139,913,907	92,815	140,006,722	-
Microfinance	3,530,670	-	1,830,359	1,830,359	1,700,311
	106,859,941	**260,302,132**	**4,690,718**	**264,992,850**	14,398,646

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.3 Collateral and other credit enhancements (Continued)

The below tables provide an analysis of the current fair values of collateral held and credit enhancements for stage 3 assets. Dependent on the level of collateral, some Stage 3 exposures may not have individual ECL when the expected value of the collateral, measured using multiple economic scenarios, is greater than the LGD. However, the Stage 3 ECL can be higher than net exposure shown below when the future value of collateral, measured using multiple economic scenarios, is lower than fair value at the reporting date.

In TZS' Million

31 December 2022	**Maximum exposure to credit risk**	**Landed Property**	**Cash**	**Total collateral**	**Net Exposure**	**Associated ECL**
Loans and advances						
Agriculture and General Commerce	3,226,338	2,409,947	989,400	3,399,347	-	1,018,811
Consumer Credit	432,665	31,875	42,500	74,375	358,290	1,146,176
General Services	4,738,605	15,471,591	528,426	16,000,017	-	134,285
Microfinance	59,194	-	163,625	163,625	-	-
	8,456,802	**17,913,413**	**1,723,951**	**19,637,364**	**358,290**	**2,299,272**
31 December 2021						
Loans and advances						
Agriculture and General Commerce	5,590,737	16,741,991	-	16,741,991	-	1,162,677
Consumer Credit	1,036,644	460,972	-	460,972	575,672	877,100
General Services	1,525,043	2,596,419	-	2,596,419	-	497,816
Microfinance	31,085	-	49,161	49,161	-	59,480
	8,183,509	**19,799,382**	**49,161**	**19,848,543**	**575,672**	**2,597,073**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.3 Collateral and other credit enhancements (Continued)

Below table shows financial instruments for which an entity has not recognised a loss allowance because of the collateral.

In TZS' Million	Maximum exposure to credit risk	landed Property	Cash	Total collateral	Net Exposure	Associated ECL
31 December 2022						
Loans and advances						
Agriculture and General Commerce	23,445,062	56,870,664	9,387,673	28,400,695	-	-
Consumer Credit	804,843	898,054	720,928	1,618,982	-	-
General Services	43,135,698	128,863,153	11,487,707	140,350,860	-	-
Microfinance	4,787,879	-	7,779,145	7,779,145	-	-
	72,173,482	**186,631,871**	**29,375,453**	**178,149,682**	-	-
31 December 2021						
Loans and advances						
Agriculture and General Commerce	28,711,851	78,770,963	322,264	79,093,227	-	-
Consumer Credit	506,418	1,737,897	-	1,737,897	-	-
General Services	18,817,379	60,698,644	1,088	60,699,732	-	-
Microfinance	273,071	-	457,729	457,729	-	-
	48,308,719	**141,207,504**	**781,081**	**141,988,585**	-	-

. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.3 Collateral and other credit enhancements (Continued)

The table below summarises the Gross carrying amount for loans and advances with significant increase in credit risk and associated collateral.

	Gross carrying amount			Collateral			Net exposure		
In TZS' Million									
31 December 2022	Total	Stage 2	Stage 3	**Total**	Stage 2	Stage 3	**Total**	Stage 2	Stage 3
Loans and advances									
Agriculture and General Commerce	4,870,339	625,190	4,245,149	5,728,347	2,329,000	3,399,347	845,802	-	845,802
Consumer Credit	2,325,004	746,163	1,578,841	395,938	321,563	74,375	1,929,066	424,600	1,504,466
General Services	8,575,949	3,703,059	4,872,890	24,099,579	8,099,563	16,000,016	-	-	-
Microfinance	61,953	2,759	59,194	167,865	4,240	163,625	-	-	-
	15,833,245	**5,077,171**	**10,756,074**	**30,391,729**	**10,754,366**	**19,637,363**	**2,774,868**	**424,600**	**2,350,268**
31 December 2021									
Loans and advances									
Agriculture and General Commerce	16,066,035	9,312,621	6,753,414	37,948,783	21,206,792	16,741,991	-	-	-
Consumer Credit	7,442,547	5,528,803	1,913,744	2,241,291	1,780,319	460,972	5,201,256	3,748,484	1,452,772
General Services	15,210,242	13,187,383	2,022,859	33,421,726	30,825,307	2,596,419	-	-	-
Microfinance	383,920	293,355	90,565	188,817	139,656	49,161	195,103	153,699	41,404
	39,102,744	**28,322,162**	**10,780,582**	**73,800,617**	**53,952,074**	**19,848,543**	**5,396,359**	**3,902,183**	**1,494,176**

. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

The loss allowance recognised is impacted by a variety of factors, as described below:

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

.1.4 Analysis of changes in the gross carrying amount and the corresponding ECL allowances for the bank is as follows.

2022	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount TZS'000	12 - Month ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	ECL TZS'000
Balance as at 31 December 2021	77,208,305	667,096	30,288,813	365,987	11,228,239	2,597,073	118,725,357	3,630,156
Restatement of the prior year	(5,820,952)	-	(1,966,651)	-	(447,657)	-	(8,235,260)	-
Balance as at 01 January 2022	71,387,353	667,096	28,322,162	365,987	10,780,582	2,597,073	110,490,097	3,630,156
Stage transfer								
– Transfer to stage 1	18,688,917	331,754	(17,642,729)	(256,208)	(1,046,188)	(50,425)	-	25,121
– Transfer to stage 2	(2,303,028)	(22,175)	2,303,028	46,714	-	-	-	24,539
– Transfer to stage 3	(4,477,002)	(42,743)	(995,188)	(39,962)	5,472,190	710,927	-	628,222
Maintained Stage	1,469,804	275,864	(455,524)	35,456	(313,165)	682,882	701,115	994,202
New financial assets originated or purchased	26,286,839	280,774	(100,551)	25,075	2,373,686	4,634	28,559,974	310,483
Payments and Financial assets that have been derecognized	(9,536,857)	(65,913)	(6,354,027)	(58,276)	(3,779,968)	(88,577)	(19,670,852)	(212,766)
Modification effects	1,532,168	-	-	-	-	-	1,532,168	-
Write-offs	-	-	-	-	(2,731,063)	(1,557,242)	(2,731,063)	(1,557,242)
Balance as at 31 December	**103,048,194**	**1,424,657**	**5,077,171**	**118,786**	**10,756,074**	**2,299,272**	**118,881,439**	**3,842,715**

FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.4 Analysis of changes in the gross carrying amount and the corresponding ECL allowances for the bank is as follows (Continued).

2021	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount TZS'000	12 - Month ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	ECL TZS'000
Balance as at 31 December 2021	110,779,942	1,501,324	1,032,148	20,639	13,238,604	2,597,073	125,050,694	4,848,383
Restatement of the prior year	(2,162,442)	-	(75,863)	-	(399,945)	-	(2,638,250)	-
Balance as at 01 January 2022	108,617,500	1,501,324	956,285	20,639	12,838,659	2,597,073	122,412,444	4,848,383
Stage transfer								
– Transfer to stage 1	872,361	588	(266,398)	(85)	(605,963)	(50,425)	-	(332,090)
– Transfer to stage 2	(29,176,810)	(567,026)	29,883,351	321,324	(706,541)	-	-	(398,799)
– Transfer to stage 3	(3,435,677)	(23,894)	(370,369)	(3,963)	3,806,046	710,927	-	561,635
Maintained Stage	(4,460,001)	(423,857)	(54,546)	(15,110)	(239,189)	682,882	(4,753,736)	288,279
New financial assets originated or purchased	10,590,701	204,816	3,382,834	43,642	13,404	4,634	13,986,939	253,596
Payments and Financial assets that have been derecognized	(8,949,934)	(24,855)	(5,208,995)	(460)	(1,132,003)	(88,577)	(15,290,932)	(108,163)
Modification effects	(2,670,787)	-	-		-	-	(2,670,787)	-
Write-offs	-	-	-	-	(3,193,831)	(1,557,242)	(3,193,831)	(1,482,685)
Balance as at 31 December	**71,387,353**	**667,096**	**28,322,162**	**365,987**	**10,780,582**	**2,299,272**	**110,490,097**	**3,630,156**

. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

1.5 Analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Agriculture and General Commerce for the bank is as follows:

2022	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount	12 - Month ECL	Gross Carrying Amount	Lifetime ECL	Gross Carrying Amount	Lifetime ECL	Gross Carrying Amount	ECL
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Balance as at 31 December 2021	32,412,269	256,190	10,153,470	11,549	6,924,814	1,162,677	49,490,553	1,430,416
Restatement of the prior year	(3,184,223)	-	(840,849)	-	(171,400)	-	(4,196,472)	-
Balance as at 01 January 2022	29,228,046	256,190	9,312,621	11,549	6,753,414	1,162,677	45,294,081	1,430,416
Stage transfer								
– Transfer to stage 1	7,051,403	2,755	(7,051,403)	(497)	-	-	-	2,258
– Transfer to stage 2	(37,337)	-	37,337	-	-	-	-	-
– Transfer to stage 3	(1,031,897)	(35,126)	-	-	1,031,897	335,075	-	299,949
Maintained Stage	1,690,285	125,062	(111,417)	(11,052)	(143,485)	74,380	1,435,383	188,390
New financial assets originated or purchased	1,743,075	21,048	(316,893)	-	157,728	-	1,583,910	21,048
Payments and Financial assets that have been derecognized	(4,281,360)	(587)	(1,245,055)	-	(2,759,151)	(333)	(8,285,566)	(920)
Modification effects	1,532,168	-	-	-	-	-	1,532,168	-
Write-offs	-	-	-	-	(795,254)	(552,988)	(795,254)	(552,988)
Balance as at 31 December	**35,894,383**	**369,342**	**625,190**	**-**	**4,245,149**	**1,018,811**	**40,764,722**	**1,388,153**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.5 Analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Agriculture and General Commerce (Continued)

2021	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount TZS'000	12 - Month ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	ECL TZS'000
Balance as at 31 December 2021	46,152,902	897,245	681,338	2,667	10,010,736	2,192,357	56,844,976	3,092,269
Restatement of the prior year	(704,815)	-	(54,750)	-	(339,302)	-	(1,098,867)	-
Balance as at 01 January 2022	45,448,087	897,245	626,588	2,667	9,671,434	2,192,357	55,746,109	3,092,269
Stage transfer								
– Transfer to stage 1	798,923	19	(193,958)	-	(604,965)	(332,012)	-	(331,993)
– Transfer to stage 2	(10,127,994)	(354,202)	10,585,322	11,026	(457,328)	(61,308)	-	(404,484)
– Transfer to stage 3	(1,371,768)	(1,998)	(259,934)	(813)	1,631,702	59,105	-	56,294
Maintained Stage	(1,417,989)	(374,762)	(33,068)	(1,331)	(225,699)	599,619	(1,676,756)	223,526
New financial assets originated or purchased	2,023,303	91,940	383,785	-	(94,683)	-	2,312,405	91,940
Payments and Financial assets that have been derecognized	(3,453,729)	(2,052)	(1,796,114)	-	(673,694)	(27,596)	(5,923,537)	(29,648)
Modification effects	(2,670,787)	-		-		-	(2,670,787)	-
Write-offs	-	-	-	-	(2,493,353)	(1,267,488)	(2,493,353)	(1,267,488)
Balance as at 31 December	**29,228,046**	**256,190**	**9,312,621**	**11,549**	**6,753,414**	**1,162,677**	**45,294,081**	**1,430,416**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.6 Analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Consumer Credit for the bank is as follows.

2022	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount	12 - Month ECL	Gross Carrying Amount	Lifetime ECL	Gross Carrying Amount	Lifetime ECL	Gross Carrying Amount	ECL
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Balance as at 31 December 2021	11,048,749	278,662	5,528,803	342,156	1,913,744	877,100	18,491,296	1,497,918
Restatement of the prior year	(832,864)	-	-	-	-	-	(832,864)	-
Balance as at 01 January 2022	10,215,885	278,662	5,528,803	342,156	1,913,744	877,100	17,658,432	1,497,918
Stage transfer								
– Transfer to stage 1	4,064,919	229,567	(3,992,794)	(245,594)	(72,125)	(50,227)	-	(66,254)
– Transfer to stage 2	(359,503)	(1,827)	359,503	35,922	-	-	-	34,095
– Transfer to stage 3	(354,967)	(7,240)	(317,956)	(34,514)	672,923	373,677	-	331,923
Maintained Stage	(383,564)	98,723	(87,326)	23,525	(141,175)	323,377	(612,065)	445,625
New financial assets originated or purchased	3,096,778	161,790	161,209	22,737	6,178	4,634	3,264,165	189,161
Payments and Financial assets that have been derecognized	(1,371,215)	(13,567)	(905,276)	(51,428)	(262,311)	(73,299)	(2,538,802)	(138,294)
Modification effects		-		-		-	-	-
Write-offs	-	-	-	-	(538,393)	(309,086)	(538,393)	(309,086)
Balance as at 31 December	**14,908,333**	**746,108**	**746,163**	**92,804**	**1,578,841**	**1,146,176**	**17,233,337**	**1,985,088**

. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

.1.5 Analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Consumer Credit (Continued).

2021	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount TZS'000	12 - Month ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	ECL TZS'000
Balance as at 31 December 2021	18,701,098	370,874	212,002	17,739	964,498	855,817	19,877,598	1,244,430
Restatement of the prior year	-	-	-	-	-	-	-	-
Balance as at 01 January 2022	18,701,098	370,874	212,002	17,739	964,498	855,817	19,877,598	1,244,430
Stage transfer								
– Transfer to stage 1	-	-	-	-	-	-	-	-
– Transfer to stage 2	(6,165,220)	(123,398)	6,240,989	305,892	(75,769)	(75,769)	-	106,725
– Transfer to stage 3	(1,277,022)	(21,702)	(106,965)	(3,134)	1,383,987	518,864	-	494,028
Maintained Stage	(456,078)	26,211	(22,818)	(13,786)	5,457	(276,375)	(473,439)	(263,950)
New financial assets originated or purchased	821,712	44,575	615,812	35,784	780	168	1,438,304	80,527
Payments and Financial assets that have been derecognised	(1,408,605)	(17,898)	(1,410,217)	(339)	(230,206)	(48,060)	(3,049,028)	(66,297)
Modification effects		-		-		-	-	-
Write-offs	-	-	-	-	(135,003)	(97,545)	(135,003)	(97,545)
Balance as at 31 December	**10,215,885**	**278,662**	**5,528,803**	**342,156**	**1,913,744**	**877,100**	**17,658,432**	**1,497,918**

FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.6 Analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to General Services for the bank is as follows.

2022	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount TZS'000	12 - Month ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	ECL TZS'000
Balance as at 31 December 2021	30,476,246	69,647	14,313,185	10,068	2,299,116	497,816	47,088,547	577,531
Restatement of the prior year	(1,803,865)	-	(1,125,802)	-	(276,257)	-	(3,205,924)	-
Balance as at 01 January 2022	28,672,381	69,647	13,187,383	10,068	2,022,859	497,816	43,882,623	577,531
Stage transfer								
– Transfer to stage 1	7,376,061	99,002	(6,417,010)	(8,394)	(959,051)	(5)	-	90,603
– Transfer to stage 2	(1,905,219)	(20,348)	1,905,219	10,792	-	-	-	(9,556)
– Transfer to stage 3	(3,058,047)	(356)	(676,859)	(5,448)	3,734,906	2,175	-	(3,629)
Maintained Stage	(859,429)	85,221	(257,155)	22,983	(27,810)	317,274	(1,144,394)	425,478
New financial assets originated or purchased	19,679,838	97,880	55,133	2,338	2,206,291	-	21,941,262	100,218
Payments and Financial assets that have been derecognized	(2,855,172)	(22,692)	(4,093,652)	(6,357)	(732,299)	(1,581)	(7,681,123)	(30,630)
Modification effects		-		-		-	-	-
Write-offs	-	-	-	-	(1,372,006)	(681,394)	(1,372,006)	(681,394)
Balance as at 31 December	**47,050,413**	**308,354**	**3,703,059**	**25,982**	**4,872,890**	**134,285**	**55,626,362**	**468,621**

FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.6 Analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to General Services (Continued)

2021	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount TZS'000	12 - Month ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	ECL TZS'000
Balance as at 31 December 2021	42,924,690	219,077	88,818	-	2,190,297	210,171	45,203,805	429,248
Restatement of the prior year	(1,457,627)	-	(21,113)	-	(60,643)	-	(1,539,383)	-
Balance as at 01 January 2022	41,467,063	219,077	67,705	-	2,129,654	210,171	43,664,422	429,248
Stage transfer								
– Transfer to stage 1	57,509	4	(57,114)	-	(395)	-	-	4
– Transfer to stage 2	(12,713,751)	(88,572)	12,886,795	3,274	(173,044)	(15,629)	-	(100,927)
– Transfer to stage 3	(740,843)	-	-	-	740,843	-	-	-
Maintained Stage	(3,032,770)	(108,132)	-	-	(12,953)	417,306	(3,045,723)	309,174
New financial assets originated or purchased	6,746,436	47,659	2,305,627	6,794	91,414	-	9,143,477	54,453
Payments and Financial assets that have been derecognized	(3,111,263)	(389)	(2,015,630)	-	(190,745)	-	(5,317,638)	(389)
Modification effects	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	(561,915)	(114,032)	(561,915)	(114,032)
Balance as at 31 December	**28,672,381**	**69,647**	**13,187,383**	**10,068**	**2,022,859**	**497,816**	**43,882,623**	**577,531**

FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

5.1.7 Analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Microfinance for the bank is as follows.

2022	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount TZS'000	12 - Month ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	ECL TZS'000
Balance as at 31 December 2021	3,271,041	62,597	293,355	2,214	90,565	59,480	3,654,961	124,291
Restatement of the prior year	-	-	-	-	-	-	-	-
Balance as at 01 January 2022	3,271,041	62,597	293,355	2,214	90,565	59,480	3,654,961	124,291
Stage transfer								
– Transfer to stage 1	196,534	430	(181,522)	(1,723)	(15,012)	(193)	-	(1,486)
– Transfer to stage 2	(969)	-	969	-	-	-	-	-
– Transfer to stage 3	(32,091)	(21)	(373)	-	32,464	-	-	(21)
Maintained Stage	1,022,512	(33,142)	374	-	(695)	(32,149)	1,022,191	(65,291)
New financial assets originated or purchased	1,767,148	56	-	-	3,489	-	1,770,637	56
Payments and Financial assets that have been derecognized	(1,029,110)	(29,067)	(110,044)	(491)	(26,207)	(13,364)	(1,165,361)	(42,922)
Modification effects		-		-		-		-
Write-offs	-	-	-	-	(25,410)	(13,774)	(25,410)	(13,774)
Balance as at 31 December	**5,195,065**	**853**	**2,759**	**-**	**59,194**	**-**	**5,257,018**	**853**

FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit Risk (continued)

1.7 Analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to Microfinance (Continued)

2021	Stage I		Stage II		Stage III		Total	
ECL allowance reconciliation	Gross Carrying Amount TZS'000	12 - Month ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	Lifetime ECL TZS'000	Gross Carrying Amount TZS'000	ECL TZS'000
Balance as at 31 December 2021	3,001,252	14,128	49,990	233	73,073	68,075	3,124,315	82,436
Restatement of the prior year	-	-	-	-	-	-	-	-
Balance as at 01 January 2022	3,001,252	14,128	49,990	233	73,073	68,075	3,124,315	82,436
Stage transfer								
– Transfer to stage 1	15,929	565	(15,326)	(85)	(603)	(581)	-	(101)
– Transfer to stage 2	(169,845)	(854)	170,245	1,132	(400)	(391)	-	(113)
– Transfer to stage 3	(46,044)	(194)	(3,470)	(16)	49,514	11,523	-	11,313
Maintained Stage	446,836	32,826	1,340	7	(5,994)	(13,304)	442,182	19,529
New financial assets originated or purchased	999,250	20,642	77,610	1,064	15,893	4,970	1,092,753	26,676
Payments and Financial assets that have been derecognized	(976,337)	(4,516)	12,966	(121)	(37,358)	(7,192)	(1,000,729)	(11,829)
Modification effects	-	-	-	-	-	-	-	-
Write-offs	-	-	-	-	(3,560)	(3,620)	(3,560)	(3,620)
Balance as at 31 December	**3,271,041**	**62,597**	**293,355**	**2,214**	**90,565**	**59,480**	**3,654,961**	**124,291**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market Risk

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 2022					
Financial assets					
Balances with BoT	2,738,970	100,886	720,647	589	3,561,092
Loans and advances to banks	12,365,222	20,565	8,890,454	-	21,276,241
Loans and advances to customers	2,117,700	-	-	-	2,117,700
	17,221,892	121,451	9,611,101	589	26,955,033
Financial liabilities					
Deposits from customers	16,322,291	25,212	9,530,547	-	25,878,050
Other liabilities	49,578	128	6,027	-	55,733
	16,371,869	25,340	9,536,574	-	25,933,783
Net open position	**850,023**	**96,111**	**74,527**	**589**	**1,021,250**
At 31 December 2021-restated					
Financial assets					
Cash and balances with BoT	5,077,979	8,055,723	72,893	1,748	13,208,343
Loans and advances to banks	9,350,822	1,172,782	-	-	10,523,604
	14,428,801	9,228,505	72,893	1,748	23,731,947
Financial liabilities					
Deposits from customers	14,994,104	8,990,385	21,827	-	24,006,316
Other liabilities	46,704	3,377	77	-	50,158
	15,040,808	8,993,762	21,904	-	24,056,474
Net open position	**(612,007)**	**234,743**	**50,989**	**1,748**	**(324,527)**

The Bank started issuing foreign currency loans and advances to customers in 2022

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 2022			
Foreign exchange rates	+5%	**(54,822)**	**(38,375)**
	-5%	**54,822**	**38,375**
At 31 December 2021			
Foreign exchange rates	+5%	(16,226)	(11,359)
	-5%	16,226	11,359

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' 000,000	
	Change in interest rates	(Loss)/profit before tax sensitivity	Equity sensitivity
At 31 December 2022			
Change in interest rates	+1%	**1,170**	**819**
	-1%	**(1,170)**	**(819)**
At 31 December 2021			
Change in interest rates	+1%	102	71
	-1%	(102)	(71)

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

	Interest bearing				Non-interest	
	Up to 1 month TZS'000	>1 – 3 months TZS'000	>3-12 months TZS'000	Over 1 year TZS'000	bearing TZS'000	Total TZS'000
At 31 December 2022						
Financial assets						
Cash and Bank balances with BoT	-	-	-	-	21,935,859	21,935,859
Loans and balance due from banks	9,491,683	9,374,960	5,266,600	-	-	24,133,243
Other assets	-	-	-	-	2,893,523	2,893,523
Loans and advances to customers	4,167,350	3,654,518	18,462,391	88,754,465	-	115,038,724
Government securities – FVOCI	122,382	-	-	11,976,950		12,099,332
Government securities – amortised cost	-	-	9,651,529	21,456,998	-	31,108,527
Investment in corporate bond	-	-	2,001,614	-	-	2,001,614
Equity investments	-	-	-	-	539,000	539,000
	13,781,415	**13,029,478**	**35,382,134**	**122,188,413**	**25,368,382**	**209,749,822**
Financial liabilities						
Borrowings	-	-	28,356	1,469,586	-	1,497,942
Subordinated loan	-	-	213,750	2,700,000	-	2,913,750
Deposits due to customers	59,733,768	21,877,401	40,614,038	4,911,924	57,441,690	184,578,821
Other liabilities	-	-	-	-	683,640	683,640
Total liabilities	**59,733,768**	**21,877,401**	**40,856,144**	**9,081,510**	**58,125,330**	**189,674,153**
Interest sensitivity gap	**(45,952,353)**	**(8,847,923)**	**(5,474,010)**	**113,106,903**	**(32,756,948)**	**20,075,669**

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 (Continued)

All amounts are in TZS'000	Due on Demand TZS'000	>1-3 months TZS'000	>3-12 Months TZS'000	Over 1 year TZS'000	Total TZS'000
At 31 December 2022					
Borrowings	-	28,356	84,760	1,838,425	1,951,541
Subordinated Loan	-	213,750	213,750	4,752,000	5,179,500
Deposits due to customers	126,559,760	21,749,548	29,695,085	8,946,399	186,950,792
Lease liabilities	-	360,110	1,080,330	5,165,262	6,605,702
Other liabilities	683,640	-	-	-	683,640
Total financial liabilities	**127,243,400**	**22,351,764**	**31,073,925**	**20,702,086**	**201,371,175**
Total financial liabilities (Guarantees)	**-**	**-**	**2,798,331**	**45,055**	**2,843,386**
At 31 December 2021					
Borrowings	2,000,000	27,432	332,975	1,950,925	4,311,332
Deposits due to customers	106,908,201	6,940,634	65,574,524	3,582,949	183,006,308
Lease liabilities	-	282,030	846,090	3,995,568	5,123,688
Other liabilities	1,013,150	-	-	-	1,013,150
Total financial liabilities	**109,921,351**	**7,250,096**	**66,753,589**	**9,529,442**	**193,454,478**
Total financial liabilities (Guarantees)	**-**	**865,192**	**75,767**	**-**	**940,959**

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.

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances (excluding statutory minimum reserve), items in the course of collection and treasury and other eligible bills; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion n of customer loans contractually repayable within one year will be extended. The bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

5.4 Fair value measurement

The fair values are disclosed below:
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.

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).

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value measurement (Continued)

Fair value hierarchy (Continued)

- 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 2022				
Government securities-FVOCI	-	12,099,332	-	**12,099,332**
Equity investments	-		539,000	**539,000**
31 December 2021				
Government securities-FVOCI	-	9,970,853	-	**9,970,853**
Equity investments	-	-	539,000	**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 2022 and 2021.

The following summarizes the carrying amount of those assets and liabilities not held at fair value. Except forheld-to-maturity investment securities, the carrying amount of assets and liabilities held at amortized cost is considered to approximate the fair value of the assets and liabilities.

31 December 2022	**Level 1 TZS '000**	**Level 2 TZS '000**	**Level 3 TZS '000**
Cash and balances with Bank of Tanzania	-	-	21,935,859
Loans and advances to banks	-	-	24,133,243
Government securities – amortised cost	-	31,108,527	-
Loans and advances at amortized cost	-	-	115,038,724
Other assets	-	-	2,893,523
Total financial assets	**-**	**31,108,527**	**164,001,349**
Deposits from customers	-	-	184,578,821
Borrowings	-	-	1,497,942
Subordinated loan	-	-	2,913,750
Other liabilities	-	-	683,640
Total financial liabilities	**-**	**-**	**189,674,153**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value measurement (Continued)

Fair value hierarchy (Continued)

31 December 2021-restated	Level 1 TZS (000)	Level 2 TZS (000)	Level 3 TZS (000)
Cash and balances with Bank of Tanzania	-	-	21,864,924
Loans and advances to banks	-	-	23,137,105
Government securities – amortised cost	-	32,698,014	-
Loans and advances at amortized cost	-	-	106,859,941
Other assets	-	-	2,882,220
Total financial assets	**-**	**32,698,014**	**154,744,190**
Deposits from customers	-	-	181,512,718
Borrowings	-	-	3,833,014
Other liabilities	-	-	1,013,150
Total financial liabilities	**-**	**-**	**186,358,882**

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 2022 and 31 December 2021.

	2022 TZS'000	2021 restated TZS'000
Tier 1 capital		
Share capital	23,555,002	23,555,002
Share discount	(734,932)	(734,932)
Accumulated losses	(1,498,956)	(9,055,650)
Less:		
Intangible assets	-	-
Prepaid expenses	(571,916)	(459,662)
Deferred tax asset	(1,127,429)	(1,129,667)
Total qualifying Tier 1 capital	**19,621,769**	**12,175,091**
Tier 2 capital		
Supplementary Capital	**2,700,000**	-
Total qualifying Tier 2 capital	**22,321,769**	-
Total regulatory capital	**22,321,769**	**12,175,091**
Risk - weighted assets		
On statement of financial position risk weighted assets[2]	130,212,449	115,814,159
Off statement of financial position risk weighted exposures	5,528,455	2,182,268
Total adjusted capital required for operational risk	13,473,086	10,025,865
Total adjusted capital required for market risk	1,189,525	612,027
Total risk-weighted on and off statement of financial position, operational and market risk weighted exposures	**150,403,515**	**128,634,319**
Capital adequacy ratio	**%**	**%**
Tier 1 (Regulatory required minimum ratio 12.5%)	13.05%	9%
Tier 1 + Tier 2 (Regulatory required minimum ratio 14.5%)	14.84%	9%

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:

[2]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.

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.

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 29 for further disclosures on deferred tax.

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.

In its ECL models, the bank applied Nominal GDP and consumer price inflation as its macros in its determination of forwarding looking probability of default.

Table (a) shows the main macroeconomic factors used to estimate the allowances for credit losses on loans. The table shows the weighted average rate considering all scenario, namely, the base line, worst case and bet case scenario, the average values of the factors over the next 12 months and over the remaining forecast period. Table

Main Macroeconomic Factors

Table (a) Macro factors

Macro name	2022	2023	2024	2025	2026	2027
Nominal GDP, LCU	6.0%	5.5%	5.5%	4.5%	5.4%	4%
Consumer price inflation, % y-o-y	4.9%	5.5%	5.5%	5.5%	5.5%	3%

Table (b) Macro factors Scenario weightings

Scenario Weightings	2022	2021
Base Line	50%	50%
Worst Case	30%	25%
Best Case	20%	25%

6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Estimates and assumptions

Sensitivity analysis of key estimates and assumptions

The most significant assumptions affecting the ECL allowance are as follows;

i)Market value of collaterals, given its impact on Loss Given Default (LGD)
ii) Realization period of re-possessed collaterals, given its impact on present value of the collaterals.
iii) Probabilities of default (PDs) - change in macros impacting PDs
iv) Recovery rate for unsecured portfolio

Set out below are changes to the ECL as at 2022 that would result from reasonably possible changes in these parameters from actual assumptions used:

2022		2021	
Change in market Value of Collaterals		Change in market Value of Collaterals	
Increase by 10%	**Decrease by 10%**	**Increase by 10%**	**Decrease by 10%**
TZS '000	TZS '000	TZS '000	TZS '000
(384,262)	384,346	(257,913)	128,957

2022		2021	
Change in Realisation		Change in Realisation	
Increase by 1 year	**Decrease by 1 year**	**Increase by 1 year**	**Decrease by 1 year**
TZS '000	TZS '000	TZS '000	TZS '000
230,557	(192,131)	386,870	(348,183)

2022		2021	
Change in Probability of Default (PDs)		Change in Probability of Default (PDs)	
Increase by 10%	**Decrease by 10%**	**Increase by 10%**	**Decrease by 10%**
TZS '000	TZS '000	TZS '000	TZS '000
384,262	(384,262)	206,331	(206,331)

2022		2021	
Change in Recovery for Unsecured Facilities		Change in Recovery for Unsecured Facilities	
Increase by 10%	**Decrease by 10%**	**Increase by 10%**	**Decrease by 10%**
TZS '000	TZS '000	TZS '000	TZS '000
(198,509)	198,509	-	-

(Decrease)/ Increase in ECL allowances

Refer to Notes 5.1 and 22 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,

6. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Estimates and assumptions (Continued)

- Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

Refer to Notes 26, 27 and 28 for the carrying amounts of the right-of-use assets, intangible assets and property and equipment.

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 34 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 26 and 34 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 26, 27 and 28 for the carrying amounts of the non-financial assets.

7. OPERATING SEGMENTS

The Bank is organised into one single business unit for management purposes. The Bank's Management Team, which is the equivalent of the Chief Operating Decision-Maker monitors the operating results of the business as a single unit for the purposes of making decisions about resources allocation and performance assessment.

The products and services of the Bank are retail and so are the majority of the external customers. The revenue from these customers and other external parties is measured in a manner that is consistent with that of Statement of Profit or Loss and other Comprehensive Income. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the financial statements.

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.

8. INTEREST INCOME

Interest income calculated using the effective interest method comprises:

	2022 TZS'000	2021 Restated TZS'000
Loans and advances	20,440,943	18,868,526
Government securities and corporate bond	4,565,807	4,588,939
Placements	659,564	644,943
Effective interest prior year adjustment	-	(2,026,792)
	25,666,314	**22,075,616**

9. INTEREST EXPENSES

Interest expense calculated using the effective interest method

	2022 TZS'000	2021 Restated TZS'000
Time deposits	5,974,997	6,508,072
Savings deposits	575,747	600,654
Deposits due to other banks	6,800	375,238
Borrowing	122,052	707,982
Subordinated loan	213,750	-
Lease liabilities interest accretion (Note 34)	426,557	595,227
	7,319,903	**8,787,173**

10. EXPECTED CREDIT LOSSES

	2022 TZS'000	2021 TZS'000
Increase in ECL on loans and advances to customers (Note 22)	1,769,801	264,457
Increase in ECL on loans and advances to banks (Note 20)	-	3,614
Write off previously unprovided credit exposure	1,173,821	1,711,146
	2,943,622	**1,979,217**

11. FEES AND COMMISSION INCOME

Fee income earned from services that are provided over time:		
Loan processing fees	1,553,527	1,786,437
Fee income from providing financial services at a point in time:		
Service charges	270,008	306,828
Withdrawal fees	279,384	271,147
Commission on Western Union Transfers	20,542	24,424
Commission charged on transfers	39,732	56,202
Commission on ATM withdrawal charges	79,730	93,741
Agency and mobile fees	261,861	180,312
Bank Guarantee	69,572	21,462
Other fees	375,799	494,973
	1,396,628	1,449,089
	2,950,155	**3,235,526**

12. OTHER INCOME

Charged off recoveries	409,033	144,280
Miscellaneous income	280,734	223,395
	689,767	**367,675**

13. NET FOREIGN CURRENCY TRADING AND TRANSLATION GAINS

Foreign currency trading gains	967,813	752,851
Net unrealised foreign currency translation gains	65,468	47,407
	1,033,281	**800,258**

14. PERSONNEL EXPENSES

Wages and salaries	5,680,113	6,080,052
Social security contributions and retirement benefits	568,013	608,157
Local leave allowance	495,368	495,348
Gratuity	329,375	384,000
[1]Other staff costs	804,513	839,752
	7,877,382	**8,407,309**

[1]Other staff costs include statutory deductions, medical expenses and terminal benefits.

15. DEPRECIATION AND AMORTIZATION

	2022 TZS'000	2021 Restated TZS'000
Depreciation on right-of-use assets (Note 26)	885,268	776,713
Amortization of intangible assets (Note 27)	377,514	387,114
Depreciation on property and equipment (Note 28)	801,906	876,456
	2,064,688	**2,040,283**

16. OTHER OPERATING EXPENSES

	2022 TZS'000	2021 TZS'000
Auditor's remuneration	101,027	81,797
Professional fees	169,903	154,122
Directors' emoluments	64,000	64,000
Communication cost	180,130	242,104
Travelling and accommodation	170,029	105,725
Local authority service charges	74,269	84,427
Maintenance cost - software	333,343	246,010
ATM management fees	321,125	219,671
Occupancy costs	726,171	368,458
Maintenance cost - motor vehicles	15,551	10,751
Insurance costs	342,824	377,382
Marketing and advertising costs	235,865	192,540
Training costs	89,046	70,308
Security costs	373,504	371,638
Data connectivity and bank charges	445,853	545,422
Printing and stationery	183,432	185,049
Repairs and maintenance of office equipment	232,712	266,129
Share issue costs	-	1,200
Excise duty on commissions	319,628	243,382
Other Expenses[1]	1,630,936	1,384,075
	6,009,348	**5,214,190**

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

17. INCOME TAX

Income tax expense		
Current income tax – current year	26,097	266,492
Deferred tax credit – current year (Note 29)	(793,649)	464,922
Deferred tax charge – prior years (Note 29)	291,131	(1,578,742)
	(476,421)	**(847,267)**

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:

Profit/(loss) before tax	5,145,471	**(1,859,571)**
Tax calculated at a tax rate of 30% (2021: 30%)	1,543,641	(557,871)
Tax effect of:		
Expenditure permanently disallowed	5,571	71,842
Prior years' effective interest adjustments*	(1,570,679)	-
Prior year adjustments-others	(746,086)	1,217,504
Deferred tax credit not previously recognized (Note 29)	291,132	(1,578,742)
	(476,421)	**(847,267)**

Current income tax recoverable		
At 1 January	(647,743)	(641,682)
Payments during the year	(395,785)	(272,552)
Amount utilised to set off tax liabilities	-	266,491
Current income tax charge for the year	26,097	-
At 31 December	**(1,017,432)**	**(647,743)**

Prior years' effective interest adjustments*: relates to write off interest income which was previously taxed and now claimed after write off.

18. EARNINGS PER SHARE

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

	2022	2021 restated
Profit/(loss) attributable to ordinary shareholders (TZS'000)	5,621,893	(1,859,510)
Weighted average number of ordinary shares (Note 35)	23,555,002	23,555,002
Basic and diluted earnings /(loss) per share (TZS)	**239**	**(79)**

19. CASH AND BALANCES WITH THE BANK OF TANZANIA

Cash in hand	9,187,797	8,314,259
Balances with BoT - Current accounts	1,660,508	2,923,796
Balances with BoT - Statutory minimum reserve (SMR)	11,087,554	10,626,869
	21,935,859	**21,864,924**

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 37).

20. LOANS AND ADVANCES TO BANKS

	2022 TZS'000	2021 restated TZS'000
Balances with other banks	9,887,648	10,304,557
Cheques in the course of collection with other banks	123,190	124,513
Placements with other banks	14,126,019	12,711,649
	24,136,857	**23,140,719**
Expected credit losses	(3,614)	(3,614)
Current	**24,133,243**	**23,137,105**

Balances with other banks and money market placements bear interest rates of 3% to 14%. The amounts are unsecured
The credit quality of loans and advance to banks is performing ie categorised internally as current ie stage 1. 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

21. OTHER ASSETS

	2022 TZS'000'	2021 restated TZS'000'
Sundry debtors	1,046,768	403,836
Prepayments	571,916	459,662
Staff benefits fair value	1,447,742	893,172
Stock of stationery	110,613	32,872
Balances with MNOs	1,810,067	1,920,392
Others	-	5,148
Expected credit losses (Note 10)	-	-
	4,987,106	**3,715,082**

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

22. LOANS AND ADVANCES TO CUSTOMERS

	2022 TZS'000'	2021 restated TZS'000'
Commercial	95,048,324	88,332,077
Individuals	18,557,933	3,800,591
Salaried loans	5,249,265	18,357,429
Advances to staff	25,917	-
Gross loans and advances to customers	**118,881,439**	**110,490,097**
Allowance for expected credit losses	(3,842,715)	(3,630,156)
	115,038,724	**106,859,941**
Maturity analysis		
With maturity of 3 months or less	7,821,868	3,691,105
With maturity of between 3 months and 1 year	18,462,391	20,314,585
With maturity of more than 1 year	88,754,465	82,854,251
	115,038,724	**106,859,941**

The interest rates charged on these loans range from 13% to 19% (2021: 13% to 17%).

The movement in the allowance for ECL was as follows:

	2022 TZS'000	2021 TZS'000
At 1 January	(3,630,156)	(4,848,384)
Charge	(1,769,801)	(264,457)
Write offs	1,557,242	1,482,685
At 31 December	**(3,842,715)**	**(3,630,156)**

22. 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.

At 31 December 2022	Stage 1 TZS'000	Stage 2 TZS'000	Stage 3 TZS'000	Total TZS'000
Internal rating grade				
Performing:				
Current	101,985,538	5,074,413	-	107,059,951
Especially mentioned	71,412	-	-	71,412
Non-performing:				
Sub-standard	422,668	1,499	2,610,394	3,034,561
Doubtful	508,489	1,259	2,380,454	2,890,202
Loss	60,087	-	5,765,226	5,548,541
Total	**103,048,194**	**5,077,171**	**10,756,074**	**118,881,439**

At 31 December 2021-restated	Stage 1 TZS'000	Stage 2 TZS'000	Stage 3 TZS'000	Total TZS'000
Internal rating grade				
Performing:				
Current	67,147,783	28,259,221	25,105	95,432,109
Especially mentioned	-	58,476	563	59,039
Non-performing:				
Sub-standard	4,239,570	2,864	2,030,215	6,272,649
Doubtful	-	1,602	893,630	895,232
Loss	-	-	7,831,068	7,831,068
Total	**71,387,353**	**28,322,163**	**10,780,581**	**110,490,097**

23 GOVERNMENT SECURITIES

	2022 TZS'000'	2021 TZS'000'
23 (a) Government securities – FVOCI		
Treasury bonds maturing after one year	12,099,332	9,970,853
23(b) Government securities – amortised cost		
Treasury bills maturing between 3 months and one year	9,651,529	10,911,184
Treasury bonds maturing after one year	21,456,998	21,786,830
	31,108,527	**32,698,014**
Expected Credit Losses (Note 10)	-	-
	43,207,859	**42,668,867**

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% (2021: 5% to 15%) per annum.

23. GOVERNMENT SECURITIES

	2022 TZS'000'	2021 TZS'000'
(a) Government securities – FVOCI		
At start of the year	9,970,853	-
Purchase of investment securities	445,958	10,023,678
Maturity of securities	-	-
Fair value gain/losses	1,682,521	(52,825)
At end of year	**12,099,332**	**9,970,853**
Maturity		
Current	122,382	106,967
Non-current	11,976,950	9,863,886
At end of year	**12,099,332**	**9,970,853**
(b) Government securities – amortised cost		
At start of the year	**32,698,014**	**28,037,348**
Purchase of investment securities	13,751,471	6,900,000
Maturity of securities	(15,340,958)	(2,239,334)
At end of year	**31,108,527**	**32,698,014**
Maturity		
Current	9,651,529	10,911,184
Non-current	21,456,998	21,786,830
At end of year	**31,108,527**	**32,698,014**

24. INVESTMENT IN CORPORATE BOND

	2022 TZS'000'	2021 TZS'000'
Tanzania Mortgage Refinance Company Limited (TMRC)		
At start of the year	2,002,903	2,002,258
Interest charged	1,614	2,903
Interest paid	(2,903)	(2,258)
At end of year	**2,001,614**	**2,002,903**
Maturity		
Current	2,001,614	-
Non-current	-	2,002,903
Expected Credit Losses (Note 10)	-	-
	2,001,614	**2,002,903**

The bond is unsecured and carries an interest rate of 11.78% (2021: 11.78%). The bond will mature on 22 June 2023. The credit risk of this corporate bond is low, it being backed up by TMRC's member banks. The slight increase is mainly due to accrued interest. The value of the bond remained at TZS 2 billion.

25. EQUITY INVESTMENTS

	2022 TZS'000'	2021 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).

These shares do not have a quoted market price in an active market. The fair value of the equity investment at the reporting date has been determined using the price of recent transaction of the shares provided by TMRC and Umoja Switch.

26. RIGHT-OF-USE ASSETS

	2022	2021 restated
	TZS'000'	TZS'000'
Cost		
At 1 January	6,219,749	5,661,481
Additions	270,027	558,268
Remeasurement*	741,540	-
At 31 December	**7,231,316**	**6,219,749**
Depreciation		
At 1 January	2,055,460	1,278,747
Charge for the year	885,268	776,713
At 31 December	**2,940,728**	**2,055,460**
Net carrying amount	**4,290,588**	**4,164,289**

*Remeasurement: relates to impact of remeasuring the opening balances. During the year discounting rates for some of the lease contracts were revised.

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

The directors have not accounted for a long term planned lease for the new head office following consideration that the contract for this lease had not been finalised by the end of 31 December 2022. The value of this addition to lease accounting expects to exceed TZS 1billion.

27. INTANGIBLE ASSETS

	2022	2021
	TZS'000'	TZS'000'
Cost		
At 1 January	2,238,519	1,933,603
Additions	-	304,916
At 31 December	**2,238,519**	**2,238,519**
Amortization		
At 1 January	1,420,366	1,033,252
Charge for the year	377,514	387,114
At 31 December	**1,797,880**	**1,420,366**
Net carrying amount	**440,639**	**818,153**

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.

28. 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 2021	2,181,082	1,913,923	3,020,612	197,624	1,624,194	-	8,937,435
Additions	346,178	30,424	100,486	-	-	-	477,088
At 31 December 2021	**2,527,260**	**1,944,347**	**3,121,098**	**197,624**	**1,624,194**		**9,418,023**
Additions	80,975	2,966	30,982	-	-	866,028	980,951
At 31 December 2022	**2,611,735**	**1,947,313**	**3,152,080**	**197,624**	**1,624,194**	**866,028**	**10,398,974**
Depreciation							
At 1 January 2021	1,011,757	1,077,906	2,472,648	81,343	1,073,907	-	5,717,561
Charge for the year	257,888	191,383	327,076	49,406	50,703	-	876,456
At 31 December 2021	1,269,645	1,269,289	2,799,724	130,749	1,124,610	-	6,594,017
Charge for the year	228,026	189,093	186,878	49,406	148,503	-	801,906
At 31 December 2022	**1,497,671**	**1,458,382**	**2,986,602**	**180,155**	**1,273,113**	-	**7,395,923**
Net carrying amount							
At 31 December 2021	1,261,115	675,058	321,374	66,875	499,584	-	2,824,006
At 31 December 2022	**1,114,064**	**488,931**	**165,478**	**17,469**	**351,081**	**866,028**	**3,003,051**

Property and equipment were not pledged as collateral against liabilities.

29. DEFERRED TAX ASSET

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the principal tax rate of 30%.
Deferred income tax asset and deferred income tax credit to the profit or loss are attributed by the following items:

		(Charge)/Credit to			
	1 January	Profit or loss – Prior year	OCI Current year	Profit or loss – Current year	31 December
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Year ended 31 December 2022					
Property and equipment	(1,945)	30,452	-	(101,585)	(73,078)
Current income tax losses carried forward	-	-	-	-	-
Fair valuation loss/(gain)loss reserve	15,847	-	(504,756)	-	(488,909)
General provisions	1,115,765	(321,583)	-	895,234	1,689,416
Net deferred tax asset	**1,129,667**	**(291,131)**	**(504,756)**	**793,649**	**1,127,429**
Year ended 31 December 2021					
Property and equipment	-	30,459	-	(32,404)	(1,945)
Current income tax losses carried forward	-	241,093	-	(241,093)	-
Fair valuation loss reserve	-	-	15,847	-	15,847
General provisions	-	1,307,189	-	(191,424)	1,115,765
Net deferred tax asset	-	**1,578,742**	**15,847**	**(464,922)**	**1,129,667**

Summarized as:	**2022**	**2021 restated**
At 1 January	1,129,667	-
Credited/Recognized in profit or loss	502,518	1,113,820
Recognized in OCI	(504,756)	15,847
At 31 December	**1,127,429**	**1,129,667**

30. DEPOSITS DUE TO CUSTOMERS

	2022 TZS'000	**2021 TZS'000**
Current accounts	57,441,690	54,082,914
Savings deposits	59,733,768	52,825,287
Time deposits	67,403,363	74,604,517
	184,578,821	**181,512,718**
Current	179,666,898	177,460,630
Non-current	4,911,923	4,052,088
	184,578,821	**181,512,718**

The deposits are unsecured. The time deposits were at fixed interest rates of 5% to 12% and the other deposits at variable rates of 0% to 12% per annum with a maximum tenure of two years.

31(a) BORROWING

	2022 TZS'000	2021 TZS'000
As at 1 January	3,833,014	8,894,206
Additions	-	-
Interest expense charged	122,052	707,982
Principal paid	(2,363,428)	(5,394,167)
Interest paid	(93,696)	(375,007)
As at 31 December	**1,497,942**	**3,833,014**
Maturity analysis		
Current	28,356	332,975
Non-current	1,469,586	3,500,039
	1,497,942	**3,833,014**

This relates to the funds borrowed from TMRC and other financial institutions.
In 2018, the Bank obtained unsecure loan of TZS 6 billion, TZS 2.37 billion and TZS 5 billion from TMRC, BOT and Self microfinance (2019) repayable quarterly and monthly respectively. As at 31/12/2022 the outstanding balance related to TMRC at an effective interest rate of 9% per annum.

As at 31 December 2022, the Bank was compliant with all the lender's covenants.

31(b) SUBORDINATED LOAN

	2022 TZS'000'	2021 TZS'000'
As at 1 January	-	-
Additions	2,700,000	-
Interest expense charged	213,750	-
As at 31 December	**2,913,750**	**-**
Maturity analysis		
Current	213,750	-
Non-current	2,700,000	-
	2,913,750	**-**

In 2022, the Bank obtained unsecure loan of TZS 2.7billion from Bugando Medical Centre (TZS 2 billion) and Tanzania Episcopal Conference Centre (TZS 0.7billion), repayable annually within 9 years. The effective interest rate of the loan during the year was 9.5%.

As at 31 December 2022, the Bank was compliant with all the lender's covenants

32. OTHER LIABILITIES

	2022 TZS'000	2021 Restated TZS'000
Accruals	462,870	911,381
Accounts payable	115,714	195,688
Deferred fees	605,912	9,055
Statutory and regulatory obligation	449,423	402,234
	1,633,919	**1,518,358**

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

33. PROVISIONS

	2022 TZS'000	2021 TZS'000
At 1 January	751,470	536,220
Increase during the year - Gratuity	329,375	
Increase during the year -:Legal	182,440	384,000
Utilized	(475,000)	(168,750)
At 31 December	**788,285**	**751,470**

Gratuity provision:
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 at the end of the contract term.

Legal provision:
This relates to provision for legal cases that are deemed probable for events of failure by the bank to occur.

34. LEASE LIABILITIES

	2022 TZS'000	2021 Restated TZS'000
At 1 January	4,367,694	4,789,421
Additions	270,027	558,268
Remeasurement*	741,540	-
Interest accretion	426,557	597,227
Payments	(701,563)	(1,551,000)
Forex (loss/ (gain)	17,488	(26,222)
At 31 December	**5,121,743**	**4,367,694**
Maturity analysis for the lease liability:		
Due in 1 year	1,260,112	853,786
Due after 1 year	3,861,631	3,513,908
	5,121,743	**4,367,694**

The weighted average discount rate applied as at year-end was 12.5%, USD 7% (2021: for all contracts 11.84%) per annum.
*Remeasurement: relates to impact of remeasuring the opening balances. During the year discounting rates for some of the lease contracts were revised.

The directors have not accounted for a long term planned lease for the new head office following consideration that the contract for this lease had not been finalised by the end of 31 December 2022. The value of this addition to lease accounting expects to exceed TZS 1billion.

35. SHARE CAPITAL

	2022	2021 Restated
	TZS'000	TZS'000
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 issued at TZS 1,000	20,615,272	20,615,272
2,939,730 issued at TZS 750	2,204,798	2,204,798
Discount on 2,939,730 shares	734,932	734,932
23,555,002 shares at TZS 1,000	23,555,002	23,555,002
SHARE DISCOUNT	(734,932)	(734,9320)

During the year there were no additional shares issued (2021: There was a rights issue resulting in additional TZS 2,204,797,500 of the share capital). The shares issued in 2021 were issued at a discount of TZS 250 per share which resulted to a total of share discount of TZS 735 million.

36. REGULATORY AND OTHER RESERVES

a)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.

b)The FVOCI reserve is attributable to marking to market fair value gains or losses on financial assets classified under FVOCI category. This reserve is not available for distribution to shareholders.

	2022	2021
	TZS'000	TZS'000
Regulatory loans provision	6,568,898	8,291,134
Less: IFRS ECL allowance (Note 22)	(3,842,715)	(3,630,156)
Regulatory reserve	2,726,183	4,660,984

Movement in fair valuation reserve is as follows:		Restated
At 1 January	(36,978)	-
Charged to OCI		
Fair valuation gain/(loss)	1,682,521	(52,825)
Deferred tax on fair valuation loss	(504,756)	15,847
	1,177,765	(36,978)
At 31 December	1,140,787	(36,978)

37. CASH AND CASH EQUIVALENTS

	2022	2021 Restated
	TZS'000	TZS'000
Cash and balances with BoT (Note 19)	21,935,859	21,864,924
Less: SMR (Note 19)	(11,087,554)	(10,626,869)
Cash and balances with BoT excluding SMR	10,848,305	11,238,055
Loans and advances to Banks (Note 20)	24,133,243	23,137,105
Balances with MNOs	1,810,067	1,920,392
	36,791,615	36,295,552

38. RELATED PARTIES TRANSACTIONS AND BALANCES

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

Shareholder category	2022	2021
Church dioceses and affiliated institutions	29.50%	29.50%
Other institutions	9.67%	9.67%
Tanzania Episcopal Conference (TEC)	18.12%	18.12%
Individuals (general public)	42.71%	42.71%
	100%	**100%**

The following were the balances and transactions with related parties:

I. Loans due from key management personnel	2022 TZS'000	2021 TZS'000
At 1 January	609,246	543,058
Loans advanced during the year	95,861	394,223
Loan repayments during the year	(248,392)	(328,035)
At 31 December	**456,715**	**609,246**
ECL for these loans at the end of the year	13,856	7,344
Interest income earned	59,070	27,557

II. Shareholder deposits	2022 TZS'000	2021 TZS'000
Roman Catholic Church Dioceses	2,038,956	2,449,114
Tanzania Episcopal Conference (TEC)	109,480	39,787
	2,148,436	**2,488,901**

These loans are salary secured. The interest rates charged are in line with prevailing market rates for similar loans.

III. Compensation for key management personnel		
Salaries and other short-term benefits	1,317,500	1,316,400
Post-employment benefits – Social security contributions	131,750	131,640
Gratuity (Note 33)	329,375	384,000
	1,778,625	**1,832,040**
IV. Directors' remuneration (Note 16)	**64,000**	**64,000**

V. Subordinated Loans

Subordinated loans comprise of funds borrowed from Bugando Medical Centre and Tanzania Episcopal Conference. The outstanding balances as at 31 December 2022 and 2021 (NIL) are as follows:

	2022 TZS '000'	2021 TZS'000
Tanzania Episcopal Conference (TEC)	757,649	--
Bugando Medical Centre (BMC)	2,156,101	--
	2,913,750	--

39. COMMITMENTS

	2022 TZS'000	2021 TZS'000
Capital commitments		
Capital expenditure that has been approved by the Board but not contracted for, most of which being commitments brought forward from 2021.	4,121,040	3,698,703

The capital commitments as at year-end comprise TZS 1.9 billion for new core banking system acquisition, TZS 1.3billion for digital channels development and other ICT related infrastructures and other computer software; TZS 309 million for opening business centres in strategic locations.

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:

	2022	2021
Undrawn commitments to lend	2,494,785	1,317,076

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

40 PRIOR YEAR ADJUSTMENT

The below prior year adjustments referenced a, b, c, and d arise from the following:

a) Effective interest rate

Following management's issuance of loans to customer at flat interest rate for a period between 2014 and 2020 a manual computation was done to align the accounting of interest income using effective interest rate as required by IFRS whilst the core banking system recorded using contractual flat terms. The prior year financial statement included an overtime accumulated stock of this manually computed interest receivable of TZS 7.5 billion. During the year 2022, management performed a thorough review of this receivable and identified a material exposure that is not recoverable through current contractual terms for existing customers and part of the receivable related to customers who no longer existed in the bank's portfolio. On this basis, management elected to de-recognised these receivables to the extent they are unrecoverable.

b) Modification of loans and advance to customers

Management made significant modification to some loans and advances to customers which required assessment of derecognition qualification of the assets or recognition of modification loss or gain. There are modifications which were done in years 2020 and 2021 but no necessary adjustments to the financial statements were done. Management corrected these errors in the current year financial statements by restating the financial statements.

c) Misstatement of lease liability

In years 2020 and 2021 the below errors were made in the financial statements in relation to lease liability and right of use assets:

i) Application of incorrect frequency of payment of lease rentals in arriving at lease liability.
ii) Lease liability for some contracts were erroneously included as assets.
iii) Lease payments included in the lease liability line was misstated by exclusion of lease payment not done and prepayments which were included under other liabilities and other assets respectively. The lease liability balance had considered that all payments were done as per contractual terms.

40 PRIOR YEAR ADJUSTMENT (CONTINUED)

d) **Accounting for government securities measured at fair value through OCI (FVOCI)**

In 2021 the bank invested in government securities for the purpose of managing liquidity through both holding the financial assets in order to collect the contractual cash flows and also to selling the assets. The financial assets under this business model that are solely repayments of the interest and principal amount are required to measure through fair value through OCI. At the end of 2021 these assets were disclosed and measured at amortised cost, in 2022 financial statement this was corrected to include measurement at FVOCI.

e) **Wrong classification of balances with mobile Network operators**

In 2021 the bank classified its operational mobile funds balances with Mobile Network operators as cash and bank with Central bank TZS 578 million and balances with other banks of TZS 352 million. These balances are accounted and classified as other assets in line with their nature and bank's policy.

f) **Property and equipment items classified under other assets**

In 2021, management classified capitalised long-term assets i.e., properties and equipment of TZS 477 million under other assets instead of Property and equipment.

g) **Incomplete disclosure of cash and cash equivalents**

In 2021, management excluded items with balance of TZS 1 billion of nature cash and cash equivalents from cash and cash equivalents disclosure and consequently not shown as such in statement of cash flows.

h) **Non-bank long term borrowing classified as deposit with banks**

A long-term borrowing with TMRC was classified as deposit with other banks contrary to the nature of the liability.

i) **Non-disclosure of share discount**

During the rights issue concluded in 2021, the issued shares of total 2,939,730 were issued at TZS 750 each which was a discounted price from authorised price of price of TZS 1,000 per share. The share discount of TZS 735 million was not disclosed in the financial statements.

j) **Valuation of staff loans not adjusted against staff loans**

The fair value adjustment of TZS 833 million in relating to the bank's staff loans was recorded under other assets instead of adjusting against respective staff loans which misstated the carrying value of these loans.

40 PRIOR YEAR ADJUSTMENT (CONTINUED)

The financial statements for the years ended 31 December 2020 and 31 December 2021 have been restated to correct the above misstatements. The effects of the restatements are shown below:

I. Statement of profit or loss and other comprehensive income – year ended 31 December 2021 (extract)

	Reference	31 December 2021 Previously reported	Profit Increase/ (Decrease)	31 December 2021 Restated
		TZS'000	TZS'000	TZS'000
Interest income calculated using the effective interest method	a and b	24,015,454	(1,939,838)	22,075,616
Interest expense calculated using the effective interest method	c	(8,650,643)	(136,531)	(8,787,174)
Net interest income		**15,364,811**	(2,076,369)	13,288,442
Modification of financial assets	b	-	(2,757,741)	(2,757,741)
Net foreign currency trading and translation gains	c	774,036	26,222	800,258
Total non-interest income		**4,377,237**	(2,731,519)	1,645,718
Net operating income		**17,762,830**	**(4,807,887)**	**12,954,943**
Depreciation and amortization		(1,942,556)	(97,727)	(2,040,283)
Profit/(Loss) before income tax	a,b,c and d	**2,198,776**	(4,905,614)	(2,706,838)
Profit/(Loss) for the year	a,b,c and d	**3,046,104**	**(4,905,614)**	**(1,859,510)**
-Fair value gains arising during the year	d	-	52,825	52,825
-Tax Thereon	d	-	(15,847)	(15,847)
Other comprehensive income	d	-	36,977	**36,977**
Total comprehensive income for the year, net of tax		**3,046,104**	**(4,942,592)**	**(1,896,488)**

Basic earnings per share for the period has also been restated. The amount of the correction for basic earnings per share was decreased to TZS (79) from TZS 96.

40 PRIOR YEAR ADJUSTMENT (CONTINUED)

II. Statement of financial position- year ended 31 December 2021 (extract)

Year ended 31 December 2021	Reference	As previously reported	Increase/(Decrease)	As restated
		TZS'000	TZS'000	TZS'000
Assets				
Cash and balances with BoT	e	22,417,520	(552,596)	21,864,924
Loans and advances to banks	e	23,488,287	(351,182)	23,137,105
Loans and advances to customers	a, b and j	115,028,633	(8,168,692)	106,859,941
Government securities	d	42,692,825	(9,994,811)	32,698,014
Government securities-FVOCI	d	-	9,970,853	9,970,853
Right of Use asset	c	3,193,168	971,121	4,164,289
Property and equipment	f	2,346,798	477,208	2,824,006
Other assets	c, e , f and j	2,515,864	1,199,218	3,715,082
Deferred tax asset	d	1,113,820	15,847	1,129,667
Total Assets		**212,796,715**	**(2,425,035)**	**210,371,680**
Liabilities				
Deposit due to banks	h	3,833,014	(3,833,014)	-
Borrowings	h	-	3,833,014	3,833,014
Lease Liability	a	3,239,143	1,128,551	4,367,694
Other liabilities	d	1,644,734	(155,242)	1,489,492
Equity				
Share capital	i	22,820,070	734,932	23,555,002
Share discount	i	-	(734,932)	(734,932)
Accumulated losses	a,b,c and d	(1,657,419)	(7,398,231)	(9,055,650)
FVOCI reserve	d	-	36,977	36,977
Total Liabilities and Equity		**212,796,715**	**(2,425,035)**	**210,371,680**

III. Statement of financial position- year ended 31 December 2020 (extract)

Year ended 31 December 2020	Reference	As previously reported	Increase/(Decrease)	As restated
		TZS'000	TZS'000	TZS'000
Assets				
Loans and advances to customers	a and b	121,381,392	(2,638,249)	118,743,143
Right of Use asset	c	3,872,155	510,579	4,382,734
Other assets	c, e and f	1,472,469	(21,625)	1,450,844
Deferred tax asset	d	-	-	-
Total Assets		**219,977,905**	**(2,149,293)**	**217,828,612**
Liaibilities				
Deposit due to banks	h	8,894,206	(8,894,206)	-
Borrowings	h	-	8,894,206	8,894,206
Lease Liability	a	3,916,890	872,531	4,789,421
Other liabilities	d	2,149,918	(529,207)	1,620,711
Equity				
Accumulated losses	a,b,c and d	(3,573,857)	(2,492,617)	(6,066,474)
Total Liabilities and Equity		**219,977,905**	**(2,149,293)**	**217,828,612**

40 PRIOR YEAR ADJUSTMENT (CONTINUED)

IV. **Statement of cashflow (extract)**

	Reference	31 December 2021 Previously reported	Increase/ (Decrease)	31 December 2021 Restated
		TZS'000	TZS'000	TZS'000
Operating activities				
Profit/(loss) before tax	a and b	2,198,776	(4,905,614)	(2,706,838)
Depreciation on right-of-use assets	d	678,986	97,727	776,713
Modification (Gain) /Loss		-	2,670,787	2,670,787
Effective interest receivable Write off	c	-	2,026,792	2,026,792
Cash generated from operations	a,b,c and d	**2,317,244**	**7,597,128**	**9,914,372**
Financing activities				
Lease liabilities paid – principal	c	(677,747)	(278,026)	(955,773)
Lease liabilities interest paid	c	(458,697)	(136,530)	(595,227)
Net cash flows used in financing activities	c	**1,068,354**	(6,183,730)	**(5,115,376)**
Cash and cash equivalents at 31 December		**35,278,938**	**1,016,614**	**36,295,552**

41. CONTINGENT LIABILITIES

The Bank had no contingent liabilities as at year-end (2021: None).

42. EVENTS AFTER THE REPORTING PERIOD

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