

YETU MICROFINANCE BANK PLC

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2018



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BOARD OF Directors	Mr. Altemius Millinga Mrs. Happy Sambega Mr. Ernest K. Ndimbo Mrs. Esther Mbise Mr. Danford Mbilinyi Mr. Cornelius Kasiya Kariwa Mr. Valentine Vedasto Mrs. Julie Szantyr
INDEPENDENT AUDITORS	Balakrishna Sreekumar & Co. Certified Public Accountants P.O. Box 948 Dar es Salaam
BANKERS	NMB Bank Bank of Africa Mkombozi Bank
REGISTERED CORPORATE OFFICE	Mkunazini Building, Kidongo Chekundu, P.O. Box 75379 Dar es Salaam Tanzania



1 INTRODUCTION

The Directors present their report and audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of Yetu Microfinance Bank Plc (bank).

2 INCORPORATION

The Company was incorporated on 23rd December 2013 under Companies Act, 2002 with Certificate of incorporation Number SO.104761 as Yetu Microfinance PLC. On 8th October 2014 the bank was transformed into a public liability company hence the name was changed to Yetu Microfinance PLC. The changes were prompted by the desire of the company to issue an Initial Public Offering (IPO) in 2015. The name of the company was changed to Yetu Microfinance Bank PLC following being licensed as a Microfinance Bank on January 20th, 2017

3 VISION

To help improving access to finance, provide exceptional value to our clients and expand economic opportunities for the people of Tanzania.

4 MISSION

To become a market leader in Microfinance, branchless banking and mobile banking in offering simple innovative and value added products and services to the micro and Small enterprises and general public.

5 PRINCIPAL ACTIVITIES

The principal activities of YETU Microfinance Bank PLC are to provide banking services with its core market being low end financial market. The bank provides its services using brick and motor branches and mobile banking. The main activity for 2018 was delivery of microfinance loans.

6 CAPITAL STRUCTURE

The bank's capital structure for the year under review is shown below

Authorized
 Tzs 30 billion

Issued up and fully paid
 Tzs 6.056 billion

7 SHAREHOLDERS OF THE BANK

The total number of shares at year end was 12,112,893.

The shares of the bank are held as follows:

Name	No of shares	Value of shares (TZS)	Stake
Yosefo	3,755,578	1,877,789,500	31%
Sidi	1,900,000	950,000,000	16%
Founding members and directors	1,234,350	617,175,000	10%
Employees	911,385	455,692,500	8%
Yetu Clients	3,508,570	1,754,285,100	28%
General Public	803,010	401,505,000	7%
Total share capital	12,112,893	6,056,447,100	



Directors

The Directors of the bank at the date of this report are

Name	Position	Age	Qualification/ Discipline	Nationality	Date appointed
Mr. Ernest K. Ndimbo	Chairman	67	Economist	Tanzanian	20th February 2017
Mr. Altemius Millinga	Managing Director	60	Economist	Tanzanian	20th February 2017
Mrs. Dr. Esther Rossiner Mbise	Non Executive Director	63	Lecturer	Tanzanian	20th February 2017
Mrs. Happy Sambega	Non Executive Director	55	Accountant	Tanzanian	20th February 2017
Mr. Cornelius Kariwa	Non Executive Director	58	Advocate	Tanzanian	20th February 2017
Mr. Danford Mbilinyi	Non Executive Director	48	ICT Expert	Tanzanian	20th February 2017
Mr. Valentine Vedasto	Non Executive Director	34	Economist	Tanzanian	20th February 2017
Mrs. Julie Szantyr	Non Executive Director	38	Business & Finance	France	20th February 2017

Director's interest for the year 2018

Name of the Director	Number of shares held 2018
Mr. Ernest K. Ndimbo	198,073
Mr. Altemius Millinga	538,990
Mrs. Esther Mbise	84,532
Mrs. Happy Sambega	175,159
Mr. Cornelius Kariwa	20,000
Mr. Danford Mbilinyi	20,000
Mr. Valentine Vedasto	200
Mrs. Julie Szantyr	-
Total shares held by Directors	<u>1,036,754</u>

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Mr. Valentine Vedasto	200
Mrs. Julie Szantyr	-
Total shares held by Directors	<u>1,036,754</u>

COMPANY SECRETARY

The bank's Secretary as at 31 December 2018 was Ms. Joyceline Kobero.

CORPORATE GOVERNANCE

The Board of Directors consists of eight Directors including the Managing Director. Apart from the Managing Director no other director holds an executive position in the Bank. The Board has overall responsibility for the bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant matters, and reviewing the performance of management business plans and budgets.

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



CORPORATE GOVERNANCE (Continued)

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Managing Director assisted by the Management team. The management team is invited to attend Board meetings and 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 held Four ordinary meetings and Three extraordinary meetings due to special activities that needed the Board's deliberations which included Dividend declaration and Approval of Financial statements.

Details of Board and Board committee's meetings held during the year are as summarized below.

Board of Directors attendance

Name	Position	Total No. of meetings		% attendance
		meetings	attended	
Mr. Ernest K. Ndimbo	Chairman	7	7	100
Mr. Altemius Millinga	Managing Director	7	6	86
Mrs. Esther Mbise	Director	7	7	100
Mrs. Happy Sambega	Director	7	7	100
Mr. Cornelius Kariwa	Director	7	5	71
Mr. Danford Mbilinyi	Director	7	5	71
Mr. Valentine Vedasto	Director	7	7	100
Mrs. Julie Szantyr	Director	7	5	71

The bank is committed to the principles of effective corporate governance. More particularly, the Directors recognise 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;

Audit Committee

Name	Position	Total Meetings	No. of meetings attended
Happy Sambenga	Chairman	4	4
Valentine Vedasto	Member	4	4
Julie Szantyr	Member	4	3

Credit/Risk/IT Committee.

Name	Position	Total Meetings	No. of meetings attended
Danford Mbilinyi	Chairman	3	3
Cornelius Kariwa	Member	3	3
Dr Esther Rossiner	Member	3	3

MANAGEMENT TEAM

The Management of the bank is led by the Managing Director assisted by the Management Team. The management of the bank at the date of the report consisted the following;

Managing Director
 Finance Manager
 Operations Manager

INTERNAL AUDIT FUNCTION

The bank has established an independent Internal Audit function reporting to the Audit committee. The Chief of Internal Audit of the bank is Mrs. Angela Fanuel.



FUTURE OUTLOOK

The bank will continue to grow in terms of increase total assets, loan portfolio, number of customers and experience geographical expansion and provide good return shareholders. The use of technology will be behind the growth based on investment in technology which the bank has made over the past two years. The technologies include mobile banking, remote account system (Android support POS) Biometric teller system and ATMs. The growth will also be supported skilled staff as result of the bank's current investment in human resources. At the macro level, we expect continued existence of regulatory and macro economic environment which is supportive to banking and microfinance in particular.

MARKET OVERVIEW

The bank will continue to target low end market of financial services which typically need basic savings services, money transfer and micro and small loans. Based on finscope report of 2017, only 17 % of Tanzanians have bank account and at the low end market the percentage is lower. In rural areas based on the same report banking outreach is 9% there is the room for expansion and reaching more people does exist.

PERFORMANCE FOR THE YEAR

The bank performance for the year ended 2018 was good in term of increase in total assets, loan portfolio and maintained a profitable position, geographical outreach, maximization of uses of technology for financial delivery and optimization of use of resources. In 2018 the bank received an award of the best listed company consecutively in the Enterprises Growth Market (EGM), Dar Es salaam Stock exchange.

DIVIDEND

In 2017 the bank declared its first dividend of Tzs 64 per share.

STAFF WELFARE

Microfinance business operation demand integrity, commitment, good customer care, people oriented staff who can work in difficult environment, sometimes less attractive high caliber staff.

Management has designed number of compensation package in order to recruit and retain good quality and dedicated staff, including guaranteeing their bank loan equivalent to twelve times gross salary of an employee. The company also provide 13th month salary for all employees. Other staff incentives include a health insurance package.

TRAINING

During the year 2018, YETU Microfinance Bank PLC invested in staff development aimed at improving the Company's performance and understanding prudential regulations.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board of Director consists of 8 members, 7 non- executive member and the Managing Director. The Board takes overall responsibility for managing risk of the organization, including responsibility for identifying key risk areas, considering and monitoring investment decisions of significant financial consequences, business plans and budgets.

The Board of Directors assessed the internal control system of the company throughout the period ended 31st December 2018 and is of the opinion that they met acceptable criteria. The Board of Directors carries out the assessment function through formulation of various policies, their monitoring and evaluation of the performance of the bank continuous basis.

KEY PERFORMANCE INDICATORS FOR BANK

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

Performance indicator	Definition and calculation method
Return on equity	Net income/Total equity
Return on assets	Net income/Total assets



Performance indicator	Definition and calculation method	2018	2017
Interest margin on earning assets	Total interest income/(balances with other financial institutions + net loans, advances and overdraft)	38%	33%
Non - interest income to Gross income	Non - interest income/Total income	16%	16%
Earnings per share	Basic earnings/ Number of ordinary shares in issue(TZS)	58.45	107.32
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	6%	5%
Growth on total assets	Trend (2018 total assets – 2017 total assets)/(2017 total assets)*%	-4%	13%
Growth on loans and advances to customers	Trend (2018 loans and advances – 2017)/2017 loans and advances) *%	1%	22%
Growth on total deposits	Trend (2018 deposits – 2017 deposits)/(2017 deposits)*%	-61%	-4%

RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 27 to these financial statements.

POLITICAL DONATIONS

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

CORPORATE SOCIAL RESPONSIBILITY

The bank in partnership with YOSEFO has continued to support Mtanga School of people with physical disability, Kilombero and Minepa Secondary schools.

RELATIONSHIP WITH STAKEHOLDERS

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

SOLVENCY

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board of Directors has reasonable expectation that the bank has adequate resources to continue in operational existence for the foreseeable future.

For and Behalf of Board of Directors:



Director

Place: Dar Es Salaam

Date: 13-06-2019



The Directors are required in terms of the Tanzanian Companies Act 2002 to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the bank as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards, requirements of the Companies Act, 2002 & the Banking and Financial Institution Act, 2006 and the guidelines of Bank of Tanzania.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the bank and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the bank and all employees are required to maintain the highest ethical standards in ensuring the bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the bank is on identifying, assessing, managing and monitoring all known forms of risk across the bank. While operating risk cannot be fully eliminated, the bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The Directors have reviewed the bank's cash flow forecast for the year to December 31, 2019 and, in light of this review and the current financial position, they are satisfied that the bank has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the bank's financial statements. The financial statements have been examined by the bank's external auditors and their report is presented on pages 9 to 12.

The financial statements set out on pages 13 to 34, which have been prepared on the going concern basis, were approved by the Board of Directors on 13.06.2019 and were signed on their behalf by:



Director

Place: Dar Es Salaam
Date: 13.06.2019



Director



YETU MICROFINANCE BANK PLC
Declaration of Head of Finance
For the year ended 31st December 2018

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

It is the duty of a Professional Accountant to assist the Board of Directors/Governing Body/ Management to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements.

Full legal responsibility for the preparation of financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I Samuel W. Gikaro being the Head of Finance of YETU MICROFINANCE BANK PLC hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31st December 2018 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements give a true and fair view position of YETU MICROFINANCE BANK PLC as on 31st December 2018 and that they have been prepared based on properly maintained financial records.

Signed by: Sagiro
Position: Finance Manager
NBAA Membership No.: NBAA/GA-4732
Date: 13.06.2019



INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF YETU MICROFINANCE BANK PLC

Opinion

We have audited the Financial Statements of YETU MICROFINANCE BANK PLC set out on page no. 13 to 34, which comprise the Statement of Financial Position as at December 31, 2018, the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the period then ended, and notes to the Financial Statements, including a summary of significant accounting policies.

"In our opinion, the Financial Statements present fairly, in all material respects, the financial position of YETU MICROFINANCE BANK PLC as at December 31, 2018, and of its profit after tax and deferred tax of TSh ('000) 708,029 and cash flows for the period then ended in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002."

Emphasis of Matter - ERP System Malfunction

The enterprise resource planning (ERP) system used by the bank is not functioning properly; some errors have been identified in the automated process of the ERP. Malfunctioning of the system have significant impact on the financials statements; for which as informed to us, efforts have been put in by the management to rectify the impacts on the financial statements.

At the near year end, journal entries were posted to rectify the impact of the ERP malfunction based on the best information available with management, for which we were unable to obtain sufficient appropriate audit evidence due to system limitations, in order to substantiate those entries.

Further due to limitation on availability of the information caused by system error, we have relied upon confirmation from the management that the amount of TSh ('000) 1,034,089 (in note 20) as loan guarantee group special deposits, interest income of TSh ('000) 5,027,399 (in note 5) and the loans and advances portfolio valued at TSh ('000) 12,613,928 (in note 16) have been fairly stated in the financial statements. As due to the system limitations, it is not possible for us to do a comprehensive evaluation of those earlier mentioned amounts. Our opinion is not modified in this regard.

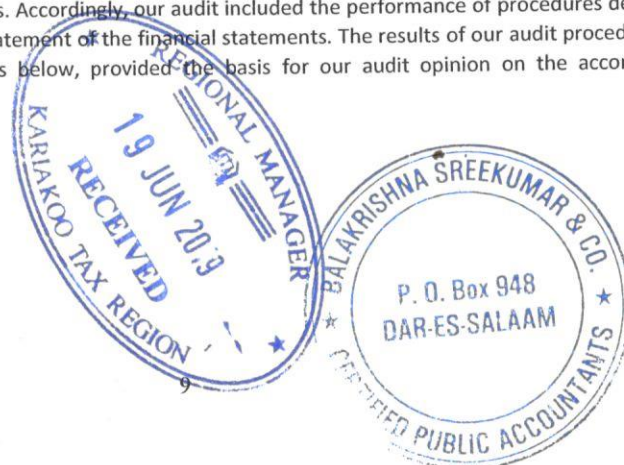
Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B) (IESBA Code) and other independence requirements applicable to performing audits of financial statements in United Republic of Tanzania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing audits in United Republic of Tanzania. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

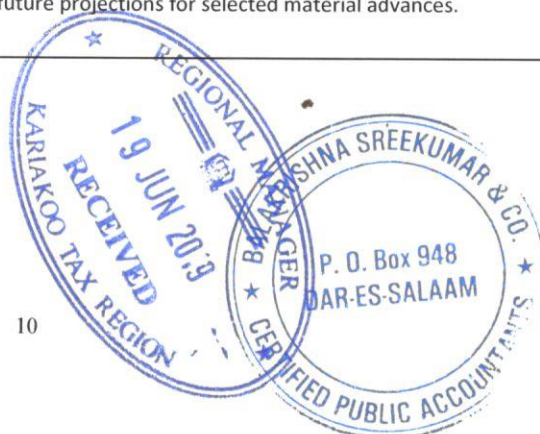
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we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

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



Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Issue 1 : Revenue Recognition (Interest Income)</p> <p>Revenue was an area of most significance for the audit in the current year due to the following</p> <ul style="list-style-type: none"> • International Standards on Auditing “ISA” 240 requires that it be presumed that there are risks of material misstatement due to fraud related to revenue recognition. The standard further requires that these risks be treated as significant. • The completeness and accuracy of interest income is a key audit focus area due to interest computations which are highly automated. • Involvement of IT specialists in the recalculations of the automated revenues. 	<p>Our audit procedures included a combination of tests over internal controls over the Banks’s principal revenue lines and the following substantive procedures;</p> <ul style="list-style-type: none"> • Performed an assessment of the appropriateness of the Revenue recognition criteria used by Management as per International Financial Reporting (IFRS) requirements. • Engaged our Information Technology (IT) specialists to evaluate IT related controls around credit approval, recording and monitoring, assessment of IT internal controls supporting logical access, manage change and other appropriate application controls. • We used our IT specialists to perform recalculations of interest and non-interest income which is predominantly automated. We compared these to amounts recorded in the Bank’s accounting records <p>Our audit procedures included a combination of tests over internal controls over the Banks’s principal revenue lines and the following substantive procedures;</p> <ul style="list-style-type: none"> • We performed a recalculation of loan processing commitment fees and loan insurance fees, in line with the contractual agreements.
<p>Issue 2 : Impairment of loans and advances in accordance with IFRS 9</p> <p>Impairment is a subjective area due to the level of judgement applied by management in determining provisions. The Bank is required to calculate impairment of loans and advances to customers in accordance with both the Bank of Tanzania regulations and IFRS 9. It is the first year when the entity has adopted the IFRS 9.</p> <p>Management are responsible for evaluation and assessment of the credit extension processes and whether adequate allowances have been made for uncollectible loans.</p>	<p>Under the new regime of IFRS 9, the bank has to estimate the expected credit loss. Under the “expected credit loss” model, the bank calculated the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring. The allowance is the sum of these probability weighted outcomes. Because every loan and receivable carries with it some risk of default, every such asset has an expected loss. The above prescribed process involved a lot of management judgments and judgements changes in accordance with the experience and arising of new situations. Hence its is necessary that these judgements are reviewed annually.</p> <p>In evaluating the adequacy of impairment of loans and advances we performed the following procedures;</p> <ul style="list-style-type: none"> • Tested internal controls over the credit granting and monitoring and assessed whether these were in accordance with laid down Banks policies and procedures. • We inquired and assessed the reasonableness of assumptions adopted in the expected credit loss model. • We analysed customer payment trends during the year and period after year end but before the issuance of the financial statements. • We reviewed financial performance, financial position, cash flows and future projections for selected material advances.



Other information

The Directors are responsible for the other information. The other information comprises the Directors' Report as required by the Tanzanian Companies Act 2002 of United Republic of Tanzania, which we obtained prior to the date of this report. Other information does not include the Financial Statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards and the requirements of the Tanzanian Companies Act 2002 and the Banking & Financial Institution Act 2006, 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.

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 International Standards on Auditing 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 International Standards on Auditing, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

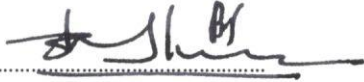
We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Report on other legal requirements

As required by the Tanzanian Companies Act 2002, based on our audit and subject to the "Emphasis of Matter - ERP System Malfunction" section, we report to you that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion, proper accounting records have been kept by the company, so far as appears from our examination of those records; and
- iii) the bank's statement of financial position and of profit or loss and other comprehensive income are in agreement with the accounting records.



Dr. B. S. Sreekumar
Managing Partner
Balakrishna Sreekumar & Co.
Certified Public Accountants

Dar es Salaam

Date: 17 JUN 2019



YETU MICROFINANCE BANK PLC
 Statement of profit or loss and other comprehensive income
 For the year ended 31st December 2018

	Note	2018 TZS '000	2017 TZS '000
Interest Income	5	5,027,399	4,842,509
Interest Expenses	6	(404,573)	(312,785)
Net Interest Income		4,622,826	4,529,725
Loan impairment reversal/ (charges)	7	(79,869)	19,995
Net interest income after loans impairment		4,542,957	4,549,720
Fees & Commission	8	617,919	600,925
Other operating income	9	216,093	269,231
Total non-interest income		834,012	870,156
Net Operating Income		5,376,969	5,419,876
Operating expenses			
Employee benefits expense	10	(1,934,470)	(1,689,828)
Depreciation and amortization		(128,299)	(128,222)
Administrative and operation expense	11	(2,346,031)	(1,789,871)
Total operating expenses		(4,408,800)	(3,607,921)
Profit/(loss) before taxation		968,169	1,811,955
Income tax (charge)/credit	12	(260,140)	(511,971)
Profit/(loss) for the year		708,029	1,299,984
Other Comprehensive Income		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		708,029	1,299,984

The accounting Policies and Notes on pages 17 to 34 form an integral part of the financial statements.

Report of the Auditors - Pages 9 to 12



YETU MICROFINANCE BANK PLC
Statement of financial position
As at 31st December 2018

	Note	2018 TZS '000	2017 TZS '000
ASSETS			
Cash	13	273,805	365,395
Balance with Bank of Tanzania	14	107,999	-
Deposits and balances with other banks and financial institutions	15	642,769	1,908,880
Loans and advances (Net)	16	12,613,928	12,551,114
Other assets	17	873,260	271,162
Property, plant & equipment	18	382,978	397,277
Intangible assets	19	57,905	107,188
Total assets		14,952,645	15,601,018
LIABILITIES			
Customer deposits	20	2,232,915	3,349,781
Other liabilities	21	893,371	178,475
Income tax payable	22	39,258	152,171
Borrowings	23	4,000,000	3,650,000
Deferred tax liability	24	18,898	18,016
Total liabilities		7,184,442	7,348,443
SHAREHOLDERS' EQUITY			
Share capital	25	6,056,497	6,056,497
Retained earnings	Page 15	1,511,458	1,847,449
YOSEFO Capital Grant	Page 15	69,693	157,165
Regulatory reserve	Page 15	-	66,617
General reserve	Page 15	130,555	124,847
Total shareholders' equity		7,768,203	8,252,575
Total equity and liabilities		14,952,645	15,601,018

The financial statements on pages 13 to 34 were approved by the Board of Directors on 13.06......2019 and signed on its behalf by:



Director

Place: Dar Es Salaam

Date:



YETU MICROFINANCE BANK PLC
Statement of changes in equity
For the year ended 31st December 2018

	Share capital TZS '000	* General reserve TZS '000	** Regulatory reserve TZS '000	YOSEFO capital grant TZS '000	Retained earnings TZS '000	Total equity TZS '000
Balance at 1st January 2017	6,056,497	-	-	292,985	1,245,448	7,594,930
Addition/(Deletion) during the year						
Transfer to deferred Income	-			(135,820)		(135,820)
Transfer to general reserve		124,847			(124,847)	-
Transfer to regulatory reserve			66,617		(66,617)	-
Total comprehensive income for the year					1,299,984	1,299,984
Dividend paid					(506,519)	(506,519)
Balance at 31st December 2017	6,056,497	124,847	66,617	157,165	1,847,449	8,252,575
Balance at 31 December 2017 as originally presented	6,056,497	124,847	66,617	157,165	1,847,449	8,252,575
Changes in accounting policy - adoption of IFRS 9	-	-	-	-	(324,938)	(324,938)
Restated balance at 1 January 2018	6,056,497	124,847	66,617	157,165	1,522,511	7,927,637
Addition/(Deletion) during the year						
Transfer to deferred Income	-			(50,368)		(50,368)
Transfer to general reserve		5,708			(5,708)	-
Transfer to regulatory reserve			(66,617)		66,617	-
Total comprehensive income for the year					708,029	708,029
Dividend paid					(779,990)	(779,990)
Balance at 31st December 2018	6,056,497	130,555	-	69,693	1,511,458	7,768,203

*General risk reserve represents 1% provision charged on all performing loans in line with regulatory requirement of the Central Bank.

**Regulatory reserve represent the surplus of loan provision computed as per The Bank of Tanzania regulation over the impairment of Loans and Advances to customers as per International Financial Reporting Standard (IFRS).

The accounting Policies and Notes on pages 17 to 34 form an integral part of the financial statements.

Report of the Auditors - Pages 9 to 12



YETU MICROFINANCE BANK PLC
Statement of Cash Flows
For the year ended 31st December 2018

	Note	2018 TZS '000	2017 TZS '000
Cash flows from operating activities			
Profit before taxation		968,169	1,811,955
Adjustments for:			
Prior year adjustment - IFRS9 implementation		(324,938)	-
Depreciation		128,299	128,222
Net cash flow before changes in working capital		771,530	1,940,177
Change in loans and advances to customers		(62,814)	(2,298,188)
Change in other current assets		(602,098)	(28,957)
Change in customers deposits		(1,116,866)	(124,161)
Change in other creditors		714,896	(31,723)
Cash generated from operations before tax		(295,351)	(542,852)
Income tax paid		(372,171)	(368,122)
Net cash flow from operating activities		(667,522)	(910,974)
Cash flows from investing activities			
Purchase of property, plant & equipment		(64,717)	(143,033)
Net cash used in investing activities		(64,717)	(143,033)
Cash flows from financing activities			
Proceeds from borrowings		500,000	1,800,000
Repayment of borrowings		(150,000)	(691,667)
Utilization / deferred capital Grant		(87,472)	(135,820)
Dividends paid		(779,990)	(373,118)
Net cash generated from financing activities		(517,462)	599,395
Net cash flow for the period		(1,249,701)	(454,612)
Effect of exchange rate changes on cash and cash equivalents			
Cash and cash equivalents as at 1st January		2,274,275	2,728,887
Cash and cash equivalents as at 31st December		1,024,574	2,274,275

The accounting Policies and Notes on pages 17 to 34 form an integral part of the financial statements.

Report of the Auditors - Pages 9 to 12



1 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

1.1 Basis of preparation

The Financial statements have been prepared under the historical cost convention of accounting modified to include revaluation of financial instruments wherever applicable. The bank prepares its financial statements under International Financial Reporting Standards (IFRS).

1.2 New Standards and Interpretations

1.2.1 Standards and interpretations effective in the current year

In the current year, the following standards and interpretations that are effective for the current financial year and are relevant to the Bank's operations:

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

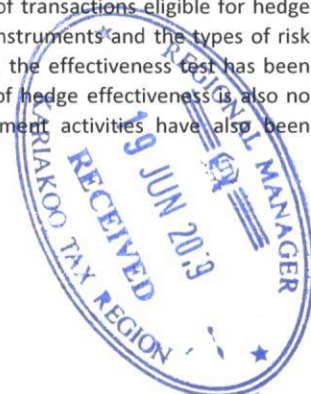
Key requirements of IFRS 9

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after January 1, 2018.

The bank has adopted the standard for the first time in the 2018 financial statements.

The impact of the amendment is has been disclosed in "Statement of Changes in Equity".



1.2 New Standards and Interpretations (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also includes extensive new disclosure requirements.

The effective date of the standard is for years beginning on or after January 1, 2018.

The bank has adopted the standard for the first time in the 2018 financial statements.

The impact of the standard is not material.

1.2.2 Standards and Interpretations early adopted

The Bank has chosen to not early adopt any standards and interpretations which are not mandatory.

1.2.3 Standards and interpretations not yet effective

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. These Standards, amendments or Interpretations have not been adopted early by the bank.

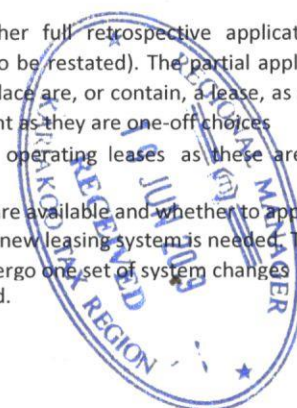
Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations neither adopted nor listed below have not been disclosed as they are not expected to have a material impact on the bank's financial statements.

IFRS 16 'Leases'

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Management is yet to fully assess the impact of the Standard and therefore is unable to provide quantified information. However, in order to determine the impact, the bank is in the process of:

- performing a full review of all agreements to assess whether any additional contracts will become lease contracts under IFRS 16's new definition of a lease
- deciding which transitional provision to adopt; either full retrospective application or partial retrospective application (which means comparatives do not need to be restated). The partial application method also provides optional relief from reassessing whether contracts in place are, or contain, a lease, as well as other reliefs. Deciding which of these practical expedients to adopt is important as they are one-off choices
- assessing current disclosures for finance leases and operating leases as these are likely to form basis of the amounts to be capitalised as right-of-use assets
- determining which optional accounting simplifications are available and whether to apply them
- considering the IT system requirements and whether a new leasing system is needed. This is being considered in line with implementing IFRS 9 so the Bank only have to undergo one set of system changes
- assessing the additional disclosures that will be required.



1.2.3 Standards and interpretations not yet effective (continued)

Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The effective date of the interpretation is for years beginning on or after January 1, 2019.

It is unlikely that the interpretation will have a material impact on the bank's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Revenue

Revenue includes interest income on loans & advances & its recognized on time basis by reference to the principal outstanding and at the effective interest rate applicable.

Application Fees, Insurance fees etc. are recognized at the time of effecting the transactions.

2.2 Translation of foreign currencies

Transactions during the period which are denominated in foreign currencies are converted into Tanzania shillings using the rate ruling at the transaction date. Monetary assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Tanzania Shillings at the rate ruling on the balance sheet date. The resulting differences from conversion and translation are dealt with in the profit or loss in the period in which they arise.

2.3 Financial assets

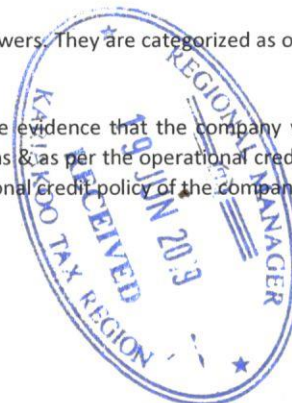
The bank classifies its financial assets in the following categories:

- Fair value through profit or loss (FVPL):- Assets that do not meet the criteria for amortised 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 presented in the statement of income in the period in which it arises. Interest income from these financial assets are recognised using the effective interest rate method.
- Fair value through other comprehensive income (FVOCI):- Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that 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, income and foreign exchange gains and losses on the instrument's amortised cost which are recognised in the statement of income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to statement of income. Interest income from these financial assets are recognised using the effective interest rate method.
- Amortised cost:- Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described from these financial assets using the effective interest method.

2.4 Loans & Provision for Impairment

Loans and advances are recognized when cash is advanced to borrowers. They are categorized as originated loans and carried at amortized cost.

Provisions for loan impairment are established if there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms of the loans & as per the operational credit policy of the company. The amount of the provision is made as per the condition of the operational credit policy of the company.



2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Loans & Provision for Impairment (continued)

When a loan is deemed uncollectible, it is written off against the related provision for impairment losses. Subsequent recoveries are credited to the provision for impairment losses in the statement of comprehensive income. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for impairment losses in the statement of comprehensive income.

2.5 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on a written down method at annual rates estimated to write off the property, plant and equipment over their expected useful lives. The annual rates used are:

	%
Furniture and fittings, Electrical Equipment	12.5
Computers & Accessories, Software	33.0
Automotive	25.0

2.6 Cash and cash equivalents

For the purpose of cash flow statement, cash and cash equivalents comprises of balances with less than three months maturity from the date of acquisition, including cash and non-restricted balances with Bank of Tanzania.

2.7 Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation. Current taxation is provided on the basis of the profit for the year, as shown in the financial statement, adjusted in accordance with the Income Tax Act, 2004.

Deferred tax is provided on all temporary differences. Temporary differences are differences between the carrying amount of assets and liabilities for financial reporting purpose and their tax base.

The amount of deferred tax provided is based on the tax rate that has been enacted or substantially enacted by the balance sheet date and is expected to apply when the related deferred income tax is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

2.8 Provisions

Provisions are recognised when the company has a present legal or contractual obligation as a result of past events, which will result in an economic outflow and where a reliable estimate can be made of the amount of the obligation.

2.9 Employee benefits

All short term employee benefits are provided for in the income statement on accrual basis. Further, employees are members of a defined benefit scheme, employees contribute ten percent of their salary and employer contributes ten percent of the employees' salary to the scheme. The employers' contribution is accounted for in the period it falls due.

2.10 Lease

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessee

Operating lease payments are recognised as an expense as per agreement terms.

Any contingent rents are expensed in the period they are incurred.



2.11 Statutory reserves

As per the circular of BOT, for provision of non-performing assets, Bank is required to compute provision using both IFRS 9 approach and BOT regulatory approach. IFRS 9 provision should be charged to the income statement. In case IFRS 9 provisions is less than BOT provision, then a special non-distributable reserve should be immediately created through an appropriation of distributable reserves to eliminate the shortfall. This reserve should be termed as "Statutory Reserve".

3 RISK MANAGEMENT

The bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the bank's risk management are to identify all key risks for the bank, measure these risks, manage the risk positions and determine capital allocations. The bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the bank's financial performance. The bank is exposed to different types of risks emanating from financial and non-financial factors. Risks faced by the bank have been categorized as Credit risk, market risk, liquidity risk and operational risk.

The bank's risk management policies are establishment 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 and the guidelines issued by the Bank of Tanzania. The bank, through its training and management procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Risk management is carried out by the Credit/Risk/IT Committee under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk, market risk (foreign exchange risk, interest risk and price risk) and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

3.1 Credit risk

Credit risk is a 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 the bank's loans and advances to customers and other banks, and investment debt securities. For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure.

3.1.1 Credit Risk Measurement

The bank reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss, the bank makes judgments as to whether there is any observable data indicating that there is a measurable loss in the expected future payments in an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets. Directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all the customers are segmented into five rating classes as shown below:

Number of days past due	Classification
0 - 5	Current
6 - 30	Especially mentioned
31 - 60	Sub-standard
61 - 90	Doubtful
More than 90	Loss



3 RISK MANAGEMENT (Continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

3.1.2 Risk limit control and mitigation policies

(a) Lending limits

The bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(b) Collateral

The bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. Since the bank deal with micro and small medium enterprises it request special deposits to be maintained to be done that act as security.

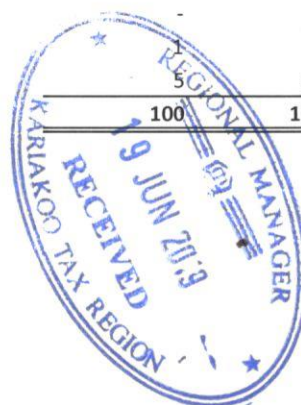
(c) Write-off policy

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

3.1.3 Impairment and provisioning policies

The impairment provision shown in the statement of financial position at period-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grades. Details showing the percentage of the bank's on-statement of financial position items relating to loans and advances and the associated impairment provision for each of the bank's internal rating categories are shown below.

bank's rating	31 Dec 2018	31 Dec 2018	31 Dec 2017	31 Dec 2017
	Credit risk exposure %	Impairment provision %	Credit risk exposure %	Impairment provision %
1. Current	94	13	93	12
2. Especially mentioned	-	-	-	-
3. Substandard	-	-	-	-
4. Doubtful	-	1	-	-
5. Loss	5	86	7	88
	100	100	100	100



3 RISK MANAGEMENT (Continued)

3.1 Credit risk (continued)

3.1.4 Concentration of risks of financial assets with credit risk exposure

Industry distribution

The following table breaks down 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

2018	Financial institution TZS '000	SME's/ Individuals TZS '000	Other TZS '000	Total TZS '000
Deposits and balances with other banks and financial institutions	750,768	-	-	750,768
Loans and advances	-	12,613,928	-	12,613,928
Other assets **	-	-	786,399	786,399
				<u>14,151,095</u>

** All other assets balances in this note excludes prepayments as they do not qualify being financial assets

3.1.4 Concentration of risks of financial assets with credit risk exposure (continued)

2017	Financial institution TZS '000	SME's/ Individuals TZS '000	Other TZS '000	Total TZS '000
Deposits and balances with other banks and financial institutions	1,908,880	-	-	1,908,880
Loans and advances	-	12,551,114	-	12,551,114
Other assets **	-	-	99,299	99,299
				<u>14,559,293</u>

** All other assets balances in this note excludes prepayments as they do not qualify being financial assets

3.1.5 Loans and advances analysis

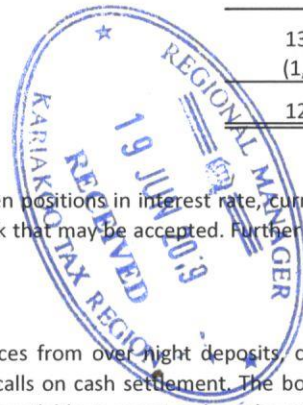
	2018 Loans and advances to customers TZS '000	2017 Loans and advances to customers TZS '000
Neither past due nor impaired	13,060,405	12,607,536
Past due but not impaired	6,211	4,759
Impaired	874,690	928,711
Gross	13,941,306	13,541,006
Less provision for impairment	(1,327,378)	(989,892)
Net	<u>12,613,928</u>	<u>12,551,114</u>

3.2 Market risk

The bank is exposed to market risk. Market risk arises from open positions in interest rate, currency and equity products. The board sets limits and reviews it at regular interval on the risk that may be accepted. Further the exposure is monitored on daily basis.

3.3 Liquidity risk

The bank is exposed to daily calls on its available cash resources from over night deposits, current accounts, maturing deposits, loans drawn and guarantees, from margin and other calls on cash settlement. The board has set limit based on their experience of the minimum proportion of maturing funds available to meet and on the minimum level of inter-bank and other borrowing facility that should be in place to cover withdrawals at unexpected levels of demand.



3 RISK MANAGEMENT (Continued)

3.4 Interest rate risk

The bank is exposed to various risk associated with the effect of fluctuation in the prevailing levels of market interest rates on its financial position and cash flow. The bank has the discretion to change the rate on deposits, loans and advances in line with the changes in market trend. These measures minimise the bank's exposure to interest rate risk.

3.5 Currency risk

The bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate. The bank is involved in foreign currency market only to the extent of buying and selling to the extent of required currency. The bank is not involved in foreign currency forward contracts and thus the risk is limited.

3.6 Operational risks

Operational risk is the risk of direct or indirect loss arising from a variety of causes associated with the bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market, liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from all the bank's activities.

The bank's objective is to manage the operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiate and creativity.



Annexure to note 3.3

Table showing Liquidity risk position

The table below analyses the bank's assets and liabilities into relevant maturity groupings based on the remaining period at 31st December, 2018 to the contractual maturity date. All figures are in thousands of Tanzania Shillings.

Particulars	Up to 1 month TZS '000	1 to 3 months TZS '000	3 to 6 months TZS '000	6 to 12 months TZS '000	1 to 2 years TZS '000	2 to 3 years TZS '000	3 to 5 years TZS '000	Over 5 years TZS '000	Total TZS '000
ASSETS									
Cash	273,805	-	-	-	-	-	-	-	273,805
Balance with Bank of Tanzania	107,999	-	-	-	-	-	-	-	107,999
Balances with other banks and financial institutions	642,769	-	-	-	-	-	-	-	642,769
Loans, advance and overdrafts	-	12,613,928	-	-	-	-	-	-	12,613,928
Bank premises, furniture & equipment	-	-	-	-	-	-	440,883	-	440,883
Other assets	-	873,260	-	-	-	-	-	-	873,260
Total Assets	1,024,573	13,487,188	-	-	-	-	440,883	-	14,952,645
LIABILITIES									
Savings deposits	-	1,198,826	-	-	-	-	-	-	1,198,826
Special deposits	-	-	-	1,034,089	-	-	-	-	1,034,089
Borrowings	-	-	-	4,000,000	-	-	-	-	4,000,000
Accrued expenses & other expenses	932,629	-	-	-	18,898	-	-	-	932,629
Other liabilities	-	-	-	-	-	-	-	-	18,898
Shareholders' funds	-	-	-	-	-	-	7,768,203	-	7,768,203
Total Liabilities	932,629	1,198,826	-	5,034,089	18,898	-	-	7,768,203	14,952,645
NET LIQUIDITY GAP	91,944	12,288,362	-	(5,034,089)	(18,898)	-	440,883	(7,768,203)	-



Annexure to note 3.4**Table showing Interest sensitivity gap**

The table below analyses the bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The bank does not bear an interest rate on off balance sheet items. All figures are in thousands of Tanzania Shillings.

Particulars	Up to 1 month TZS '000	1 to 3 months TZS '000	3 to 6 months TZS '000	6 to 12 months TZS '000	Over 1 years TZS '000	Non interest bearing TZS '000	Total TZS '000
ASSETS							
Cash	-	-	-	-	-	273,805	273,805
Balance with Bank of Tanzania	107,999	-	-	-	-	-	107,999
Balances with other banks and financial institutions	642,769	-	-	-	-	-	642,769
Loans, advances and overdrafts	-	12,613,928	-	-	-	-	12,613,928
Bank premises, furniture & equipment	-	-	-	-	-	440,883	440,883
Other assets	-	-	-	-	-	873,260	873,260
Total Assets	750,768	12,613,928	-	-	-	1,587,948	14,952,645
LIABILITIES							
Savings deposits	1,198,826	-	-	-	-	-	1,198,826
Special deposits	-	-	-	-	-	1,034,089	1,034,089
Borrowings	-	-	500,000	-	3,500,000	-	4,000,000
Accrued expenses & other expenses	-	-	-	-	-	932,629	932,629
Other liabilities	-	-	-	-	-	18,898	18,898
Shareholders' funds	-	-	-	-	-	7,768,203	7,768,203
Total Liabilities	1,198,826	-	500,000	-	3,500,000	9,753,819	14,952,645
INTEREST SENSITIVITY GAP	(448,058)	12,613,928	(500,000)	-	(3,500,000)	(8,165,871)	-



4. CAPITAL MANAGEMENT

The bank's objectives when managing capital, which is broader concept than the 'equity' on the face of the balance sheet, are:

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

Capital adequacy and the use of regulatory capital are monitored daily by the bank's Management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania (BOT), for supervision purposes. The required information is filed with the BOT on a quarterly basis.

The Bank of Tanzania (BOT) requires each bank to:

- Hold a minimum level of core capital of Tzs. 5 billion;
- Maintain a ratio of core capital to the risk weighted assets plus risk weighted off balance sheet items at or above the required minimum of 10%; and
- Maintain total capital of not less than 12% of risk weighted assets plus risk weighted off balance sheet items.

The bank's regulatory capital as managed by its management is divided into two tiers:

Tier 1 capital: Share capital, retained earnings and reserves created by appropriation of retained earnings. Prepaid expenses and deferred charges are deducted in arriving at Tier 1 capital.

Tier 2 capital: Qualifying subordinate loan capital, collective impairment allowances and unrealized gains arising on the fair valuation of equity instruments held as available for sale.

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

The table below summarises the composition of regulatory capital and the ratios of the bank for the period ending on 31st December 2018 and 31st December 2017 :

	2018 TZS '000	2017 TZS '000		2018	2017
Tier 1 capital					
Share capital	6,056,497	6,056,497			
Retained earnings	1,511,458	1,847,449			
Less: Prepaid expenses	(86,861)	(46,560)			
Less: Intangible assets	(57,905)	(107,188)			
Total qualifying Tier 1 Capital	7,423,189	7,750,198			
Tier 2 capital					
General risk reserve	130,555	124,847			
Total qualifying Tier 2 Capital	7,553,744	8,164,208			
Total regulatory capital	7,553,744	8,164,208			
Risk weighted assets					
On balance sheet	13,364,696	14,459,994			
Off balance sheet	nil	nil			
Total risk weighted assets	13,364,696	14,459,994			
			BOT Required Ratio	Bank's ratio %	Bank's ratio %
Tier 1 capital			10%	45%	42%
Tier 2 capital			12%	57%	54%



	2018 TZS '000	2017 TZS '000
5 INTEREST INCOME		
Interest on loans and advances	4,997,484	4,569,487
Interest on fixed deposits	29,915	273,022
	5,027,399	4,842,509
6 INTEREST EXPENSE		
Interest on customer deposits	38,073	22,366
Interest on loans	366,500	290,419
	404,573	312,785
7 IMPAIRMENT CHARGE		
(Decrease)/increase in impairment charge	79,869	(19,995)
8 FEES & COMMISSION		
Commission earned	71,844	10,268
Fees	546,076	590,657
	617,919	600,925
9 OTHER OPERATING INCOME		
Yosef grant	193,104	135,820
Recoveries	22,989	133,411
	216,093	269,231
10 EMPLOYEE BENEFITS EXPENSE		
Salaries and wages	1,552,354	1,322,652
Pension fund	121,783	132,266
NHIF medical employer contribution	26,575	28,198
Staff life insurance	18,714	16,237
Staff welfare	18,035	2,110
Staff leave allowance	118,725	153,735
Performance bonus	6,500	7,500
Management fuel	10,700	-
Staff transfer	17,486	-
Staff communication	30,730	-
Staff gratuity	12,867	27,130
	1,934,470	1,689,828
11 OPERATING EXPENSES		
Audit fee	42,480	38,639
Workers compensation fund	11,532	13,244
Public relation and social responsibilities	4,546	5,980
Staff training	98,536	56,290
Printing and stationary	142,066	71,419
Repair and maintenance	78,627	43,111
Telephone and postage	6,048	-
News paper expense	3,517	2,995
Legal and consultation fee	88,031	25,743
Travel expenses	188,257	116,684
Board meeting expense	24,767	23,920
Consumables	87,232	63,217
Security expenses	166,951	80,690
Sub total carried forward	942,589	541,932



	2018 TZS '000	2017 TZS '000
11 OPERATING EXPENSES (continued)		
Balance brought forward	942,589	541,932
Skill Development Levy	55,477	57,446
Subsistence expenses	-	2,424
Contribution and Subscription	13,912	3,049
Repair and maintenance vehicles	17,711	17,760
Fuel	32,185	32,963
Field transport	339,009	266,827
Marketing activities expenses	69,579	105,490
Client training	1,656	3,335
Service levy	1,200	-
Workshop and seminars	5,200	4,700
Computerization expenses	386,011	301,490
Automotive insurance	3,837	6,967
Recruitment of staff expenses	16,912	-
Annual general meeting costs	6,343	-
TRA project expense	22,476	-
Rent	115,159	147,081
Utility expenses	58,139	48,914
Bank charges	3,399	6,397
Mobile banking operation cost	2,775	7,115
Publication and compliance expenses	16,607	4,101
Licence and compliance	38,243	49,373
ICT consumable	15,650	50,356
Special duty and overtime	19,752	1,700
Fire insurance	-	1,180
Other expenses	4,754	16,299
Atm rental fee	86,224	8,930
Fines and penalties	7,973	-
Loan life insurances	23,407	60,881
Cash insurance	29,849	18,048
Loan fees and commissions expenses	10,005	25,112
	2,346,031	1,789,871
12 TAXATION		
Income tax expense/(credit)		
The bank is still newly listed on the Dar Es Salaam Sock Exchange hence tax rate applied is 25%		
Current income tax @ 25%	259,258	439,671
Deferred tax expense/(credit)	882	72,300
	260,140	511,971
Income tax reconciliation		
The tax on the bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:		
Profit/(loss) before income tax	968,169	1,811,955
Tax calculated at a tax rate of 25%	242,042	452,989
Effect of (Non-deductible) / non-taxable items	18,098	58,982
	260,140	511,971



YETU MICROFINANCE BANK PLC
Notes to the financial statements (Continued)
For the year ended 31st December 2018

	2018 TZS '000	2017 TZS '000
13 CASH BALANCES		
Cash on hand	273,805	365,395
14 BALANCE WITH BANK OF TANZANIA		
Current account/clearing account	107,999	-
15 DEPOSITS AND BALANCES DUE FROM OTHER BANKS AND FINANCIAL INSTITUTIONS		
Banks in Tanzania	592,769	858,880
Money market placements	50,000	1,050,000
	642,769	1,908,880
16 LOANS & ADVANCES TO CUSTOMERS (NET)		
Groups and individuals loans	13,651,068	13,237,155
Staff loans	290,238	303,851
	13,941,306	13,541,006
Less: Provision for impairment	(1,327,378)	(989,892)
	12,613,928	12,551,114
Maturity analysis		
With maturity of 3 months or less	1,109,403	998,776
With maturity of between 3 months and 1 year	9,285,719	9,554,786
With maturity of more than 1 year	2,218,806	1,997,552
	12,613,928	12,551,114
Maturity analysis is based on the remaining periods to contractual maturity from year end		
The movement in allowance for impairment of loans and advances by class is as follows;		
	2018 TZS '000	2,017 TZS '000
	Portfolio	Portfolio
At 1 January	989,892	1,009,887
Effect on implementation of IFRS 9	324,938	-
Current year charge	79,869	(19,995)
Current year write off	(67,321)	-
At 31 December	1,327,378	989,892
17 OTHER ASSETS		
Mobile bank	180,863	67,789
Prepaid expenses and staff advance	86,861	46,560
Others	605,536	156,813
	873,260	271,162



18 PROPERTY, PLANT AND EQUIPMENT

	Computers & accessories TZS '000	Electrical equipment TZS '000	Furniture & fittings TZS '000	Automotive TZS '000	Total TZS '000
Cost					
At 1 January 2017	80,926	334,388	127,549	16,136	558,998
Additions	102,897	19,311	20,825	-	143,033
At 31 December 2017	183,823	353,699	148,374	16,136	702,031
At 1 January 2018	183,823	353,699	148,374	16,136	702,031
Additions	17,206	30,643	16,868	-	64,717
At 31 December 2018	201,028	384,342	165,242	16,136	766,749
Depreciation					
At 1 January 2017	61,084	134,110	42,384	6,556	244,134
Charge for the year		33,525	5,298	1,639	60,620
At 31 December 2017	81,242	167,635	47,682	8,195	304,754
At 1 January 2018	81,242	167,635	47,682	8,195	304,754
Charge for the year	37,104	25,670	13,339	2,904	79,016
At 31 December 2018	118,346	193,305	61,021	11,099	383,770
Net Book Value					
At 31 December 2018	82,683	191,037	104,222	5,037	382,978
At 31 December 2017	102,581	186,064	100,692	7,941	397,277

	2018 TZS '000	2017 TZS '000
19 INTANGIBLE ASSETS		
Cost		
At 1 January	379,645	379,645
Addition	-	-
At 31 December	379,645	379,645
Accumulated amortization		
At 1 January	272,457	204,855
Charge for the year	49,283	67,602
At 31 December	321,740	272,457
Net book value	57,905	107,188
20 CUSTOMERS' DEPOSITS		
Loan guarantee group special deposits	1,034,089	2,427,458
Savings deposits	1,198,826	922,323
	2,232,915	3,349,781
21 OTHER LIABILITIES		
Accrued expenses payable	111,024	33,675
Accrued interest payable	-	2,812
Dividends payable	782,347	141,988
	893,371	178,475



	2018 TZS '000	2017 TZS '000
22 TAX PAYABLE		
Opening balance	152,171	80,622
Tax paid during the year	(372,171)	(368,122)
Less: tax charge for current year	259,258	439,671
	39,258	152,171

23 BORROWINGS		
BOT Loan	3,500,000	3,500,000
SELF Microfinance Fund	500,000	150,000
	4,000,000	3,650,000
Current	500,000	150,000
Non current	3,500,000	3,500,000

BOT Loans

Purpose

To finance housing microfinance business activities of the bank

Loan 1 from BOT amounts to -Tshs 2 billion for 60 months from 31 July 2016 to 27 July 2021 bearing an interest rate of 10% payable on a quarterly basis

Loan 2 from BOT amounts to -Tshs 1,5 billion for 60 months from 22 September 2017 to 21 September 2022 bearing an interest rate of 10%. This rate will accrue on a daily basis and be payable on a quarterly basis effective from 21 December 2017.

Security

The loans are secured all time by specific debenture on Yetu Microfinance Bank Plz's performing loan portfolio with a value of at least 125% of the loan amount granted.

SELF Microfinance Fund

Purpose

To microfinance business activities of the bank in Dar es Salaam.

The loan is repayable within 10 months ending 31 March 2019 bearing interest rate of 11% per annum

24 DEFERRED TAX LIABILITY/(ASSETS)		
Balance at the beginning of the year	18,016	(54,284)
Charge/(credit) for the year	882	72,300
Balance at the end of the year	18,898	18,016
The deferred tax liability/(asset) arises from:		
Accelerated capital allowance	18,898	13,017
Other timing differences	-	4,999
	18,898	18,016



	2018 TZS '000	2017 TZS '000
25 SHARE CAPITAL		
Authorized:		
60,000,000 ordinary shares of Tzs 500 each	<u>30,000,000</u>	<u>30,000,000</u>
Issued and fully paid up:		
12,112,893 ordinary shares of Tzs 500 each	<u>6,056,497</u>	<u>6,056,497</u>
26 CASH AND CASH EQUIVALENTS		
Cash balance	273,805	365,395
Balance with Bank of Tanzania	107,999	-
Deposits and balances due from other banks	592,769	858,880
Financial institution maturing within 3 months	<u>50,000</u>	<u>1,050,000</u>
	<u>1,024,573</u>	<u>2,274,275</u>
27 RELATED PARTY TRANSACTIONS		
<p>The bank has related party relationships with its shareholders who own, directly or indirectly, 10% or more of its share capital or those shareholders who control in any manner, the election of the majority of the Directors of the Company or have the power to exercise controlling influence over the management or financial and operating policies of the bank. Key management is also part of related parties of the bank</p> <p>Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.</p> <p>27.1 Transactions with key management personnel</p> <p>Key management of the bank are the executive members of bank's Board of Directors and those persons having authority and responsibility for planning, directing and controlling the activities of the bank, directly or indirectly. Key management personnel remuneration includes the following expenses:</p>		
Salaries and other short-term benefits	365,123	293,750
Post-employment benefits – Social security costs	<u>19,172</u>	<u>18,815</u>
	<u>384,295</u>	<u>312,565</u>
28 CONTINGENT LIABILITIES		
There are no contingent liabilities as at balance sheet date.		
29 EVENTS AFTER THE REPORTING DATE		
There were no conditions after the statement of financial position date that had material impact to the financial statements		
30 CORE CAPITAL		
Issued and fully paid up capital	6,056,497	6,056,497
Retained earnings	1,511,458	1,847,449
Prepayments	(86,861)	(46,560)
Intangible assets	<u>(57,905)</u>	<u>(107,188)</u>
	<u>7,423,189</u>	<u>7,750,198</u>



31 INCORPORATION

The bank is incorporated as a limited liability company under the Tanzanian Companies Act, 2002.

32 CURRENCY

These financial statements are presented in Tanzanian Shillings (Tzs. '000) unless otherwise stated.

33 COMPARATIVES

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

