

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

Opinion

We have audited the financial statements of Yetu Microfinance Bank Plc, which comprise the statement of financial position as at 31 December 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 18 to 51.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Yetu Microfinance Bank Plc as at 31 December 2020 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and complies with the requirements of Company's Act 2002, and the Banking and Financial Institutions Act, 2006.

Basis for Opinion

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

Key audit matter	How my audit addressed the key audit matter
There is a risk of error in accounting for expected credit losses (ECLs) of the Bank's financial assets. Management's estimate of ECLs involves exercise of significant judgment in relation to probability of default (PD), loss given default (LGD), determining values of collateral valuation. This area is also susceptible to bias; Credit quality and risk management processes are continuously evaluated by the	Our response for loans included: - Assessing and testing the design and operating effectiveness of the controls over credit origination, monitoring including controls changed resulting from application of IFRS 9; - Assessing whether the Bank's credit policies are aligned with IFRS 9; - Evaluating, through our Financial Risk Management (FRM) specialists, the appropriateness of the Bank's IFRS 9 expected credit losses model; - Assessing, through our Information Risk Management (IRM) specialist, the completeness, accuracy and validity of data and inputs used in the computation of ECLs provision;

- Bank of Tanzania giving rise to a risk of non-compliance; and
- The model developed for the computation of the expected credit losses might not be applied correctly, and or data inputs may not be complete and accurate.

- Using available external and independent information to confirm management's assumptions and judgments in determining ECLs provision.
- For default loans, evaluating the feasibility of future cash flow forecasts prepared by management, validating the assumptions made, and comparing the estimates to external evidence where available;
- For a sample of loans and advances, evaluating the regulatory credit risk grade to determine whether regulatory impairment was calculated based on an appropriate grading;
- Using our data analysis tools to analyses the loan book data in performing our risk assessment; and
- Considering the adequacy of the Bank's disclosures in respect of ECLs provision.

We conclude that the risks observed have been materially reduced by the IFRS 9 Model implemented by management reasonably which covers all the requirements of the IFRS 9 standard i.e. assumption and estimates used of ECLs involve the exercise of significant judgment in relation to probability of default (PD), loss given default (LGD), discount rates used to discount collaterals, credit ratings and classification of IFRS 9 financial assets scope.

Other Information

Management is responsible for the other information. The other information comprises the information included in Directors' reports and the declaration of the Head of Finance, but does not include the financial statements and our audit reports thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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 I 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.

Directors' Responsibility for the Financial Statements

The management is responsible for the preparation of the financial statements that present a true and fair view in accordance with International Financial Reporting Standards (IFRSs) and for such internal control as the management determines 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 management is 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 management either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibility

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 (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;
- Conclude on the appropriateness of management's 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 organization'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; and
- 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.

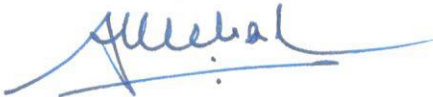
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

As required by companies' Act 2002, we report to you, based on our audit, 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 books of account have been kept by the Bank, so far as appears from our examination of those books; and
- iii. the Bank's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Yours faithfully,



CPA, Allan Mchaki – FCPA 140
For and on behalf of HLB MEKONSULT
Certified Public Accountants
Dar es Salaam

Date: 08/04/2021

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YETU MICROFINANCE BANK PLC
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020**

		2020 TZS '000	2019 TZS '000
	Notes		
Interest income	6	4,013,186	4,969,115
Interest expense	7	(800,676)	(586,723)
Net interest income		<u>3,212,510</u>	<u>4,382,392</u>
Loan impairment reversal/ (charge)	16	(53,204)	196,143
Net interest income after loans impairment		<u>3,159,306</u>	<u>4,578,535</u>
Non-interest income			
Fees & commission	8	539,365	588,483
Other operating income	9	161,381	107,202
Net Operating Income		<u>3,860,053</u>	<u>5,274,220</u>
Operating expenses			
Employee benefits expense	10	(2,279,724)	(2,344,063)
Depreciation and amortization	18 & 19	(230,534)	(213,125)
Fees and Commission		(30,000)	
Administrative and operating expense	11	(1,634,180)	(1,920,873)
Total operating expenses		<u>(4,174,438)</u>	<u>(4,478,061)</u>
Profit before taxation		<u>(314,386)</u>	<u>796,159</u>
Income tax expense	12	(259,442)	(114,782)
Profit for the year		<u>(54,944)</u>	<u>681,377</u>
Other Comprehensive Income		-	-
Total comprehensive income		<u>(54,944)</u>	<u>681,377</u>

Notes on page 18 to 51 form integral part of these financial statements.

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YETU MICROFINANCE BANK PLC
STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

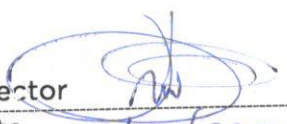
		2020	2019
	Notes	TZS '000	TZS '000
ASSETS			
Cash and cash equivalent	13	1,209,570	352,173
Balance with Bank of Tanzania	14	229,958	268,200
Balances with other banks	15	102,062	1,331,810
Loans and advances (Net)	16	15,449,608	15,710,85
Other assets	17	859,333	824,772
Property & equipment	18	530,132	301,013
Intangible assets	19	421,919	349,131
Deferred tax asset	24	701,445	442,003
Total assets		19,504,027	19,579,956
Equity and Liabilities			
Customer deposits	20	3,764,278	4,140,709
Other liabilities	21	176,774	409,097
Borrowings	23	7,000,000	6,500,000
Income Tax payable	12	-	7,165
Deferred tax liability	24	-	-
Deferred grants		-	64,446
Total liabilities		10,941,052	11,121,417
Shareholders' Equity			
Share capital	25	6,056,497	6,056,497
Retained earnings		2,439,473	2,332,349
YOSEFO Capital Grant		-	69,693
Other capital accounts		67,005	-
Total shareholders' equity		8,562,976	8,458,539
Total equity and liabilities		19,504,027	19,579,956

Notes on page 18 to 51 form integral part of these financial statements.

Report of the Auditors - Page 10 and 13.

The financial statements on pages 14 to 17 were approved by the board of directors on and signed on its behalf by:

Chairman 
Date 08/04/2021

Director 
Date 08/04/2021

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

	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
Restated balance at 1 January 2019	6,056,497	130,555	-	69,693	1,511,458	7,768,203
Transfer to retained earnings	-	(130,555)	-	-	130,555	-
Deferred tax asset understated last year	-	-	-	-	433,776	433,776
Total comprehensive income for the year	-	-	-	-	681,377	681,377
Dividend paid	-	-	-	-	(424,817)	(424,817)
Balance at 31st December 2019	<u>6,056,497</u>	<u>-</u>	<u>-</u>	<u>69,693</u>	<u>2,332,349</u>	<u>8,458,539</u>
Restated balance at 1 January 2020	6,056,497	-	-	69,693	2,332,349	8,458,539
Transfer to retained earnings	-	-	-	-	-	-
Transferred to income	-	-	-	-69,693	(54,944)	(69,693)
Total comprehensive income for the year	-	-	-	-	434,618	(314,386)
Prior year adjustment	-	-	-	-	(272,551)	(7,384)
Dividend paid	-	-	-	-	(272,551)	(272,551)
Balance at 31st December 2020	<u>6,056,497</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,439,473</u>	<u>8,562,975</u>

Notes on page 18 to 51 form integral part of these financial statements

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YETU MICROFINANCE BANK PLC

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 TZS '000	2019 TZS '000
Cash flows from operating activities		
Profit before tax	(314,385)	796,159
Adjustments for:		
Prior year adjustment – (deferred income)	442,003	-
Depreciation	230,534	213,125
Net cash flow before changes in working capital	358,152	1,009,285
Changes in working capital:		
Increase in loans and advances to customers	261,246	(3,096,926)
Decrease/(increase) in other current assets	(34,561)	48,488
Increase/(decrease) in customer deposits	(376,431)	1,907,794
(Decrease)/increase in other creditors	(232,323)	(484,274)
Cash generated from operations before tax	23,917	(615,634)
Income tax paid	(150,000)	(174,000)
Net cash flow from operating activities	(173,917)	(789,634)
Cash flows from investing activities		
Purchase of property & equipment	(331,155)	(422,386)
Purchase of intangible	(201,288)	-
Net cash used in investing activities	(532,442)	(422,386)
Cash flows from financing activities		
Proceeds from borrowings	500,000	2,500,000
Repayment of borrowings	-	-
Utilization / deferred capital Grant	68,319	-
Dividends paid	(272,551)	(424,817)
Grant received	-	64,446
Net cash generated from financing activities	295,768	2,139,629
Net cash flow for the period	(410,592)	927,609
Cash and cash equivalents as at 1st January	1,952,183	1,024,573
Cash and cash equivalents as at 3^{1st} December	1,541,590	1,952,183

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