YETU MICROFINANCE BANK PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

YETU MICROFINANCE BANK PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

CONTENTS

CORPORATE INFORMATION

Yetu Microfinance Bank PLC was incorporated in December 2013 in the United Republic of Tanzania under the Companies Act, Cap 212, Act No.12 as Microfinance Company and later in February 2017 changed to a Public Company Limited by Shares after securing a banking license. The bank is listed on the Dar es Salaam Stock Exchange since 2016.

Registered Office	Mkunazini Building, Kidongo Chekundu, P.O. Box 75379, Dar es Salaam, Tanzania.
Company Secretary	Miss. Joyceline Kobero
Bankers	NMB Bank, Bank House, P. O. Box 9213, Dar Es Salaam. Bank of Africa, NDC Branch, P.O. Box 3054, Dar Es Salaam. Mkombozi Bank, St. Joseph Branch, P. O. Box 38448, Dar es Salaam.
Independent Auditors	HLB MEKONSULT, Certified Public Accountants, 2nd Floor, Acacia Estates, Plot. No. 84, Kinondoni Road, P.O. Box 20651, Dar es Salaam.

YETU MICROFINANCE BANK PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Introduction

The directors present their report and audited financial statements for the year ended 31 December 2020 which disclose the state of affairs of Yetu Microfinance Bank Plc (Bank).

2. Incorporation

The Bank was incorporated on 23 December 2013 under Companies Act, 2002 with Certificate of incorporation Number SO.104761 as Yetu Microfinance Limited. On 8 October 2014 the Bank was transformed into a public limited company hence the name was changed to Yetu Microfinance Bank 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 20 January 2017.

3. Vision

To become a leader for the lower end market in the financial sector

4. Mission

To help in improving financial inclusion and provide exceptional value to our clients and maintain interests of key stakeholders.

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 mortar branches and mobile banking.

6. Capital structure

	TZS
The bank's capital structure for the year ended is as disclosed below;	
Authorized share capital	30 billion
Issued and fully paid-up, share per value TZS, 500	6.056 billion

7. Capital structure and shareholding of the Bank

The Capital structure and shareholding position of the Bank as at 31 December 2019 are 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**	

8. Directors

The directors of the Bank at the date of this report and who have served since January 2019, except as otherwise stated are:

Name	Position	Age	Discipline	Nationality	Date appointed
Mr. Ernest K. Ndimbo	Chairman	68	Economist	Tanzanian	20th February 2017
Mr. Altemius Millinga	Managing Director	61	Economist	Tanzanian	20th February 2017
Mrs.Dr. Esther Rossiner Mbise	Non-Executive Director	64	Lecturer	Tanzanian	20th February 2017
Mrs. Happy Sambega	Non-Executive Director	56	Accountant	Tanzanian	20th February 2017
Mr. Cornelius Kariwa	Non-Executive Director	59	Advocate	Tanzanian	20th February 2017
Mr. Danford Mbilinyi	Non-Executive Director	49	ICT Expert	Tanzanian	20th February 2017
Mr. Valentine Vedasto	Non-Executive Director	35	Economist	Tanzanian	20th February 2017
Mr Philippe Massebiau	Non-Executive Director	30	Business& Finance	France	20th February 2020

Director's interest in the Bank

Directors who held interests in the Bank and their respective shareholdings as disclosed below:

Name	Number of shares held
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	2,000
Mr. Valentine Vedasto	200
	1,018,954

9. 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.

REPORT OF THE DIRECTORS (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.

9. Corporate Governance (Continued)

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 meetings	No. of meetings attended	% attendance
Mr. Ernest K. Ndimbo	Chairman	9	8	89
Mr. Altemius Millinga	Managing Director	9	9	100
Mrs. Esther Mbise	Director	9	8	89
Mrs. Happy Sambega	Director	9	7	78
Mr. Cornelius Kariwa	Director	9	6	67
Mr. Danford Mbilinyi	Director	9	7	78
Mr. Valentine Vedasto	Director	9	8	78
Mr Philipe Massebiau	Director	9	6	67

The bank is committed to the principles of effective corporate governance. More particularly, the directors recognize 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

There were Four (4) audit committee meetings conducted during the year and were attended by the respective members as follows:

Name	**Position**	**Total Meetings**	**No. of meetings attended**
Happy Sambenga	Chairman	4	4
Valentine Vedasto	Member	4	4
Philippe Massebiau	Member	4	4

Credit/Risk/IT Committee

There were three (3) credit/Risk/IT committee meetings conducted during the year and were attended by the respective members as follows:

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

10. Management Team

The Management of the Bank is led by the managing director assisted by the management team. The management team of the Bank as at year end and throughout the year is made of the following:

- Managing Director;
- Finance Manager;
- Chief Internal Auditor,
- Credit Manager, and
- ICT Manager.

11. Internal Audit Function

The Bank has established an independent internal audit function reporting to the audit committee. The Acting chief internal auditor of the bank is Mr Humphrey Darson Singogo.

12. Future Outlook

The Bank will continue to grow in terms of increase in total assets, loan portfolio, and number of customers and experience geographical expansion to provide good returns to 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 by skilled staff as a 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.

13. 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 fin scope 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% therefore the room for expansion and reaching more people does exist.

14. Performance for the year

The bank performance for the year ended 2020 was good in terms of total assets, loan portfolio and geographical outreach, maximization of uses of technology for financial delivery and optimization of use of resources.

15. Dividend

In 2019 the bank declared its first dividend of TZS 22.5 per share.

16. Staff Welfare

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

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

17. Training

During the year 2020, YETU Microfinance Bank PLC invested in staff development aimed at improving the company's performance and understanding prudential regulations.

18. 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 Bank throughout the period ended 31 December 2020 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 on continuous basis.

19. Related Party Transactions

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

20. Political Donations

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

21. 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.

22. Relationship with Stakeholders

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

23. 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.

24. Auditors

HLB MEKONSULT were appointed as auditors for the year ended 31 December 2020. The auditors have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of HLB MEKONSULT as auditors of the Bank will be put to the annual general meeting.

By Order of the Board;

Chairman	**Director**
Date	**Date**

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

The Companies Act, 2002 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of the financial affairs of the Bank as at the end of the financial year and of its financial results for the year then ended. It also requires the Directors to ensure the Bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors are responsible for the preparation of the financial statements that give true and fair view in accordance with the International Financial Reporting Standards, and in manner required by the Companies Act, 2002; the Banking and Financial Institutions Act, 2006; National Board of Accountants and Auditors Technical Pronouncements and for such internal controls as Directors determine are necessary to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or error.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act, 2002; the Banking and Financial Institutions Act, 2006; and National Board of Accountants and Auditors Technical Pronouncements.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

The financial statements set out on pages 14 to 51, which have been prepared on the going concern basis, were approved by the board of directors on ______________ and were signed on their behalf by:

Chairman	**Director**
Date	**Date**

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

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

It is the duty of a professional accountant to assist the 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 as under director's responsibility statement on the earlier page.

I, …………………………………………. being the head of finance of Yetu Microfinance Bank Plc hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2020 have been prepared in compliance with International Financial Reporting Standards (IFRSs) and Tanzania companies Act, 2002.

I thus confirm that the financial statements present a true and fair view position of Yetu Microfinance Bank Plc on that date and that they have been prepared based on properly maintained financial records.

Name: ____________________________________

Signed: ____________________________________

Date ____________________________________

Position: ____________________________________

NBAA Membership No: ____________________________________

HLB MEKONSULT
Audit | Advisory | Tax

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 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.	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; • 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:…………………………...2021

YETU MICROFINANCE BANK PLC

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

	Notes	2020 TZS '000	2019 TZS '000
Interest income	6	4,013,186	4,969,115
Interest expense	7	(800,676)	(586,723)
Net interest income		**3,212,510**	**4,382,392**
Loan impairment reversal/ (charge)	16	(53,204)	196,143
Net interest income after loans impairment		**3,159,306**	**4,578,535**
Non-interest income			
Fees & commission	8	539,365	588,483
Other operating income	9	161,381	107,202
Net Operating Income		**3,860,053**	**5,274,220**
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		**(4,174,438)**	**(4,478,061)**
Profit before taxation		**(314,386)**	**796,159**
Income tax expense	12	(259,442)	(114,782)
Profit for the year		**(54,944)**	**681,377**
Other Comprehensive Income		-	-
Total comprehensive income		**(54,944)**	**681,377**

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

Report of the Auditors – Page 10 and 13

YETU MICROFINANCE BANK PLC

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Notes	2020 TZS '000	2019 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 ______________________ **Director** ------------------------------

Date **Date**

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

	Share capital	General reserve	Regulatory reserve	YOSEFO capital grant	Retained earnings	Total equity
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	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	**6,056,497**	**-**	**-**	**69,693**	2,332,349	8,458,539
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		(69,693)
Capita Grant				67,005		67,005
Total comprehensive income for the year	-	-	-	-	(54,944)	(54,944)
Prior year adjustment					434,618	434,619
Dividend paid	-	-	-	-	(272,551)	(272,551)
Balance at 31st December 2020	**6,056,497**	**-**	**-**	**-**	**2,439,473**	**8,562,975**

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

Report of the Auditors – Page 10 and 13

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**

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

Report of the Auditors – Page 10 and 13

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

1. General Information

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

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 mortar branches and mobile banking. The main activity for 2020 was delivery of microfinance loans.

2. Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss (FVPL) and debt and equity instruments at fair value through other comprehensive income (FVOCI) all of which have been measured at fair value.

2.1 Statement of compliance

The financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB).

2.2 Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item.

Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis except where otherwise explained in the accounting policies in Note 3. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Functional and presentation currency

The financial statements are presented in Tanzania Shillings (TZS) which is the functional currency of the Bank.

3. Summary of significant accounting policies

3.1 Interest income and expenses

The Bank recognizes interest income and expenses for financial instruments measured at amortized cost and interest-bearing financial instruments measured at fair value through other comprehensive income using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

If expectations of fixed rate financial assets or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

IFRS 9 requires that interest income for financial assets classified as Stage 3 be calculated on the net carrying amount (after deducting credit impairments), which will result in a portion of contractual interest being suspended. IFRS 9 requires that this suspended contractual interest be presented as part of the financial assets' gross carrying amount.

3.2 Fees and commissions

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

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Other fees and commission income including processing fees, funds administration fees, tender documents fees, investment management fees are recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

3.3 Taxation

3.3.1 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss, except to that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

3.3.2 Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

3.3.3 Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is provided on temporary differences arising on investments in associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.3.4 Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of value added tax included.

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

3.4 Financial assets and financial liabilities -accounting policies for financial instruments

3.4.1 Financial Asset

Under IFRS 9, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- Amortised cost;
- Fair value through other comprehensive income – OCI;
- Designated at fair value through profit or loss;
- Fair value through profit or loss – default.

IFRS 9 requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

3.4.1.1 Financial assets at amortised cost

A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):

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

Business model assessment

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

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

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

The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered to be minimal and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.

Most of the financial assets of the bank including loans and advances to customer and banks, balances with other banks, financial investments and account receivables are measured at amortised cost.

3.4.1.2 Initial Recognition of financials assets

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Bank commits to purchase (sell) the instruments (trade date accounting).

All Financial assets, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

3.4.1.3 Subsequent measurement of financials

Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

3.4.1.4 Impairment of financial assets

ECL is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a significant increase in credit risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The key methodologies of the impairment methodology are described as follows:

Significant increase in credit risk	At each reporting date, the bank assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. credit risk of exposures which are overdue for more than 5 days is considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The bank's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets: • Significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • A breach of contract, such as default or delinquency in interest and/or principal payments. • Disappearance of active market due to financial difficulties. • It becomes probable that the borrower will enter bankruptcy or other financial reorganization. • Where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the bank would not otherwise consider. Exposures which are overdue for more than 90 days are considered to be in default. This is basing on the bank's risk management framework and DFI regulations.
Forward-looking information	Forward-looking information is incorporated into the bank's impairment methodology calculations and in the bank's assessment of SICR. The bank includes all forward-looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.
Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.

3.4.1.5 The calculation of ECL

The Bank calculates ECL based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate - EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

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

- **The Probability of Default** is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

- **The Exposure at Default** is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

- **The Loss Given Default** is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately. It is usually expressed as a percentage of the EAD.

The measurement basis of the ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information. The mechanics of the ECL method are summarised below; -

STAGE 1	When loans are first recognized, the Bank recognizes an allowance based on 12-month ECL. **Stage 1** loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. The 12-month is calculated as the portion of LTECL that represent the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12-month allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.
STAGE 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk. **Stage 2** loans also include facilities, where the credit risk has improved and the loan has been reclassified from **Stage 3**. When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECL. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
STAGE 3 (CREDIT IMPAIRED ASSETS)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The method is similar to that for Stage 2 assets, with the PD set at 100%. The criteria considered to determining whether the financial asset impaired are default, significant financial difficulty of borrower and/or modification, probability of bankruptcy or financial reorganization and disappearance of an active market due to financial difficulties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

POCI - purchased or originated credit impaired	Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted EIR. the ECL allowance is only recognized or released to the extent that there is a subsequent change in the expected credit losses. the bank only recognizes the cumulative changes in lifetime ECL since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit adjusted EIR.
Loan commitments And letters of Credit	When estimating LTECL for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

Exposure at default was determined by considering the account stage, the number of instalments due and the contractual instalment that was required by the calculated amortization schedule. Both principal and interest amount has been considered for Exposure at Default.

Expected loss on loans to banks, financial investments and significant loans to government institutions have been calculated by considering the current rating of the counterparties, current counterparty's key performance ratios, and then considering the credit rating default spread (PD and LGD) from S&P and Moody's as well as the exposure of the underlying asset.

For financial assets measured at amortised cost (including loan commitments), ECLs are recognised as a deduction from the gross carrying amount of the asset (group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (group of assets), the excess is recognised as a provision within other liabilities.

3.4.1.6 Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the bank changes its business model of managing financial assets, in which case all affected financial assets are reclassified.

Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments

3.4.2 Financial liabilities

Financial liabilities can either be classifies as Held for trading, Designated at fair value through profit and loss and Amortised cost. All financial liabilities of the bank are measured at amortised cost

Financial liabilities are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss.

Subsequently, financial liabilities classified as amortised cost are measured at amortised cost using the effective interest method recognised in interest expense

3.4.3 Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the bank is recognised as a separate asset or liability.

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

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

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

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

A transfer only qualifies for derecognition if either:

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

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

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

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

Modification of financial assets and liabilities

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange

or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognized in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes.

If the terms are not substantially different for financial assets or financial liabilities, the bank recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognized as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).

3.5 Leases (Policy applicable before 1 January 2020)

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Bank as a lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they it is incurred.

3.6 Leases (Policy applicable as of 1 January 2020)

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

Bank as a lessee

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

a. Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are subject to impairment in line with the Bank's policy as described.

b. Lease liabilities

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

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

3.7 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the bank, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate. If the residual value is less than the carrying amount, then the carrying amount should be depreciated over the revised remaining life of the asset on a straight-line basis as follows:

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:

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

Derecognition

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss within “other operating income” in the reporting period that the asset is derecognized.

3.8 Intangible Assets

IAS38 applies for accounting of intangible assets. Intangible assets include brands, customer lists, internally generated software, licenses and other contracts and core deposit intangibles. They are initially recognized when they are separable or arise from contractual or other legal rights, the cost can be measured reliably and, in the case of intangible assets not acquired in a business combination, where it is probable that future economic benefits attributable to the assets will flow from their use.

The intangible asset is carried at cost less accumulated amortization over the estimated useful life of the asset.

3.9 Cash and Cash Equivalents

Cash and cash equivalents are short term highly liquid investments that are readily convertible to known amount of cash and which are subject to insignificant risk of changes in value. Cash and cash equivalents are carried in the statement of financial position at face value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.10 Borrowings and customer deposits
Borrowings are recognized initially at fair value, generally being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost and interest is recognized over the period of the borrowing using the effective interest method.

3.11 Provisions
Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation

3.12 Translation of Foreign Currencies
The financial statements are presented in Tanzanian Shillings, which is the bank's functional and presentation currency. All foreign currency transactions are translated into Tanzanian Shillings using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions during the year and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end are recognized in profit or loss.

3.13 Related Party Transactions
Unless otherwise disclosed, all transactions with related parties are on an arm's length basis at market related prices. Since TABD is a state-controlled Corporation, it also has a related party relationship with all other state-controlled Corporations.

Transactions with Key Management Personnel

Key management personnel compensations are included under staff costs. None of the key management personnel had or has any significant influence with any entity with whom the Bank has had significant transactions with.

3.14 Comparatives
Where necessary, comparative previous year's figures have been re-arranged/adjusted to conform to changes in presentation in the current year.

3.15 New standards and interpretations
In these financial statements, the Bank has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described on this notes discloser Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the Bank's financial statements.

The new and amended standards and interpretations are effective for annual periods beginning on or after 1 January 2020, unless otherwise stated. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3.15.1 Adoption of new and amended standards effective for the current financial year

3.15.1.1 IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for

the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Bank is the lessor. IFRS 16.62.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2020. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Bank elected to use the transition practical expedient to not reassess whether a contract is or contains a lease at 1 January 2020. Instead, the Bank applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The Bank has lease contracts for various branches and IT equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 3.6 for the accounting policy prior to 1 January 2020.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 3.6 for the accounting policy beginning 1 January 2020. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, **except for short-term leases and leases of low-value assets.** The right-of-use assets for most leases are recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets are recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities are recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;

- Relied on its assessment of whether leases are onerous immediately before the date of initial application

- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at 31 December 2020, most of bank leases were of low value, and therefore there was no right of use asses which were recognized.

3.15.1.2 IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately;
- The assumptions an entity makes about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstance.

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the bank is operating only in Tanzania and have few products, tax uncertainties are limited and basing on that, the application of this standard did not have significant impact to the bank financial statements.

3.15.1.3 Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the 'SPPI' criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

Early termination can result from a contractual term or from an event outside the control of the parties to the contract, such as a change in law or regulation leading to the early termination of the contract. Where the prepayment is made at current fair value or at an amount that includes the fair value of the cost to terminate an associated hedging instrument, the Bank assesses the specific contractual cash flows for the relevant debt

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

instruments in order to determine whether they meet the SPPI criterion. These amendments had no impact on the consolidated financial statements of the Bank.

3.15.1.4 IAS 19 Employee Benefits (amendments)

The amendments require a Bank to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are

expected to provide useful information to users of financial Statements. The amendment will be applied retrospectively.

3.15.2 New standards and amended standards issued but not yet effective

The following new or revised standards, amendments and interpretations are not yet effective for the year ended 31 December 2020 and have not been applied in preparing these annual financial statements. The following new or revised standards, amendments and interpretations are not yet effective for the year ended 31 December 2020 and have not been applied in preparing these annual financial statements

IAS 1 Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors (amendments)

Effective date: 1 January 2020 with earlier application permitted

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.

4 FINANCIAL RISK MANANEGEMENT

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

4.1.1 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.

4.1.2 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

4.1.3 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 requests 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.

4.1.4 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.

Impairment and provisioning policies

	31 Dec 2020 Credit risk exposure %	31 Dec 2020 Impairment provision %	31 Dec 2019 Credit risk exposure %	31 Dec 2019 Impairment provision %
Current	92	93	89	-
Especially mentioned			-	2
Substandard	2	3	1	
Doubtful			-	13
Loss	6	4	10	85
	100	**100**	**100**	**100**

4.1.5 Concentration of risks of financial assets with credit risk exposure

The Bank’s credit exposure according to the industry

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2020	**Financial institution**	**SME's/ Individuals**	**Other**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**
Balances with other banks	332,020			332,020
Loans and advances		15,449,607		15,449,607
Other assets **			859,333	859,333
	332,020	**15,449,607**	**859,333**	**16,640,960**

2019	**Financial institution**	**SME's/ Individuals**	**Other**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**
Balances with other banks	1,600,010	-	-	1,600,010
Loans and advances	-	15,710,854	-	15,710,854
Other assets **	.	-	798,299	798,299
	1,600,010	**15,710,854**	**798,299**	**18,109,163**

** Other assets exclude prepayments as they are not within the scope of financial instruments.

4.1.6 Loans and advances analysis

	2020	**2019**
	TZS '000	
Neither past due nor impaired	15,449,607	16,006,321
Past due but not impaired	567,148	184,905
Impaired	617,291	891,520
Gross	**16,634,046**	**17,082,746**
Less provision for impairment	(1,184,438)	(1,131,335)
Net	**15,449,608**	**15,951,411**

4.2 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.

4.3 Liquidity risk

The Bank is exposed to daily calls on its available cash resources from overnight 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.

The table below analyses the Bank's assets and liabilities into relevant maturity groupings based on the remaining period at 31 December, 2019 to the contractual maturity date. All figures are in thousands of Tanzania Shillings

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Liquidity risk position

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 year TZS '000	Total TZS '000
ASSETS						
Cash	1,209,569	-	-	-	-	1,209,569
Balance with Bank other banks	332,020	-	-	-	-	332,020
Loans, advance and overdrafts	-	15,449,607		-	-	15,449,607
Other assets	-	859,333	-		-	859,333
Total Assets	**1,541,589**	**16,308,940**	**-**	**-**	**-**	**17,850,509**
LIABILITIES						
Savings deposits	-	2,246,776	-	-	-	2,246,776
Special deposits	-	-	-	1,517,501	-	1,517,501
Borrowings	-	-	-	-	6,500,000	6,500,000
Accrued expenses & other expenses	-	-	-	-	-	-
						-
Total Liabilities	**-**	**2,246,776**	**-**	**1,517,501**	**6,500,000**	**10,264,277**
NET LIQUIDITY GAP	1,541,589	14,062,162	-	(1,517,501)	(6,500,000)	7,586,232

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4.4 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 table below summarizes exposure to interest risk. Assets and liabilities are categorized by the earliest of contractual reprising or maturity dates, The Bank does not bear interest rate risk on off balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Interest sensitivity gap

Particulars	Up to 1 month TZS '000	1 to 3 months TZS '000	Over 1 years TZS '000	Non-interest bearing TZS '000	Total TZS '000
ASSETS					
Cash	-	-	-	1,209,569	352,173
Balances with other banks	332,020	-	-	-	1,600,010
Loans, advance and overdrafts	-	15,449,607	-	-	15,710,854
Other assets	-	859,333	-	859,333	798,299
Total Assets	**332,020**	**16,308,940**	**-**	**2,068,902**	**18,461,336**
LIABILITIES					
Savings deposits	-	2,246,776	-	-	2,246,776
Special deposits	-	-	-	1,517,501	1,517,501
Borrowings	-	-	6,500,000	-	6,500,000
Accrued expenses & other expenses		-	-	-	409,097
Total Liabilities	**-**	**2,246,776**	**6,500,000**	**(1,517,501)**	**10,318,277**
INTEREST SENSITIVITY GAP	-	14,062,168	(6,500,000)	(1,517,501)	7,532,252

4.5 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.

4.6 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 behavior. 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.

5 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 summarizes the composition of regulatory capital the period ending on 31 December 2020

	2020	2019
	TZS '000	**TZS '000**
Tier 1 capital		
Share capital	**6,056,497**	6,056,497
Retained earnings	2,059,798	2,332,349
	8,116,294	**8,388,846**
Less:		
Prepaid expenses	40,244	26,472
Intangible assets	(531,441)	(349,131)
Deferred tax		(442,003)
Total Tier 1 Capital	**7,624,097**	**8,508,190**
Tier 2 capital		
General risk reserve	-	-
Total regulatory capital	**7,624,097**	**8,415,319**
Risk weighted assets		
On balance sheet	16,640,961	17,310,864
Total risk weighted assets	**16,640,961**	**17,310,864**
Capital adequacy ratios		
Tier 1 capital (BOT Minimum-10%)	**46%**	**49%**
Tier 2 capital (BOT Minimum- 12%)	**46%**	**49%**

6 Interest Income

Interest on loans and advances	4,013,186	4,969,115
Interest on fixed deposits		-
	4,013,186	**4,969,115**

7 Interest Expense

Interest on customer deposits	57,485	66,987
Interest on loans	690,854	519,736
Interest on fixed deposits	52,337	-
	800,676	**586,723**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		2020	2019
		TZS '000	TZS '000
8	**Fees & Commission**		
	Commission earned	58,682	88,271
	Fees	480,683	500,212
		539,365	**588,483**
9	**Other operating income**		
	Yosef grant	-	-
	Recoveries	-	-
	ATM Charge	25,268	19,586
	BCX	41,299	20,622
	Cash withdraw charge	20,080	20,724
	Other Income	47,833	46,270
	UMOJA SWITCH	19,161	
	Deferred income	7,740	
		161,381	**107,202**
10	**Employee benefits expense**		
	Salaries and wages	1,537,511	1,607,023
	Pension fund	153,771	170,581
	NHIF medical employer contribution	46,430	39,219
	Staff life insurance	-	84,011
	Staff welfare	7,319	4,346
	Staff leave allowance	147,979	129,185
	Travelling expenses local business	147,174	142,518
	Management fuel	24,481	7,750
	Staff transfer	7,184	13,704
	Staff communication	51,398	56,873
	Staff gratuity	31,712	48,346
	Staff Training Local	5,448	61,907
	Staff Training Foreign	-	2,880
	Staff Training Inhouse	30,427	29,964
	Skills Development Levy	69,276	71,246
	Workers compensation expenses	19,616	17,028
		2,279,724	**2,344,063**

11 Administrative and operating expense

Audit fee	-	41,448
Public relation and social responsibilities	34,032	17,454
Staff training	-	-
Printing and stationary	100,927	82,208
Repair and maintenance	44,194	67,089
Telephone and postage	8,211	2,951
Newspaper expense	1,742	2,493
Legal and consultation fee	48,277	57,815
Travel expenses	4,116	178,262
Board meeting expense	34,430	50,492
Security expenses	-	243,159
Balance brought forward	-	743,370
Skill Development Levy	-	-
Contribution and Subscription	18,052	4,830
Repair and maintenance vehicles	34,142	-
Fuel	25,597	32,719
Field transport	299,546	282,098
Marketing activities expenses	36,137	32,908
Client training	-	3,327
Workshop and seminars	-	-
Cash movement costs ICT	4,059	-
Automotive insurance	3,304	5,686
Annual general meeting costs	4,303	7,780
TRA project expense	-	-
Rent	108,759	73,454
Utility expenses	66,639	61,141
Bank charges	9,686	6,052
Mobile banking operation cost		-
Publication and compliance expenses	24,937	16,674
License and compliance	18,827	5,893
ICT consumable	10,285	23,043
Special duty and overtime	41,738	32,024
Fire insurance	500	6552
Other expenses	-	2,723
Atm rental fee	39,367	31,394
Fines and penalties	-	-
Loan life insurances	32,016	18,327
Cash insurance	13,219	9,915
Loan fees and commissions expenses	-	-
Parking fee	8,184	7,194
Office Supplies and Sanitation	54,083	72,246
Misappropriation Fraud and Loss	-	1,607
ICT Connectivity	129,606	368,735
Withholding tax	-	4,796

Service Levy	460	-
ICT Maintenance-software	7,329	-
ICT Maintenance-Hardware	897	-
Field Rent Centre Meetings	53,794	60,533
Repair and Maintenance Generator	8,838	3,858
Repair and Maintenance Premises	4,936	12,819
Office security expenses	298,591	-
Recruitment and subsistence allowance	325	
Recruitment of staff	94	1,005
	1,634,180	**1,920,873**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Taxation

	2020 TZS '000	2019 TZS '000
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%	-	141,907
Deferred tax expense/(credit)	(154,702)	(27,125)
	(154,702)	**114,782**
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	-	796,159
Tax calculated at a tax rate of 25%	-	199,040
Effect of (non-deductible) / non-taxable items	-	(57,133)
Tax effect on temporary differences	(154,702)	-
	(154,702)	**141,907**
Tax payable		
Add: Opening Balances	7,165	39,258
Less: Tax Paid during the year	(150,000)	(174,000)
Tax Charge Current year	-	141,907
Income tax payables	**(142,835)**	**7,165**

13 Cash

Cash on hand	1,209,570	352,173
	1,209,570	**352,173**

14 Balance with Bank of Tanzania

Current account/clearing account	229,958	268,200
	229,958	**268,200**

15 Balance with Other Banks

Balances with other banks in Tanzania	102,062	1,281,810
Money market placements	-	50,000
	102,062	**1,331,810**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020	2019
	TZS '000	TZS '000
16 Loan and Advances		
Loan and advance (Gross)	16,066,899	16,600,570
Accrued interest receivable	567,148	241,519
	16,634,047	16,842,089
Less: Allowances for losses on loans and advances	(1,184,439)	(1,131,235)
Net Loans to customers	**15,449,608**	**15,710,854**
Gross Loans		
Advances to customers (Gross)	16,066,899	16,600,570
Accrued interest on customer loans	567,148	241,519
Total Gross Loans	**16,634,047**	**16,842,089**

Maturity analysis is based on the remaining periods to contractual maturity from year end:

	2020	2019
With maturity of 3 months or less	2,376,070	2,416,249
With maturity of between 3 months and 1 year	10,607,082	10,786,444
With maturity of more than 1 year	2,466,454	2,508,161
	15,449,607	**15,710,854**

The movement in allowance for impairment of loans and advances by class is as follows:

	2020	2019
	TZS '000	TZS '000
As at 01 January	1,184,439	1,327,378
Charged off and written-off loans	-	(196,143)
As at 31 December	**1,184,439**	**1,131,235**

	2020	2019
17 Other Assets		
Mobile bank	646,283	330,794
Prepaid expenses and staff advance	48,038	26,473
Others	165,013	467,505
	859,333	**824,772**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Property and equipment

	Computers & accessories TZS '000	Electrical equipment TZS '000	Furniture & fittings TZS '000	Automotive TZS '000	Total TZS '000
Cost					
As at 1 January 2020	**222,584**	**418,896**	**172,515**	**16,136**	**830,131**
Additions	126,254	125,037	17,364	62,500	331,155
As at 31 December 2020	**348,838**	**543,932**	**189,879**	**78,636**	**1,161,285**
Depreciations					
As at 1 January 2020	**188,765**	**243,311**	**81,909**	**15,133**	**529,118**
Charge for the year	44,700	31,834	24,725	775	102,034
As at 31 December 2020	**233,465**	**275,145**	**106,635**	**15,908**	**631,153**
Net Book Value					
As at 31 December 2020	**115,373**	**268,787**	**83,244**	**62,728**	**530,132**
As at 31 December 2019	**33,819**	**175,585**	**90,606**	**1,003**	**301,013**

	2020 TZS '000	2019 TZS '000
19 Intangible assets		
Cost		
At 1 January	738,649	379,645
Addition	201,288	359,004
At 31 December	**939,937**	**738,649**
Amortization		
At 1 January	389,517	321,740
Charge for the year	(128,500)	67,777
At 31 December	**518,017**	**389,518**
Net book value	**421,919**	**349,131**
20 Customer deposits		
Loan guarantee group special deposits	1,517,501	2,017,237
Savings deposits	2,246,776	2,123,472
	3,764,278	**4,140,709**

	2020	2019
	TZS '000	TZS '000
21 Other liabilities		
Accrued expenses payable	-	215,993
Dividends payable	176,774	193,102
	176,774	**409,096**
22 Tax payable		
Opening balance	7,165	39,258
Tax paid during the year	150,000	(174,000)
Less: tax charge for current year	0	141,907
At end of the year	(142,835)	7,165
23 Borrowings		
BOT Loan	**3,500,000**	3,500,000
SELF Microfinance Fund	**1,500,000**	1,000,000
Stromme Foundation Loan	**2,000,000**	2,000,000
	7,000,000	**6,500,000**

BOT Loans

The purpose of the loan is to finance housing microfinance business activities of the bank.

Loan 1 from BOT amounts to -TZS 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 -TZS 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 Plc'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 annual.

	2020	2019
	TZS '000	TZS '000

24 Deferred Tax Liability/(Assets)

	2020 TZS '000	2019 TZS '000
Balance at the beginning of the year	(442,003)	18,016
Charge/(credit) for the year	(154,702)	27,125
Prior year overprovision	(104,739)	(487,144)
Balance at the end of the year	**(701,445)**	**(442,003)**
The deferred tax liability/(asset) arises from:		
Accelerated capital allowance	87,426	18,898
Provision for bad debts	0	282,809
Other timing differences	614,018	141,178
	701,445	**442,003**

25 Share Capital

	2020 TZS '000	2019 TZS '000
Authorized:		
60,000,000 ordinary shares of TZS 500 each	30,000,000	30,000,000
Issued and fully paid up:		
12,112,893 ordinary shares of TZS 500 each	**6,056,497**	**6,056,497**

26 Deferred grants

	2020 TZS '000	2019 TZS '000
Grants from Women and Youth Enterprise	-	9,779
Grants for water and sanitation	67,005	54,667
	67,005	**64,446**

27 Related Party Transactions

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 Bank 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. 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.

Transactions with key management personnel

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:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2020	2019
	TZS '000	TZS '000

Salaries and other short-term benefits	723,016	465,236
Post-employment benefits – Social security costs	200,200	48,346
	923,216	**513,582**

28 Cash and Cash Equivalents

Cash balance	1,209,570	352,173
Balance with Bank of Tanzania	229,958	268,200
Deposits and balances due from other banks	102,062	1,331,810
Financial institution maturing within 3 months		-
	1,541,590	**1,952,183**

29 Contingent Liabilities

There are no contingent liabilities as at balance sheet date.

30 Events After the Reporting Date

There were no conditions after the statement of financial position date that had material impact to the financial statements.

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 previous year’s figures have been re-arranged/adjusted to conform to changes in presentation in the current year.