



ANNUAL REPORT AND FINANCIAL STATEMENTS 2024

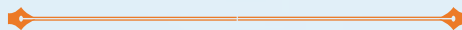
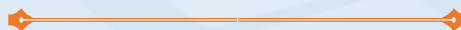


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REPORT BY THOSE CHARGED WITH GOVERNANCE FOR THE YEAR ENDED 31 DECEMBER 2024



REGISTERED OFFICE

Mezzanine Floor, Mlimani Tower,
Sam Nujoma Road,
Ubungo Municipality,
P.O. Box 61002,
Dar es Salaam, Tanzania.

BOARD OF DIRECTORS

Mr. Francis Cecil Ramadhani
Mr. Celestine Leonard Muganga
Mr. Omary Ally Magalla
Mr. Mbaruku Hamisi Magawa
Ms. Berthasia Ladislaus Patrick
Mr. Nashon Amos Kidudu
Mr. Justine Constantine Kinyaga
Mr. Festus Nicholas Mitimangi
Ms. Kissa Vivian Kilindu

NATIONALITY

Tanzanian
Tanzanian
Tanzanian
Tanzanian
Tanzanian
Tanzanian
Tanzanian
Tanzanian
Tanzanian

DESIGNATION

Chairperson
Vice Chairperson
Director
Director
Director
Director
Director
Director
Director

COMPANY SECRETARY AND LEGAL ADVISORS

KKB Attorneys at Law,
Oyster Plaza, Second Floor,
Haille Selassie, Oyster Bay,
P.O. Box 13989,
Dar es Salaam, Tanzania.

INDEPENDENT AUDITOR

Auditax International,
Auditax House,
3rd Floor – Coca – Cola Road,
P.O.Box 77949,
Dar Es Salaam, Tanzania.

1. INTRODUCTION

The members charged with governance submit their report together with the audited annual financial statements for the year ended 31 December 2024, which disclose the state of affairs of Mwalimu Commercial Bank Plc (the “Bank”).

2. INCORPORATION

Mwalimu Commercial Bank Plc was incorporated on 26 March 2012 in Tanzania under the Companies Act Cap 212, Act No. 12 of 2002 as a limited liability company. It was initially incorporated as a private company bearing a name Mwalimu Commercial Bank Limited that was later changed to Mwalimu Commercial Bank Plc on 26 January 2015 when it was listed on the Dar es Salaam Stock Exchange under the Enterprise Growth Market (EGM) segment. The Bank obtained a full banking license on 13 July 2016 to operate as a commercial bank under the Banking and Financial Institutions Act, 2006.

3. PRINCIPAL ACTIVITIES

Our principal activities are provision of a wide range of financial services and products to Tanzanian education ecosystem, its related sectors and public at larger. Bank accept deposits on current, saving and time deposits accounts as well as issuing short term, medium term and long-term loans to individual, Micro and SMEs clients and provision of other banking services such as alternative delivery channels and money transfer services as required by Banking and Financial Institution Act, 2006. The bank operates in all regions of Tanzania and is regulated by Bank of Tanzania, Tanzania Revenue Authority, Dar es salaam Stock Exchange, CMSA and Tanzania Communication Regulatory Authority.

4. PERFORMANCE FOR THE YEAR

In the financial year 2024 the Bank records a profit after tax of TZS 132 million compared with after tax profit of TZS 11 million recorded last year. The performance was mainly driven by an increase in income whereby non-interest income increased by 6%. Our operating expenses was within desired levels. Net Loans and Advances slightly decreased by 8% due to funding challenges during the year while total customer deposits grew at 13%. The efforts to maintain a quality loan book yielded positive results as the Bank managed to record the NPL ratio of 2%.

In line with efforts to prudently manage capital position, Anchor shareholder invested additional TZS 2 billion which assisted the Bank to remain within the regulatory capital requirement. At the end of December 2024, our total capital adequacy ratio stood at 31%. The Bank closed the year with 2 branches and 11 regional service centers. There was no new branch open during the year, apart from Alternative Delivery Services enrichment by entre into interoperability arrangement with one systemic bank that has a wider ATMs network in the country through UmojaSwitch/UBX partnership.

4.1 Key Performance Indicators

The following Key Performance Indicators (KPIs) are being used in measuring the delivery of the Bank's strategy and managing the business.

Performance indicator	Definition and calculation method	2024	2023
Net Interest income.	Increase / (Decrease) in net interest income (%)	0.69%	3.40%
Operating expenditure	Increase / (Decrease) in operating expenditure (%)	1.43%	4.97%
Profit/Loss before tax	Growth/(decline) in profit before tax (%)	201.20%	103.31%
Return on equity	Net(loss) profit/Total equity	0.79%	0.07%
Return on assets	Net profit/Total assets	0.15%	0.01%
Cost to income ratio	Total costs/Net income	96.94%	98.95%
Interest margin on earning assets	Net interest income (interbank loan receivables + net loans, advances and overdraft less cost of funds) /Interest earning assets (interbank loan receivables + net loans, advances and overdraft).	7.42%	7.66%
Non - interest income to Gross income	Non - interest income/Total income	27.74%	28.32%
Gross loans to deposits	Total loans to customers/Total deposits	83.75%	102.88%
Non-performing loans to gross loans	Non - performing loans/Gross loans and advances	2.15%	1.04%
Earning assets to total assets	Sum interbank placements and loans/Total assets	81.55%	86.31%
Growth in total assets	Trend (2024 total assets – 2023 total assets/ 2023total assets) %	9.64%	(2.07%)
Growth in loans and advances to customers	Trend (2024 loans and advances – 2023 loans and advances)/2023 loans and advances) %	(8.05%)	(2.39%)
Growth in customer deposits	Trend (2024 customer deposits – 2023 customer deposits)/ (2023 customer deposits) %	12.96%	1.04%
Capital adequacy			
Tier 1 Capital	Core capital /Risk weighted assets including Off statement of financial position items	29.62%	20.17%
Tier 1+Tier 2 Capital	Total capital /Risk Weighted assets including off-statement of financial position items	26.62%	20.17%

5 RESULTS AND DIVIDENDS

The directors do not propose payment of dividends for the year 2024.

6 BANK VISION, MISSION, AND STRATEGIC PLANS

Bank's Vision

To be the preferred financial solution provider in Tanzania.

Bank's Mission

To provide innovative financial services to the Tanzanian education ecosystem and related sectors, so as to benefit the society.

Bank's core values

- **Customer Focus:** Everything we do should add value to the customer
- **Teamwork:** Our approach is collaborative
- **Innovation:** We are innovative in our approach
- **Efficiency:** Provide services in a cost effective and timely manner; and
- **Integrity:** We observe high levels of integrity in all our actions.

Bank Strategic Plans

Mwalimu Commercial Bank Plc goal is to become a deposit led retail bank that provides services to the education ecosystem and related sectors. To ensure attainment of its strategic objectives the bank has the following ultimate goals:

- **Transformation growth** – grow customer deposits and loan book, enhance brand awareness, and expand transactional banking base
- **Maximizing shareholder and market value** – by generating sustainable earnings
- **Digitization of the bank** – expanding footprints through digital platforms
- **Operational efficiency** – enhance processes, products and services offering to improve customer experience and reduce operational costs and
- **Customer service excellence** – innovative solution based on customer needs, improve responsiveness, and introduce more value-added services

7 ACTUAL PERFORMANCE AGAINST BUDGET

Income Statement

During the year the bank posted a cumulative Profit before tax of TZS 218 million compared with TZS 73 million profit before tax budgeted during the year, behind the budget was the result of funding challenges to grow loan book as per below. A summary of the profit and loss statement is shown in the table below.

Amounts in TZS '000'	Actual 2024	Budget 2024	Variance (%)
Interest income	10,382,910	13,566,036	-23%
Interest expenses	(4,973,265)	(6,300,562)	-21%
Net interest income	5,409,646	7,265,475	-26%
Non funded income	2,076,275	2,314,649	-10%
Total operating expenses	7,485,920	9,580,124	-22%
Pre-Tax Profit	218,390	249,602	-13%

Balance Sheet

The balance sheet size reached TZS 89 billion in December 2024; however, it was behind the budget by 22% as the bank was not able to reach target on liability side. The table below shows a summary of the balance sheet performance during the year compared with budget.

Amounts in TZS '000'	Actual 2024	Budget 2024	Variance (%)
Cash and balances with Bank of Tanzania	13,293,568	18,612,566	-29%
Loans and advances to banks	13,545,364	8,000,000	69%
Loans and advances to customers	57,519,378	81,132,850	-29%
Other assets	5,040,728	6,778,711	-26%
Total assets	89,399,038	114,524,126	-22%
Deposits from customers	68,683,274	85,509,537	-20%
Interbank Borrowings	1,005,255	-	N/A
Other liabilities	3,060,503	12,322,508	-75%
Total liabilities	72,749,033	97,832,045	-26%
Share capital	37,912,460	36,712,460	3%
Accumulated losses	(21,283,237)	(20,287,293)	5%
Total liabilities and equity	89,399,038	80,785,165	11%

8 LIQUIDITY

Liquidity risk is defined as the potential for loss to the bank arising from its inability to meet its obligations as they fall due. Better liquidity management assures the bank's continuity and ability to meet obligations and growth. The Asset and Liability Committee (ALCO) is fully responsible for managing bank liquidity, the committee meets every month to discuss among other things the maturities and funding structures of the bank.

Bank liquidity was stable during the year and was able to meet all mature obligations as well as issue loans and serve customers' demands. The highest liquid assets, that is cash and cash equivalents, increased during the year, indicating a stable liquidity position and the bank complied with regulatory liquidity requirements throughout the year. The bank liquidity is sourced from deposits from individual customers, corporate customers, institutional deposits, anchor shareholders and retirees pension funds.

9 OPERATING ENVIRONMENT

The global economy continues to be steady year by year as inflation has moderated, private consumption has been sustained, and monetary policy has been effective. Nevertheless, short- and medium-term growth prospects are challenged by rising geopolitical risks and growing policy uncertainty. Although the global economy is in better shape now, it is still underperforming due to ongoing tight financial conditions and a slowing Chinese economy. Also, rising geopolitical tensions, trade protectionist policy and climate shocks represent major upside risks for global inflation and downside risks to the global baseline outlook.

Domestic economic conditions have been improving. The economy is expected to continue improving. The robust growth is consistent with the improving global conditions. In addition, growth will be reinforced by improving agricultural activities due to the availability of inputs (fertilizers and quality seeds) and pesticides, as well as investment in irrigation schemes. Construction is also expected to continue driving growth, owing to the construction of SGR, roads, airports and residential buildings.

Inflation has remained low, below the target of 5 percent, and is projected at 3.2 percent in the fourth quarter of 2024. The risk to inflation is low due to adequate food supply. Core inflation is projected at 3.1 percent. Inflation in Zanzibar is projected to be consistent with the target of 5 percent.

10. TECHNOLOGY AND INNOVATION

Mwalimu Commercial Bank Plc continues to embrace technology and innovation through internal investment and partnership as guided by bank strategic plan (SP2021-25). During the financial year the bank enriched the alternative delivery channels and integrated into the government Employees Self Service portal (Watumshi portal) that among other services, enables public servants to access bank services such as seamlessly loans. The bank will continue to invest in technology pursuant to fulfil the desire to be deposit lead digital bank.

11 RELATIONSHIP WITH KEY STAKEHOLDERS

When executing its strategic objectives, the bank comes across various stakeholders who are crucial for its success. The bank highly values these stakeholders as our ability to provide banking services depends much on their wellbeing.

Shareholders – their expectation is to see sustainable business growth and see their investments add value. Our role is to ensure we make proper decisions that will meet their expectations.

Customers – Expected to obtain superior banking services in a timely manner and our role is to ensure customer satisfaction and retention.

Employees – expect a healthy work environment, good relationships, and good remuneration.

Regulators always expect compliance and our role is to ensure we work within required guidelines and procedures.

12 CAPITAL STRUCTURE

The bank is listed at the Dar es Salaam Stock Exchange, and it is actively trading in the stock exchange. Capital structure of the Bank for the year under audit is as shown below:

Authorized -

The authorized share capital comprises 200,000,000 ordinary shares of par value of TZS 500 each.

Issued and fully paid

The Bank's issued and fully paid capital is 61,824,920 ordinary shares of TZS 500 each.

Shareholders of the Bank

The Bank has institutional as well as individual shareholders. As of 31 December 2024, shareholding structure was as follows:

Name of shareholder	2024	2023	Share Holding
Founder Teachers	21,813,000	21,813,000	35.29%
National Health Insurance Fund	10,000,000	10,000,000	16.18%
Public Service Pensions Fund	10,000,000	10,000,000	16.17%
General Public	10,011,920	10,011,920	16.19%
Tanzania Teachers' Union	8,000,000	8,000,000	12.94%
Teachers' Development Company Ltd	2,000,000	2,000,000	3.23%
	61,824,920	61,824,920	100.00%

Capital Management

Capital Adequacy is monitored monthly by comparing the minimum required capital as per the Banking and Financial Institutions (Capital Adequacy Regulations, 2021) and the Banking and Financial Institutions Act, 2006 to the available capital to ensure there is sufficient capital to meet regulatory and future growth requirements. As at 31 December 2024, the capital position of the Bank was adequate to meet both Tier 1 and 2 regulatory and internal minimum capital requirements. The regulatory capital computation is disclosed on Note 30 to the annual financial statements.

Capital Restoration Plan

The bank continues with capital restoration in the form of right issue of shares, the same is plan to be finalized by the end of September 2025.

Updates on Implementation of Basel II

Bank of Tanzania in November 2023 issued new guidelines for implementation of Basel II which requires banks to conduct Internal Capital Adequacy Assessment process. As at the end of December 2023 the bank started implementation of new guidelines.

13 PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks that may significantly affect the Bank's strategies and development are mainly operational, fraud and financial risks. Below we provide a description of the fraud, operational, and financial risks facing the Bank.

Fraud risk

Fraudulent transactions pose a risk for the bank. However, the bank has implemented several measures to contain the probability and impact of this risk.

Operational risk

This is a risk resulting from the Bank's activities not being conducted in accordance with formally recognized procedures including non-compliance with Know Your Customer (KYC) and account opening procedures. Management ensures that the Bank complies with KYC and other internal procedures.

Financial risk

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance, and management of some degree of risk or combination of risks. More details of the financial risks facing the Bank are provided in Note 30 to the annual financial statements.

14 RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control systems of the Bank. It is the task of management to ensure that adequate internal financial and operational control systems are developed and maintained on an on-going basis in order to provide reasonable assurance regarding:

- The effectiveness and efficiency of operations
- The safeguarding of the Bank's assets
- Compliance with applicable laws and regulations
- The reliability of accounting records
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

15 SOLVENCY AND GOING CONCERN

The Board of directors confirms that applicable accounting standards have been followed and that the annual 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 existence for the foreseeable future.

16 CORPORATE GOVERNANCE

The Bank continues to advocate an integrated approach to corporate governance as evidenced by the governance framework. An effective and independent Board provides strategic direction and has ultimate responsibility for the establishment and functioning of the Bank. The Bank had nine (9) directors who served the office during the year. The Board takes overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial 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 in place and operative, and for compliance with sound corporate governance principles.

The Bank is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency and accountability. Board delegated authorities are reviewed regularly, and directors have full access to board documentation. The members charged with Governance at the date of this report, who have served in the office since 1st January 2023, except where otherwise stated are:

Name	Position	Age	Nationality	Qualifications	Appointed/Retired
Mr. Francis Cecil Ramadhani	Chairman	48	Tanzanian	LLM and LLB International Law & International Business Law	17 April 2019
Mr. Celestine Leonard Muganga	Vice Chairman	57	Tanzanian	MSc. Finance, BA (Economics)	30 August 2018
Ms. Kissa Vivian Kilindu	Director	52	Tanzanian	Master of Business Administration (MBA), BEng – Electrical & Electronic Eng.	23 December 2020
Mr. Omary Ally Magalla	Director	42	Tanzanian	Bachelor of Commerce with Education	24 April 2020
Mr. Festus Nicholas Mitimngi	Director	59	Tanzanian	Bachelor of Commerce and Management	24 August 2023
Mr. Justine Costantino Kinyaga	Director	48	Tanzanian	Master of Science in Mathematics, Bed - mathematics	24 August 2023
Mr. Nashon Amos Kidudu	Director	41	Tanzanian	Bachelor of Education, Geography and English, Diploma of Education Geography and English	26 July 2024
Mr. Mbaruku Hamisi Magawa	Director	56	Tanzanian	Master of Business Administration (MBA), BCom (Marketing)	24 Sept 2020
Ms. Berthasia Ladislaus Patrick	Director	39	Tanzanian	CCPA-PP, MBA-Finance BCom. (Accounting)	30 Nov 2023

The Board of Directors Meetings

The Board is required to meet at least four (4) times a year as a best practice. During the year it met seven times in ordinary meetings. Tables below show attendance of board of directors' meetings.

Name	Total meetings attended during the year
Mr. Francis Cecil Ramadhani	7/7
Mr. Celestine Leonard Muganga	7/7
Ms. Kissa Vivian Kilindu	6/7
Mr. Omary Ally Magalla	7/7
Mr. Festus Nicholas Mitimongi	3/3
Mr. Justine Costantino Kinyaga	3/3
Mr. Nashon Amos Kidudu	4/5
Mr. Mbaruku Hamisi Magawa	5/7
Ms. Berthasia LadislausPatrick	7/7

Board Audit and Risk Committee

The Board Audit and Risk Committee reviewed significant accounting policies and financial reporting systems to ensure that they are adequate and are always complied with. It reviewed adequacy of internal control systems and monitored implementation of actions to address issues raised by internal auditors, BOT examination and external auditors.

Below is the composition of the Board audit and risk committee members.

Name	Position	Age	Qualification	No. of Meetings
Ms. Berthasia LadislausPatrick	Chairperson	39	CCPA-PP, MBA-Finance Bcom. Acc	10/11
Mr. Nashon Amos Kidudu	Member	41	Bachelor of Education, Geog- raphy and English	3/6
Ms. Kissa Vivian Kilindu	Member	52	Master of Business Adminis- tration	10/11
Mr. Justine Costantino Kinyaga	Member	48	Master of Science in Mathe- matics	5/5

16 CORPORATE GOVERNANCE (CONTINUED)**Board Credit Committee**

The Committee reviews the Credit Policy and ensures that it contains sound fundamental principles that facilitate the identification, measurement, monitoring, and control of credit risk as well as having appropriate plans and strategies for credit risk management. Also monitors performance and quality of the credit portfolio and approves loans facilities that are beyond management limits.

Below is the composition of the Board credit committee members;

Name	Position	Age	Qualification	No of Meetings
Mr. Mbaruku Hamisi Magawa	Chairperson	56	Master of Business Administration (MBA Bcom Marketing)	5/5
Mr. Omary Ally Magalla	Member	42	Bachelor of Commerce with Education	5/5
Mr. Celestine Leonard Muganga	Member	57	MSc. Finance, BA (Economics)	5/5
Mr. Festus Nicholas Mitimangi	Member	59	Bachelor of Commerce	2/2

Board Nomination, Remuneration & Operations Committee

The nomination remuneration & Operations committee is responsible for the corporate governance of an organization and a review of banks' day to day operations.

Below is the composition of the Board nomination, remuneration and operations committee members.

Name	Position	Age	Qualification	No. of Meetings
Mr. Celestine Leonard Muganga	Chairperson	57	MSc. Finance, BA (Economics)	6/6
Mr. Mbaruku Hamisi Magawa	Member	56	Master of Business Administration (MBA Bcom Marketing)	6/6
Mr. Omary Ally Magalla	Member	42	Bachelor of Commerce with Education	6/6
Mr. Festus Nicholas Mitimangi	Member	59	Bachelor of Commerce	2/2

NB:

1. Festus Mitimangi and Justine Kinyaga commenced their directorship in September 2024.
2. Nashon Kidudu commenced his directorship in July 2024.

Directors' interest in the Banks' Shares'

A list of directors who hold shares in the bank as of 31 December 2024 are shown in the table below.

Name of the director	Number of shares held 2024	Number of shares held 2023
Mr. Omary Ally Magalla	100	100
Mr. Justine Costantino Kinyaga	100	100
Mr. Festus Nicholas Mitimigi	210	210
Total shares held by directors	410	410

Directors' evaluation and training

To ensure directors are up to date with current developments in the market and improve their Governance skills, the bank facilitates training course during the year. In 2024, directors did an evaluation program conducted at Mwalimu Commercial Bank Head office premises.

The Company secretary as at the date of this report is KKB Attorneys at Law.

Management

The management of the Bank is under the Chief Executive Officer and is organized in the following departments:

Name	Position	Department
Mr. Richard Louis Makunga	Chief Executive Officer	CEO's Office
Mr. Mussa Shaban Mwachaga	Head of Finance	Finance and Treasury
Mr. Lufingo Godwin Mwakilasa	Head of Risk and Compliance	Risk and Compliance
Mr. Abdallah Shuwari Kirungi	Head of ICT and Operations.	ICT and Operations
Ms. Joanitha Emanuel Mashulano	Head of Internal Audit	Internal Audit
Ms. Ellyjalia Philemon Mabiki	Head of Human Resources and Administration	HR and Administration
Ms. Blandina Palipo Mwambyale	Head of Credit	Credit
Mr. James Ngaluko Joseph	Head of Business Development and Marketing	Business and Marketing

17 EMPLOYEES' WELFARE

Management and employees' relationship

There were no unresolved complaints received from employees during the year. A healthy relationship continues to exist between management and staff.

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, ethnicity, religion and disability which does not impair ability to discharge duties.

Training

During the year, the Bank incurred TZS 56 million in training expenses (2023: TZS 38million). There are plans for the year 2024 as per bank's training needs assessment to take employees to different professional and strategic trainings to ensure they are adequately trained at all levels to upgrade skills and enhance productivity.

Medical Assistance

All members of staff with their spouses and a maximum number of five beneficiaries for each employee were given medical insurance. Currently these services are provided by The National Health Insurance Fund.

Health and Safety

The Bank has a strong health and safety team which ensures that a strong culture of safety prevails at all times. A safe working environment is ensured for all employees by providing adequate and proper personal protective equipment, training and supervision as necessary.

Persons with Disabilities

Applications for employment by disabled persons are always considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Bank continues, and appropriate training is arranged. It is the policy of the bank that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employees' retirement benefits

The Bank pays contributions in respect of staff retirement benefits to statutory pension scheme namely Public Service Social Security Fund PSSSF on a mandatory basis. The Bank's obligations in respect of these contributions are limited to 10% of the employees' monthly salary while the employers contribute 10% making a total of 20% contribution.

Gender Parity

The bank is an equal opportunity employer. As of 31 December 2024, staff gender was as depicted in the table below:

Gender	2024	2023
Male	39	36
Female	31	29
Total	70	65

18 RELATED PARTIES

All related party transactions and balances are disclosed in Note 28 to these annual financial statements.

19 POLITICAL AND CHARITABLE DONATIONS

No donations were made to any political institutions during the financial year ending 31 December 2024. The Bank participates in various community activities through corporate social responsibility, during the financial year ending 31 December 2024 bank contributed TZS 11.0 million (2023: 10 million).

Introduction

As part of our commitment to building a sustainable and responsible financial institution, Mwalimu Commercial Bank Plc is pleased to present our Environmental, Social, and Governance (ESG) report as part of our annual report for the year 2024. This report outlines our performance in relation to key ESG criteria and provides insight into how we are advancing sustainability across our operations, products, and services in Tanzania. We continue to embed ESG principles in our day-to-day business, ensuring that we not only contribute to the growth of the Tanzanian economy but also improve the lives of our stakeholders, communities, and the environment.

Environmental Impact

At Mwalimu Commercial Bank Plc, we understand the importance of protecting the environment and recognize the role that the financial sector plays in mitigating climate change. Our environmental strategy focuses on promoting green financial products and supporting the transition to a low-carbon economy. The bank has integrated environmental risk assessments into our loan and investment criteria, ensuring that projects we finance adhere to environmental sustainability standards.

Social Impact

Our mobile banking platform has been enhanced, enabling access to banking services for customers in remote regions with limited physical infrastructure. We have also launched financial literacy programs to empower customers and potential customers with the knowledge they need to make informed financial decisions. These programs reached over 6,000 individuals in 2024. The programme was done in collaboration with Tanzania Teachers Union and Government officials. The same will continue in 2025.

Governance: Strong governance structures and ethical practices are integral to MCB's long-term plan. We are committed to maintaining transparency, integrity, and accountability in all aspects of our operations. Under the governance the following milestone have been achieved.

- (i) **Board Composition and Accountability:** The bank's board of directors continues to meet high standards of governance, with a diverse composition that reflects a variety of expertise in finance, sustainability, and the Tanzanian market. 33% of the board members are independent.
- (ii) Review of the Board of Directors Charter and Board Audit and Risk Committee (BARC) to accommodate ESG reporting. Terms of Reference to incorporate oversight responsibility on ESG matters and making ESG a standing agenda in the BARC meetings.
- (iii) Bank has adopted ESG agenda in our corporate strategy
- (iv) Incorporate Climate related issues in our credit process and customer onboarding process.
- (v) Designating Risk management to coordinate ESG matters for the bank.
- (vi) Engaging in knowledge sharing sessions with other financial institutions to gain more understanding on ESG initiatives undertaken by peers
- (vii) Digitalization: Promoting use of Mobile banking, Transfers and Mobile applications for our customers to avoid using more papers by over-the-counter transaction, more than 70% of our Transactions done through Alternative delivery channels that don't involve paperwork
- (viii) Development of an ESG Framework Manual to provide guidance on ESG matters.
- (ix) **Transparency and reporting:** MCB remains committed to maintaining transparency in all our business operations. We will continue to publish our ESG performance annually, ensuring that stakeholders have access to reliable and accurate data on our progress in meeting our sustainability goals.
- (x) Training and capacity building for staff on ESG.
 1. Providing ESG training from (Top Level) Board to Bottom level (Management and all staff)
 2. Pay for certification on ESG to one candidate in the organisation to have an accredited person with wide understanding on ESG.

KPI's

As the company is at the beginning stages of adoption of ESG agenda no specific KPIs were assigned for year 2024 however, Management will work on having a more structured process and development of specific KPIs after recruitment of a dedicated resource for ESG within 2025.

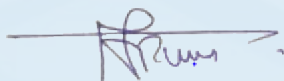
Looking Forward

In the coming year, we will continue to strengthen our ESG initiatives and align them with the United Nations Sustainable Development Goals (SDGs). We are committed to reducing our environmental impact, promoting social well-being, and upholding the highest standards of governance. Our focus for 2025 includes:

- (i) Increasing the diversity of our workforce and leadership.
- (ii) Enhancing financial inclusion by further developing mobile banking and digital platforms.
- (iii) Strengthening partnerships with local communities to support sustainable development.

21 INDEPENDENT AUDITORS

During the year, Auditax International was appointed at the Annual General Meeting and has served as the auditors of the bank for the year ended 31 December 2024.

By order of the Board of those charged with Governance

Francis Cecil Ramadhani
Board Chairman

28th March

2025



Richard Louis Makungwa
Chief Executive Officer

28th March

2025

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2024



The Companies Act, Cap 212 Act No.12 of 2002 requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, CAP 212 Act No.12 of 2002 and Banking and Financial Institutions Act, of 2006. 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 loss in accordance with International Financial Reporting Standards (IFRS).

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of annual financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement whether due to fraud or error.

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

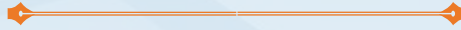
Francis Cecil Ramadhani
Board Chairman

Richard Louis Makungwa
Chief Executive Officer

28th March 2025

28th March 2025

DECLARATION BY THE HEAD OF FINANCE FOR THE YEAR ENDED 31 DECEMBER 2024



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

It is the duty of a Professional Accountant to assist the Board of Directors/Governing Body/Management to discharge the responsibility of preparing annual financial statements of an entity showing true and fair view of the entity financial position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of annual financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I, Mussa S. Mwachaga being the Head of Finance of Mwalimu Commercial Bank PLC hereby acknowledge my responsibility of ensuring that annual financial statements for the year ended 31 December 2024 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the annual financial statements give a true and fair view position of Mwalimu Commercial Bank PLC as on that date and that they have been prepared based on properly maintained financial records.

Signed by: Mussa S. Mwachaga 

Head of Finance

NBAA Membership No. ACPA - 2113

Date: 28/03 2025



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MWALIMU COMMERCIAL BANK PLC

We have audited the annual financial statements of Mwalimu Commercial Bank Plc (the Bank) set out on pages 21 to 69 which comprise the statement of financial position as at 31 December 2024, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of Mwalimu Commercial Bank Plc as at 31 December 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

Basis for Opinion

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements of the current period. This matter was addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
<p>Expected Credit Loss on Loans and Advances</p> <p>Loans and advances to customers amounted to TZS 58,536,072,000 as at 31st December 2024 (TZS 63,463,609,000 as at 31st December 2023), and the total Expected Credit Loss amounted to TZS 869,619,000 as at 31st December 2024 (TZS 661,693,698 as at 31st December 2023). Refer to Note no 17.</p> <p>The Bank applies to IFRS 9 in estimating the expected credit loss. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provisions in the following areas:</p> <ul style="list-style-type: none"> Quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default; Determination of the probability of default (PD); Determination of exposure at default (EAD); Determination of the forward-looking parameters to be incorporated in the estimation of expected credit losses; and Determination of the loss given default (LGD) which include estimation of the expected cash flows and recovery rates. <p>Variations in the assumptions and inputs into the impairment models could result in material change in the financial results and position of the bank.</p>	<ul style="list-style-type: none"> We tested the quantitative and qualitative criteria used in the classification of loans and advances. As the quantitative basis of classification of loans and advances is reliant on information systems, we understood and tested key information technology general and application controls including the calculation of the number of days past due. We tested the portfolio segmentation which is used to determine PD and LGD. We tested the reliability, accuracy and reasonableness of information used for estimating the exposure at default, probability of default and loss given default. We tested the forward-looking scenarios and parameters used by management in estimating projected probabilities of default. We challenged management's basis for establishing the correlation between forward looking parameters and the Bank's non-performing loan trends. We tested the loss given default for the secured and unsecured loan portfolio. We tested the expected cash flows and challenged management's assumptions of recovery estimates for unsecured facilities. We tested recovery costs and recovery periods used to estimate the recoverable amount of collateral for secured facilities. <p>We considered the adequacy of financial statements disclosures.</p>

Other Information

Other information consists of the information included in the Report by Those Charged with Governance, Statement of Directors' Responsibilities and the Declaration of the Head of Finance's Responsibilities, other than the annual financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the annual 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 annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management and Those Charged with Governance for the Financial Statements

The management is responsible for the preparation and fair presentation of the annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania, and for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual 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 directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The management and those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual 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 annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual 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 annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Companies Act, 2002 to be kept by the Entity have been properly kept in accordance with the provisions of the Companies Act.

The engagement partner on the audit resulting in this independent auditor's report is Dr. Straton Makundi.

Auditax International

Certified Public Accountants

Dar es Salaam, Tanzania



Signed by: Dr. Straton Makundi (FCCA)

Registration No: ACPA 1747

Date: 28 MARCH 2025



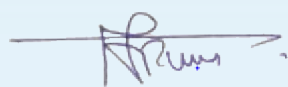
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	2024 TZS '000	2023 TZS '000
Effective interest income	5	10,382,910	10,312,224
Effective interest expense	6	(4,844,523)	(4,594,308)
Other interest and similar expense	19	(128,742)	(324,772)
Net interest income		5,409,645	5,393,145
Expected credit losses	16&17	(342,708)	(447,101)
Net interest income after credit losses		5,066,937	4,946,043
Net fee and commission income	7	1,752,998	1,767,515
Net trading income	8	125,775	(41,838)
Other income	9	197,501	228,064
Net operating income		7,143,211	6,899,784
Staff costs	10	(3,264,558)	(3,039,689)
Infrastructure costs	11	(1,623,297)	(1,949,957)
Administration and general expenses	12	(2,036,967)	(1,837,632)
Operating expenses		(6,924,822)	(6,827,278)
Profit before tax		218,389	72,506
Income tax expense	13	(86,331)	(61,539)
Profit for the year		132,058	10,967
Total comprehensive Profit for the year		132,058	10,967
Basic and diluted earnings per share (TZS)	14	2.14	0.18

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2024

	Note	2024 TZS '000	2023 TZS '000
Assets			
Cash and balances with Bank of Tanzania	15	13,293,567	7,620,722
Treasury Bills and other Government securities		1,837,500	
Loans and advances to banks	16	13,545,363	7,822,031
Loans and advances to customers	17	57,519,378	62,553,655
Income tax recoverable	13	401,398	418,863
Right of Use Asset	19	897,538	377,836
Other assets	18	639,326	1,869,076
Property and equipment	20	845,847	751,454
Intangible assets	21	419,119	127,227
Total assets		89,399,037	81,540,863
Liabilities			
Deposits from customers	22	68,683,274	60,802,904
Interbank Borrowings	22	1,005,255	2,401,802
Lease Liability	19	893,022	377,836
Other liabilities	23	2,167,481	2,332,329
Total liabilities		72,749,032	65,914,871
Shareholders' equity			
Share capital	24	30,912,460	30,912,460
Advance towards share capital	24	7,000,000	5,000,000
Non-Distributable Reserve	25	20,781	113,927
Accumulated losses	25	(21,283,236)	(20,400,395)
		16,650,005	15,625,992
Total shareholders' equity and liabilities		89,399,037	81,540,863

The annual financial statements were approved by the board of directors and authorized for issue on _____, 2025 and signed on its behalf by:



Francis Cecil Ramadhani
Board Chairman



Richard Louis Makungwa
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2024

	Share capital TZS '000	Accumulated Losses TZS '000	Advance towards share capital TZS '000	Non- Dis- tributable Reserve TZS '000	Total TZS '000
Year ended 31 December 2024					
At 1 January 2024	30,912,460	(20,400,396)	5,000,000	113,927	15,625,991
Additions	-	-	2,000,000	-	2,000,000
Profit for the year	-	132,059	-	-	132,059
Non-Distributable Reserve	-	93,146	-	(93,146)	-
Prior year adjustments	-	(1,108,046)	-	-	(1,108,046)
At end of year	<u>30,912,460</u>	<u>(21,283,237)</u>	<u>7,000,000</u>	<u>20,781</u>	<u>16,650,004</u>
Year ended 31 December 2023					
At 1 January 2023	30,912,460	(20,254,494)	5,000,000	17,312	15,675,278
Profit for the year	-	10,967	-	-	10,967
Non- Distributable Re- serve	-	(96,615)	-	96,615	-
Prior year adjustments	-	(60,253)	-	-	(60,253)
At end of year	<u>30,912,460</u>	<u>(20,400,395)</u>	<u>5,000,000</u>	<u>113,927</u>	<u>15,625,992</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	Note	2024 TZS '000	2023 TZS '000
Cash flows from operating activities			
Profit before income tax		218,390	72,506
Adjusted for:			
Depreciation and amortization	19&20	382,343	949,482
Net foreign exchange differences	8	(125,775)	59,477
Loan credit losses charges	17	342,708	447,101
Effective interest income	5	(10,342,910)	(10,312,224)
Effective interest expense	6	4,844,523	4,594,308
		(4,680,721)	(4,189,350)
Changes in operating assets and liabilities:			
Statutory Minimum Reserve		(619,664)	(371,978)
Loans and advances to banks		(5,723,333)	(2,502,284)
Loans and advances to customers		5,034,277	1,533,578
Other assets		(1,629,004)	(469,491)
Deposits from customers		13,661,035	220,938
Deposits from banks		(1,396,547)	(1,600,198)
Other liabilities		(844,039)	(703,318)
Interest received		11,489,363	9,818,948
Tax paid		(475,786)	-
Interest paid		(8,625,188)	(4,190,014)
Net cash inflow from operating activities		6,190,393	(2,453,169)
Cash flows from investing activities			
Proceeds from sale of investment securities - at FVOCI		-	-
Acquisition of property and equipment	20	(369,716)	(105,015)
Acquisition of intangible assets	21	(398,911)	(70,090)
Net cash inflow/(outflow) from investing activities		(768,627)	(175,105)
Cash flows from financing activities			
Repayment of principal portion of lease liabilities		275,946	66,012
Advance towards share capital		-	-
Net cash inflow from financing activities		275,946	66,012
Net increase in cash and cash equivalents		5,697,712	(2,562,262)

MWALIMU COMMERCIAL BANK PLC

Movement in cash and cash equivalents

Net increase in cash and cash equivalents		5,697,712	(2,562,262)
Net foreign exchange difference		(2,673)	
Cash and cash equivalents at 1 January		4,127,274	6,689,536
Cash and cash equivalents at 31 December	27	9,822,313	4,127,274

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. STATEMENT OF COMPLIANCE

These annual financial statements 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 annual financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and the requirements of the Companies Act, CAP 212 Act No. 12 of 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) *Adoption of new and revised accounting standards*

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2023. The adoption of these new and revised standards and interpretations did not result in material impact to the Bank's accounting policies. For details of the new and revised accounting policies refer to Note 31.

(b) *Basis of preparation*

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The statements have been prepared under the historical cost basis except for fair value through other comprehensive income financial assets, which have been measured at fair value. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 30.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The directors believe that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(c) *Functional and presentation currency*

Items included in the annual financial statements are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The annual financial statements are presented in Tanzania shillings (TZS), which is the Bank's functional and presentation currency, rounded to the nearest thousand.

Transactions in foreign currencies during the year are converted into the Tanzania Shillings using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss account.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) *Revenue recognition*

The accounting policies applied to the comparative balances and current year balances are indicated below.

Effective Interest income and expenses

Effective Interest income and expense for all interest-bearing financial instruments are recognized within 'effective interest income' or 'effective interest expense' in the statement of profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the effective interest income or effective interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Effective Interest income on non-performing loans for which no impairment provision has been recorded is recognized using the effective interest method. Effective interest income for non-performing loans is recognized basing on the carrying value net of the loss allowance.

For credit-impaired financial assets the effective interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Fees and Commission income

- The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income is divided into the following two categories:

Fee income earned from services that are provided over a certain period of time: Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income from MCB mobile banking and ATM card fees, service charge from customer accounts, agency banking commission, insurance commission. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the effective interest rate on the loan.

- Fee income from providing transaction services: Fees arising from negotiating or participating in the negotiation of a transaction for a third party such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) *Classes of financial instruments*

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

Category (as defined by IFRS 9)		Class (as determined by the Bank)		Subclass
Financial Assets	Amortized cost	Loans and Advances to Banks		
		Loans and advances to customers	Loans to individuals	Personal Loans
				Mortgage Loans
			Loans to corporate entities	Corporate Loans
			Loans to SMEs	SME Loans
		Investment in Debt securities	Government securities	Treasury Bills and Bonds (SPPI)
	Fair value through profit or loss (FVPL)	Equity Investment (Which are not under scope of IAS 28 and IFRS 10)		
	Fair value through other comprehensive income (FVOCI)	Other treasury bonds held to collect contractual cash flows and sale		
Financial liabilities	Financial liabilities at amortised cost	Deposits from Banks		
		Borrowings and other liabilities		
		Deposits from customers	Retail customers	
			Corporate customers	

(f) *Financial assets*

The Bank classifies its financial assets in the following categories: At amortized cost, Fair value through profit or loss (FVPL) and Fair value through other comprehensive income (FVOCI).

Classification and subsequent measurement of financial assets depends on.

- (a) The Bank's business model for managing the asset; and
- (b) The cash flow characteristics of the asset.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) *Financial assets (Continued)*

- **Fair value through profit or loss (FVPL):** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Other income' in the period in which it arises.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest and are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Other Income'.

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

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

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

Recognition of financial assets

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarized below:

- **Level 1 financial instruments** – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the statement of financial position date.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) *Financial assets (Continued)*

- Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.
- Level 3 financial instruments that include one or more unobservable input that is significant to the measurement as whole.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (Credit Valuation Adjustment), own credit (Debit Valuation Adjustment) and/or funding costs (Funding Valuation Adjustment). Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralized financial instruments.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments, when necessary, based on the facts at the end of the reporting period.

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

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the statement of financial position date. In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at FVOCI. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

Impairment of financial assets

The Bank recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVPL:

- Loans and advances to banks;
- Loans and advances to customers;
- Debt investment securities;
- Corporate bonds;
- Loan commitments issued; and
- Financial guarantee contracts issued.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(f) Financial assets (Continued)**

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Lifetime ECL, i.e. ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

For the purposes of determining ECL quantitative and qualitative factors are considered, all facilities whose contractual payments are more than 30 days due but less than or equal to 90 days due are grouped in stage 2 as they are taken to have experienced a significant increase in credit risk, changes in business environment is also considered as qualitative factor. As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as stage 3 for ECL calculations or whether stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default;
- The borrower requesting emergency funding from the Bank;
- The borrower having past due liabilities to public creditors or employees.
- The borrower is deceased.
- A material decreases in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decreases in the borrower's turnover or the loss of a major customer.
- A covenant breach not waived by the Bank;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy.
- application/protection; and
- Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

More details on the determination of a significant increase in credit risk are provided in Note 30.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) *Financial assets (Continued)*

- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

The ECL is determined by projecting the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

PD – the probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

EAD – the expected statement of financial position exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortization and prepayments, together with the impact of forward-looking economic assumptions where relevant. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

- For amortized products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving facilities, for Retail portfolios, asset duration is based on behavioral life and this is normally greater than contractual life. For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

LGD – The loss that is expected to arise on default which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) *Financial assets (Continued)*

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note 4 for an explanation of forward- looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on an annual basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Definition of default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due.

Under IFRS 9, the Bank will consider a financial asset as ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

Definition of default (Continued)

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortized cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding. The Bank’s write-off policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to profit or loss. The Bank writes off non-performing financial assets that have been past due for more than four (4) consecutive quarters.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) *Financial assets (Continued)*

The Bank may write off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The assessment is done to specific borrower.

(i) **Assets carried at amortized cost**

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of impairment include:

Significant financial difficulty of the issuer or obligor;

- A breach of contract, such as a default or delinquency in interest or principal payment; Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Bank of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is revised by adjusting the allowance account. The amount of the reversal is recognized in profit or loss in impairment charge for credit losses.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**(f) Financial assets (Continued)**

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognizes all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognized in profit or loss. A favorable change for such assets creates an impairment gain.

(ii) Assets carried at fair value through other comprehensive income

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a Bank of financial assets is impaired. In the case of equity investments carried at fair value through other comprehensive income, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for Assets carried at fair value through other comprehensive income, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the profit or loss.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. An impairment assessment is performed in a similar manner for loans whose terms are renegotiated as a result of financial difficulty of the borrower in the year the terms were renegotiated even if the loan is classified as performing.

Modification of financial assets

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

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

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the modified terms at initial recognition. The Bank monitors the subsequent performance of modified assets until they are completely and ultimately derecognized. The Bank may determine that the credit risk has significantly improved

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) *Financial assets (Continued)*

after modification, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms. Differences in the carrying amount are recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms. There were no financial assets which were modified during the period and hence no modification loss suffered by the Bank.

Cure of non-performing financial assets including restructured loans

An instrument is considered to no longer be SICR or in default (i.e. to have cured) when it has been established that the obligor is able to meet the requirements of the agreed terms and conditions.

IFRS 9 allows credit exposures to migrate from higher credit risk categories to lower credit risk categories, that is, from stage 3 to stage 2 and from stage 2 to stage 1.

Under migration from stage 3 to stage 2, the Bank shall consider criteria for upgrade of credit accommodations as follows:

- (a) in the case of overdraft facilities, the account has satisfactorily performed for a minimum period of two consecutive quarters; and
- (b) in the case of term loans, the obligor has timely paid four consecutive installments.

These periods have been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. The Bank has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2024.

On the other hand, credit exposures may migrate from stage 2 to stage 1 when there is a significant improvement of the credit exposure. In determining whether an exposure should shift backward from stage 2 to stage 1, The Bank shall consider the following;

- (a) All outstanding payments on the credit facility are made on time and there are no payments in arrears.
- (b) There is improvement of the quantitative and qualitative factors that caused significant increase of the credit risk.

Upgrade from stage 2 to stage 1 shall be subject to a monitoring period of 90 days for conventional loans and 30 days for Microfinance loans to confirm if the risk of default has decreased sufficiently before upgrading such exposure.

For credit exposures that have cured i.e shifted from stage 2 to stage 1, effective interest income is calculated on gross carrying amount of the asset at the beginning of the period before allowance for ECLs using effective interest rate. The carrying amount of the exposure shall be the amortized cost at the end of the period.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) *Financial assets (Continued)*

Cure of non-performing financial assets including restructured loans (Continued)

For credit exposures that have shifted from stage 3 to stage 2, objective evidence of impairment still exists, and accordingly effective interest income is computed on gross carrying amount of the asset at the beginning of the period using effective interest rate. The gross carrying amount of the exposure shall be the amortized cost at the end of the period.

Financial liabilities

Financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Financial liabilities are derecognized when extinguished. Such financial liabilities include deposits from banks or customers, other liabilities, subordinate debts and borrowings.

Derecognition of financial assets and liabilities

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control. The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- (a) has no obligation to make payments unless it collects equivalent amounts from the assets;
- (b) is prohibited from selling or pledging the assets; and
- (c) has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities are recognized when they have been redeemed or otherwise extinguished.

Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost of disposal or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(a) *Income Tax*

Income tax charge

The tax expense for the period comprises current and deferred income tax. Tax is recognized in profit or loss, except to the extent 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) *Financial assets (Continued)*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax

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

Deferred tax liabilities are recognized for all taxable temporary and all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit shall be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit shall be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit shall allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

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

(b) *Property and equipment*

Property and equipment are initially recorded at historical cost and subsequently stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred. Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life as follows:

Leasehold improvements	10 years (10%)
Computer equipment	5 years (20%)
Furniture and fittings	5 years (20%)
Office equipment	5 years (20%)
Motor vehicles	4 years (25%)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

As at 31 December 2023, the bank had 598 assets that are fully depreciated with the original value of TZS 3.8B. Out of these 539 assets are still in a good condition whereby its useful life can be extended while 59 assets are in poor condition subjected to disposal. A revaluation process of these assets is planned to take place in 2023 using a register valuer. The bank has two motor vehicles that are fully depreciated, one vehicle used by the bank on daily routines will be revalued while the other vehicle will be disposed in 2024. Currently all motor vehicles are currently maintained at their original cost.

(c) *Intangible assets*

The Bank's intangible assets include the value of computer software licenses. An intangible asset is recognized only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over their useful economic lives. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the

amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in operating expenses in profit or loss. Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives (seven years for core banking software and five years for other software).

(d) *Accounting for leases*

Leases

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

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 recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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 presented within Note 19 right-of-use assets and are subject to impairment in line with the Bank's policy.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease liabilities

At the commencement date of the lease, the Bank recognizes 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).

Bank as a lessor

The Bank has no activities as a lessor and hence the Bank does not expect any impact on the financial statements.

(e) *Employee benefits*

Retirement benefit obligations

All bank employees are members of Public Service Social Security Fund-PSSSF which is a defined pension contribution plan. A defined contribution plan is a pension plan under which the bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The bank and employees each contribute 10% of the employees' gross salaries to the defined contribution plans. The bank's contributions are recognized as employee benefits expense when they are due.

Short-term benefits

Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits. These benefits consist of salaries and any non-monetary benefits such as medical reimbursements and insurance. The undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in an accounting period is recognized in that period. The expected cost of short-term compensated absences is recognized as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts an entity expects to pay as a result of unused entitlements at the end of the period.

(f) *Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including cash and balances with Bank of Tanzania, loans and advances to banks, net of deposits from banks.

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less.

(g) *Other assets*

Other assets consist of prepayments, sundry debtors and other receivables. Other assets are initially recognized at fair value and subsequently measured at amortized cost. Prepayments are recognized at the fair value of the amount paid and amortized over the coverage period.

(h) *Other liabilities*

Other liabilities consist of payables to third parties. Other liabilities are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

(i) *Share capital*

Ordinary shares are classified as 'share capital' in equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds.

(j) *Share capital*

Ordinary shares are classified as 'share capital' in equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds.

(k) *Provisions*

Provisions are recognized when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. There were no provisions at year end recorded in the statement of financial position.

(l) *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker has been identified as operating board that makes strategic decisions.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustment to the carrying amount of assets or liabilities affected in future periods.

(a) *Impairment losses on loans and advances*

Impairment under IFRS 9

Fair value of financial instruments

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

Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a Bank's clients to meet their obligations as they fall due.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future credit risk losses should depend not just on the health of the economy today but should also take account of changes to the economic environment in the future. To capture the effect of changes to the economic environment in the future, the computation of probability of default (PD), loss given default (LGD) and so expected credit loss incorporates forward-looking information; assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Bank's clients. Such variables include Inflation, GDP Growth, oil prices fluctuation, average electricity generation, natural gas, population, total household spending, total food sales, total public debt, Government spending in priority sector, unemployment rate, exchange rate movement.

Cure rate

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

Significant increase in credit risk

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors (as per note 4), the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. Financial assets that are 30 or less days past due are considered to be have low credit risk.

Taxes

Significant judgment is required in determining the Bank's overall income tax provision or estimated future recovery of income tax losses. There are many transactions and calculations, for which the ultimate tax determination is uncertain. The Bank recognizes liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the outcome of tax matters is different from the amounts that were initially recorded, such differences will have an impact on the current and any deferred income tax provisions (note 13) in the periods in which the determination is made.

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the annual financial statements continue to be prepared on the going concern basis.

4 BUSINESS SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker has been identified as members charged with governance that makes strategic decisions. As at the date of these annual financial

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statements, there were no separate financial results maintained and reviewed by the chief operating decision maker. The bank operates as one segment and the information that chief operating decision maker is reviewing is the same as what is presented in the annual financial statements.

	2024 TZS '000	2023 TZS '000
5 EFFECTIVE INTEREST INCOME		
Investment securities	40,000	-
Loans and advances to banks	386,754	407,181
Loans and advances to customers	9,956,156	9,905,043
	10,382,910	10,312,224
6 EFFECTIVE INTEREST EXPENSE		
Deposits from banks	166,260	239,442
Deposits from customers	4,678,263	4,354,866
	4,844,523	4,594,308
7 FEES AND COMMISSION INCOME		
Loan fees	954,336	1,061,319
Service charge on customer accounts	88,730	2,119
Mwalimu Bima	222,996	199,925
Mwalimu Mobile	236,580	188,130
Mwalimu Card Visa	157,241	207,232
Mwalimu Wakala	44,123	50,446
Other fees and commissions	48,992	58,343
	1,752,998	1,767,514
	2024 TZS '000	2023 TZS '000
8 NET TRADING INCOME		
Foreign currency translation gains	121,170	(42,937)
Cash and cash equivalents fx gains	-	-
Trading activities gains	4,605	1,099
	125,775	(41,838)
9 OTHER INCOME		

Sundry income	197,501	228,064
	197,501	228,064

10 STAFF COSTS

Wages and salaries	2,414,787	2,430,362
Social security costs (Defined contribution plan)	223,713	228,906
Other staff costs	626,058	380,421
	3,264,558	3,039,689

*Other staff costs include; travel allowance, SDL, WCF, medical, recruitment, staff training expenses, responsibility allowance, overtime

	2024	2023
	TZS '000	TZS '000
11 INFRASTRUCTURE COSTS		
Right of Use Asset depreciation	318,233	122,187
Office repair and maintenance costs	240,746	207,583
Information Technology*	665,975	670,704
Depreciation of property and equipment (Note 20)	291,323	209,214
Amortization of intangible assets	107,020	740,268
	1,623,297	1,949,956
*Information technology includes; core banking system implementation expenses, software licenses, data lines hire and all other ICT software maintenance expenses		
12 ADMINISTRATION AND GENERAL EXPENSES		
Marketing costs	683,446	548,697
Subscriptions	32,035	42,685
Professional fees	29,184	49,340
Telephone, postage & Communication costs	107,729	109,261
Printing and stationery expenses	33,362	45,713
Insurance	173,446	141,908
Service charges & levies	26,479	15,702
Bank charges	6,812	23,509
Office security	70,656	67,181
Auditor's remuneration	40,823	41,091
Legal expenses	118,374	198,827
Directors' fees	20,075	21,625
Directors sitting allowances	57,747	68,700
Provision on expected losses on other assets	29,975	-
Other administrative expenses	606,824	493,392
	2,036,967	1,867,631

13 INCOME TAX

Tax charge

Current tax:

Current tax on profits for the year	86,331	61,539
Total current tax expense	86,331	61,539
Deferred income tax:		
Decrease/(decrease) in deferred tax assets	66,209	31,929
Total deferred tax expense	66,209	31,929
Deferred tax movement not recognized	(66,209)	(31,929)
Income tax expense	86,331	61,539

Reconciliation of income tax expense

Profit/(Loss) before income tax	218,390	
Tax calculated at 30%	65,517	21,752
Alternative Minimum Tax	87,023	61,539
Deferred tax movement not recognized	(66,209)	(31,929)
Income tax expense	86,331	51,362

Reconciliation of tax recoverable

Current tax asset per statement of financial position	401,398	418,862
<i>Movement of current tax asset</i>		
Balance at the beginning of the year	(418,861)	(406,230)
Income tax charge	86,331	61,539
Taxes paid	(68,868)	(74,171)
Balance at the end of year	(401,398)	(418,862)
Non-current	(401,398)	(418,862)

Deferred income tax

Deferred income tax is calculated in full on all temporary differences, under the liability method using a principal tax rate of 25%. The movement on the deferred tax account is as follows:

	2024	2023
	TZS '000	TZS '000
Deferred income tax (asset)/liability		
Property, equipment and intangibles	17,240	6,278
Provision on loans	(80,528)	325,071
Tax losses	129,497	(299,420)
Net deferred income tax asset	66,209	31,929

14 EARNINGS PER SHARE

Basic Earnings Per Share (EPS) is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares during the period. The Bank does not have potential ordinary shares with convertible options and therefore there is no dilutive impact on the (loss) attributable to the ordinary shareholders of the Bank

	2024	2023
Net (loss) attributable to shareholders (TZS'000)	132,059	10,967
Weighted average number of ordinary shares in issue (Note 25) ('000)	61,825	61,825
Basic and diluted earnings per share (TZS)	2.14	0.18

15 CASH AND BALANCES WITH BANK OF TANZANIA

Cash in hand*	678,520	692,384
Clearing accounts with Bank of Tanzania	8,797,722	3,358,700
Statutory Minimum Reserves (SMR)	3,817,325	3,569,639
	13,293,567	7,621,023

*Cash in hand includes vault cash, ATM cash balances and petty cash

The SMR amount is not available to finance the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the cash flow statement (See Note 28). Cash in hand and balances with Bank of Tanzania are non-interest bearing.

	2024	2023
	TZS '000	TZS '000
16 LOANS AND ADVANCES TO BANKS		
Current account balances with banks	348,743	76,192
Placements with other banks	13,196,620	7,746,343
Less: impairment	-	-
	13,545,363	7,822,535
Current	13,545,363	7,822,535

Movement in allowance for impairment losses on loans and advances is as follows;

	2024	2023
	TZS '000	TZS '000
At 1 January	-	-
Net impairment charge for the year	-	(8,172)
At 31 December	-	(8,172)
17 LOANS AND ADVANCES TO CUSTOMERS		
Mwalimu loans	49,920,333	55,705,158
Personal loans	5,447,092	4,757,642
Business loans	1,788,829	1,598,389
Staff loans	1,379,817	1,402,420
Gross loans and advances	58,536,071	63,463,609
Less: allowance for impairment	(869,619)	(661,694)
interest in suspense	(147,074)	(248,261)
	57,519,378	62,553,654

Movement in allowance for impairment losses on loans and advances is as follows.

	2024	2023
	TZS '000	TZS '000
At 1 January	661,694	434,120
Net credit loss charge for the year	342,708	447,101
Net credit loss reversal for the year	(134,783)	(219,527)
At 31 December	869,619	661,694

Analysis of provision account for losses on loans and advances by class is as follows.

	Retail TZS '000	Retail TZS '000
Year ended 31 December 2024		
At 1 January 2024	661,694	381,760
Net credit loss charge for the year	342,708	262,200
Net credit loss reversal for the year	(134,783)	(209,840)
At 31 December 2024	869,619	434,120

	Retail TZS '000	Retail TZS '000
Year ended 31 December 2023		
At 1 January 2023	434,120	381,760
Net credit loss charge for the year	447,101	262,200
Net credit loss reversal for the year	(219,527)	(209,840)
At 31 December 2023	661,694	434,120

	2024 TZS '000	2023 TZS '000
18 OTHER ASSETS		
Prepayments	477,079	316,922
Sundry receivables	673	667,446
Other receivables	161,574	884,708
	639,326	1,869,076

19 RIGHT OF USE ASSET

(i) Amounts recognized in the balance sheet

Cost

At 1 January 2024	1,463,251	508,309
At 31 December 2024	1,463,251	508,309

Depreciation

At 1 January 2024	247,481	-
Depreciation charge for the year	318,233	130,473
At 31 December 2024	565,714	130,473

Net Book Value

At 31 December 2024	897,538	377,836
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Set out below are the carrying amounts of lease liabilities and the movements during the period:

(ii) Amounts recognized in the statement of profit or loss

Lease liability

At 1 January 2024	1,463,251	508,309
Accretion of interest	128,742	324,772
Payments and reversal adjustments	(698,971)	(455,245)
At 31 December 2024	893,022	377,836

20	PROPERTY & EQUIP- MENT	Leasehold		Office			
		Improve- ments	Computer Equipment	Equip- ment	Motor Vehicles	Furniture & Fittings	Total
		TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
<u>Year ended 31 December 2024</u>							
Cost							
	At 1 January 2024	1,281,213	2,019,740	991,022	212,997	153,013	4,657,985
	Reclassification/Ad- ditions	28,201	35,270	20,712	276,154	9,380	369,717
	At 31 December 2024	<u>1,309,414</u>	<u>2,055,010</u>	<u>1,011,734</u>	<u>489,151</u>	<u>162,393</u>	<u>5,027,702</u>
Accumulated Depreciation							
	At 1 January 2024	(794,787)	(1,989,008)	(776,936)	(212,997)	(132,802)	(3,906,530)
	Charge for the year	(149,202)	(3,792)	(74,552)	(40,272)	(7,504)	(275,322)
	At 31 December 2024	<u>(943,989)</u>	<u>(1,992,800)</u>	<u>(851,488)</u>	<u>(253,269)</u>	<u>(140,306)</u>	<u>(4,181,852)</u>
	Net carrying value	<u>365,425</u>	<u>62,210</u>	<u>160,246</u>	<u>235,882</u>	<u>22,087</u>	<u>845,850</u>
<u>Year ended 31 December 2023</u>							
Cost							
	At 1 January 2023	1,280,903	2,011,640	901,991	212,997	145,439	4,552,970
	Reclassification/Ad- ditions	310	8,100	89,031	-	7,574	105,015
	At 31 December 2023	<u>1,281,213</u>	<u>2,019,740</u>	<u>991,022</u>	<u>212,997</u>	<u>153,013</u>	<u>4,657,985</u>
Accumulated Depreciation							
	At 1 January 2023	(678,644)	(1,964,117)	(715,932)	(212,997)	(125,627)	(3,697,317)
	Charge for the year	(116,143)	(24,891)	(61,005)	-	(7,175)	(209,214)
	At 31 December 2023	<u>(794,787)</u>	<u>(1,989,008)</u>	<u>(776,936)</u>	<u>(212,997)</u>	<u>(132,802)</u>	<u>(3,906,531)</u>
	Net carrying value	<u>486,426</u>	<u>30,732</u>	<u>214,085</u>	<u>-</u>	<u>20,211</u>	<u>751,454</u>

*No property or equipment has been pledged as collateral.
All property and equipment items are non-current

	2024	2023
	TZS '000	TZS '000
21 INTANGIBLE ASSETS		
At 1 January	127,227	797,405
Paid during the year	398,911	70,090
Work in progress	201,898	-
Amortization charge for the year	(107,020)	(740,268)
At 31 December	621,016	127,227
At 31 December		
Cost	7,964,883	7,549,971
Accumulated amortization	(7,545,764)	(7,422,744)
Net Book Value	419,119	127,227
22 DEPOSITS FROM CUSTOMERS		
Retail Banking:		
Savings Account	6,417,087	5,037,881
Current Account	7,336,613	2,628,195
Term Deposits	54,929,574	53,136,828
	68,683,274	60,802,904
Current	68,683,274	60,802,904
Maturity Analysis		
Repayable on demand	13,753,700	7,666,075
Maturing within 3 months	9,405,715	9,407,112
	23,159,415	17,073,187

Deposits due to customers only include financial instruments classified as liabilities at amortized costs. All deposits are at fixed interest rates. The effective interest rate for the year was 8.2%.

	2024	2023
	TZS '000	TZS '000
23 OTHER LIABILITIES		
Accrued taxes payable	768,121	382,087
Accrued expenses	193,538	501,882
Sundry creditors	964,245	292,884
Other payables	241,577	1,155,476
	2,167,481	2,332,329

Other liabilities are expected to be settled within no more than 12 months after end of reporting period

	Number of ordinary shares	Total TZS '000
24 SHARE CAPITAL		
At 1 January 2024	61,824,920	30,912,460
Advance towards share capital	-	7,000,000
At 31 December 2024	61,824,920	37,912,460
At 1 January 2023	61,824,920	30,912,460
Advance towards share capital		5,000,000
At 31 December 2024	61,824,920	35,912,460
25 RESERVES	Retained earnings TZS '000	
Balance at 1 January 2024	(20,400,395)	
Non- Distributable Reserve	93,146	
Profit for the year	132,059	
Previous years adjustments	(1,108,501)	
Balance at 31 December 2024	(21,283,236)	
Balance at 1 January 2023	(20,254,494)	
Previous years adjustments	(96,615)	
Non -Distributable Reserve	10,967	
Loss for the year	(60,253)	
Balance at 31 December 2023	(20,400,395)	
26 RESERVES	Non Dis- tributable Reserve TZS '000	
Balance at 1 January 2024	113,927	
Loss brought forward	(93,146)	
Balance at 31st Dec 2024	20,781	
Balance at 1 January 2023	17,312	
Loss brought forward	96,615	
Balance at 31 st December 2023	113,927	

(*) Previous years adjustments in the reserve movement includes prior year Tax liabilities arised from Tax audit 2014-2022.

27 ANALYSIS OF CASH & CASH EQUIVALENTS AS SHOWN IN THE STATEMENT OF CASH FLOWS

	2024	2023
	TZS '000	TZS '000
Cash in hand (Note 15)	678,520	692,384
Clearing accounts with Bank of Tanzania (Note 15)	8,797,722	3,358,700
Loans and advances to banks (Note 16)	348,743	76,192
Net foreign exchange difference	(2,673)	-
	9,822,312	4,127,275

28 CONTINGENT LIABILITIES AND COMMITMENTS**(a) Tax assets**

The Bank is awaiting a refund from the tax authority amounting to TZS 294 million. As of the reporting date, this refund has not been received, and the refund is contingent on the approval of the Tanzania Revenue Authority. The amount has not been recognized as an asset in the balance sheet, as its receipt is uncertain.

(b) Legal proceedings

There was four legal proceeding outstanding against the Bank as at 31 December 2024

(c) Capital commitments

There were no capital commitments at the year-end (2023: nil).

29 BANCASSURANCE

The revenue generated from bancassurance services for the year ended 31 December 2024 amounted to TZS 223 million (2023: TZS 200 million). while the costs incurred amounted to TZS 12.9 million (2023: TZS 12.9 million). The income from Bancassurance has been disclosed as part of fees and commission income under note 7.

30 RELATED PARTY TRANSACTIONS

The Bank is owned and controlled by TTU (Tanzania Teachers' Union), TDCL (Teachers' Development Company Limited), PSSSF (Public Service Social Security Fund, NHIF (National Health Insurance Fund), Individual Teachers and General Public through shareholding. Transactions entered into with the shareholders in the normal course of business during the year to 31 December 2024 include loans and deposits. All related party transactions were entered into at an arm's length.

The volumes of related party transactions, outstanding balances at the year-end and related income and expenses for the year are as follows:

(a) Loans and advances to related parties	Directors and key management personnel	
	2024	2023
	TZS '000	TZS '000
At start of year	521,160	395,835
Loans issued during the year	286,269	259,654
Loan repayment during the year	(468,366)	(134,329)
At end of year	521,160	521,160
Interest income earned	32,545	47,545
Current	32,545	47,031
Non-current	306,518	474,129

All loan repayments are done on monthly basis

(a) Deposits to related parties**Directors and key management personnel**

	2024	2023
	TZS '000	TZS '000
At the start of year	33,121,102	24,720,807
Deposits during the year	10,641,266	8,400,295
At end of year	43,762,368	33,121,102
Interest expense incurred	-	-

Key management compensation

	2024	2023
	TZS '000	TZS '000
Social Security	100,856	178,646
Salaries and other short-term employment benefits	988,611	988,611
	1,089,467	1,167,257

31 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Total
	TZS '000	TZS '000
At 31 December 2024		
Financial assets		
Cash and balances with Bank of Tanzania	13,293,568	13,293,568
Loans and advances to banks	13,545,364	13,545,364
Loans and advances to customers	57,519,378	57,519,378
Other assets	129,823	129,823
	84,488,133	84,488,133

	other liabilities at amortized cost	Total
	TZS '000	TZS '000
At 31 December 2024		
Financial liabilities		
Deposits from customers	68,683,274	68,683,274
Other liabilities	1,399,360	1,399,360
	70,082,634	70,082,634

	Loans and receivables	Total
	TZS '000	TZS '000
At 31 December 2023		
Financial assets		
Cash and balances with Bank of Tanzania	7,620,722	7,620,722
Loans and advances to banks	7,822,031	7,822,031
Loans and advances to customers	62,553,655	62,553,655

Other assets	1,552,154	1,552,154
	79,548,561	79,548,561

At 31 December 2023	other liabilities at amortised cost	Total
Financial liabilities	TZS '000	TZS '000
Deposits from customers	60,802,904	60,802,904
Other liabilities	1,950,242	1,950,242
	62,753,146	62,753,146

32 FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business and the financial risks are inevitable consequence of being in business. 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 most important types of financial risks are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the Bank shall incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Bank has a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit risk measurement

Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank assesses the financial condition by looking at the trend of key ratios as well as conducting site visits to gauge feasibility of the prospective businesses.

Impairment allowances are computed as required under IFRS 9, which are based on expected losses as at the statement of financial position date (the 'expected credit loss model').

Aging analysis is used to give ex-post information on the extent of exposure assumed by the Bank. The Bank's rating scale shown below, is used in ranking the level of exposure.

Bank's internal ratings scale

Bank rating	Description of the grade	Ageing	% used for Regulatory Provisioning
1	Current	0 – 30 days	0%
2	Especially Mentioned	31 – 90 days	3%
3	Sub-standard	91 – 180 days	20%
4	Doubtful	181 – 360 days	50%
5	Loss	361 days and above	100%

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties 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, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-statement of financial position exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through 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.

Impairment and provisioning policies

The internal bank rating system focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment. Due to the different methodologies applied, the amount of credit losses incurred provided for in the annual financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes. The impairment allowance shown on the statement of financial position at year-end is derived from current grades. The table below shows 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:

Bank's rating	31-Dec-24				31-Dec-23			
	Loans and advances		Impairment provision		Loans and advances		Impairment provision	
	<u>Amount</u>	<u>(%)</u>	<u>Amount</u>	<u>(%)</u>	<u>Amount</u>	<u>(%)</u>	<u>Amount</u>	<u>(%)</u>
	TZS '000		TZS '000		TZS '000		TZS '000	
1. Current	57,167,921	97.7	-	-	61,947,041	97.6	34,383	5.2
2. Especially mentioned	112,275	0.2	3,368	0	405,197	0.6	5,731	0.9
3. Substandard	335,722	0.6	67,144	8	161,223	0.3	82,876	12.5
4. Doubtful	200,533	0.3	100,266	11	472,479	0.7	241,045	36.4
5. Loss	719,621	1.2	719,621	81	477,669	0.8	297,658	45.0
	58,536,072	100.0	890,399	100.0	63,463,609	100.0	661,694	100

The internal rating tool assists management to determine whether objective evidence of impairment exists under IFRS 9, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the expected loss at statement of financial position date on a case-by-case basis and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Maximum exposure to credit risk before collateral held or other credit enhancements

The Bank's maximum exposure to credit risk at 31 December 2024 and 31 December 2023 respectively is represented by the carrying amounts of the financial assets in the Statement of Financial Position. There was no collateral held in respect of the financial assets exposed to credit risk. See below:

	2024	2023
	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	13,293,568	7,620,722
Loans and advances to banks	13,545,364	7,822,031
Loans and advances to customers	57,519,378	62,553,655
Other assets	129,823	3,544,456
Total	84,488,133	81,540,863

*Other assets exclude prepayments as they are not financial assets.

The total maximum exposure for the Bank is derived from loans and advances to banks and loans and advances to customers at 10.6% (2023: 7.7%) and 89% (2023: 93%) respectively. The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances. 97.6% of the loans and advances portfolio is considered to be current (2023: 92.3%).

Loans and advances	2024	2023
	TZS '000	TZS '000
Loans and advances are summarized as follows:		
Loans and advances	58,388,997	63,215,348
Gross loans and advances to customers	58,388,997	63,215,348

Less: expected credit losses

Stage 3	(675,574)	(621,580)
Stage 2	(189,684)	(3,870)
Stage 1	(4,361)	(36,244)
Credit losses	(869,619)	(661,694)
Net loans and advances to customers	57,519,378	62,553,655

Loans and advances to customers

Impairment provision for loans and advances was TZS 869million (2023: TZS 661 million). This represents results of loans assessed individually for impairment and also on a portfolio basis.

Loans and advances to banks

There was no amount of individually impaired loans and advances to banks as at 31 December 2024 (2023: nil).

Investment securities

Investment securities held by the Bank are treasury bonds issued by the Government of Tanzania which were considered to be neither past due nor impaired. These investment securities are held with the Government with no history of default.

Other assets

Prepayments are not financial assets and therefore excluded accordingly. There is no history of default on other assets amount and management does not deem other assets balance to be impaired.

Concentration of risks of financial assets with credit risk exposure**a) Geographical sectors**

As of 31 December 2024, all financial instruments are with counterparties in Tanzania.

Year ended 31 December 2024	Tanzania	Total
	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	13,293,568	13,293,568
Loans and advances to banks	13,545,364	13,545,364
Loans and advances to customers	57,519,378	57,519,378
Other assets	129,823	129,823
Total	84,488,133	84,488,133

Year ended 31 December 2023	Tanzania	Total
	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	7,486,261	7,486,261
Loans and advances to banks	7,424,693	7,424,693
Loans and advances to customers	62,553,655	62,553,655
Other assets	1,551,949	1,551,949
Total	79,016,558	79,016,558

b) Industry sectors

The following table breaks down the bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of its counterparties.

Year ended 31 December 2024	Financial Institutions	Individuals	Others	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	13,293,568	-	-	13,293,568
Loans and advances to banks	13,545,364	-	-	13,545,364
Loans and advances to customers	-	57,519,378	-	57,519,378
Other assets	-	-	129,823	129,823
Total	26,838,932	57,519,378	129,823	84,488,133

	Financial Institutions	Individuals	Others	
Year ended 31 December 2023	TZS '000	TZS '000	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	7,486,261	-	-	7,486,261
Loans and advances to banks	7,424,693	-	-	7,424,693
Loans and advances to customers	-	62,553,655	-	62,553,655
Other assets	-	-	1,551,949	1,551,949
Total	14,910,954	62,553,655	1,551,949	79,016,558

Liquidity risk

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

Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Asset and Liability Committee (ALCO) of the Bank includes:

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management.

The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Funding approach

Sources of liquidity are regularly reviewed by the Bank's Asset and Liability Committee (ALCO) of the Bank to maintain a wide diversification by currency, provider, product and term.

Non-derivative cash flows

The table below analyses financial assets and financial liabilities into relevant maturity groupings based on their contractual undiscounted amounts as at 31 December 2024.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Non-derivative cash flows (Continued)

As at 31 Decem- ber 2024	Up to1 month	1 to 3 months	4 to 12 months	1 to 5 years	over 5 years	Total
Liabilities						
Deposits from customers	23,233,165	2,440,570	40,310,539	2,699,000	-	68,683,274
Deposits from banks	5,255	-	-	1,000,000	-	1,005,255
Other liabilities *	1,535,221	-	-	-	-	1,535,221
Total liabilities (contractual ma- turity dates)	24,773,641	2,440,570	40,310,539	3,699,000	-	71,223,750
Assets						
Cash and balances with Bank of Tanzania	13,293,568	-	-	-	-	13,293,568
Loans and advances to banks	13,545,364	-	-	-	-	13,545,364
Loans and advances to customers	685,184	332,694	2,891,562	21,062,245	33,564,386	58,536,071
Other assets	-	-	129,823	-	-	129,823
Total assets (expected maturity dates)	27,524,116	332,694	3,021,385	21,062,245	33,564,386	85,504,826
Liquidity Gap	2,750,475	(2,107,876)	(37,289,154)	24,761,245	(33,564,386)	14,281,076

*Other liabilities exclude statutory obligations.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk (Continued)

Non-derivative cash flows (Continued)

As at 31 December 2023	Up to 1 month	1 to 3 months	4 to 12 months	1 to 5 years	over 5 years	Total
Liabilities						
Deposits from customers	11,021,413	2,440,570	40,310,539	2,699,000	-	60,802,904
Deposits from banks	2,401,802	-	-	1,000,000	-	2,401,802
Other liabilities *	2,167,481	-	-	-	-	2,710,165
Total liabilities (contractual maturity dates)	25,405,901	2,440,570	40,310,539	3,699,000	-	65,914,871
Assets						
Cash and balances with Bank of Tanzania	7,620,722	-	-	-	-	7,620,722
Loans and advances to banks	62,387	7,759,644	-	-	-	7,822,031
Loans and advances to customers	111	30,000	3,452,827	9,261,178	49,809,538	62,553,654
Other assets	-	1,992,302	1,551,949	-	-	3,544,251
Total assets (expected maturity dates)	7,683,220	9,781,946	5,004,776	9,261,178	49,809,538	81,540,658
Liquidity Gap	-8,450,160	-23,161,826	-10,748,943	8,177,178	49,809,538	15,625,878

*Other liabilities exclude statutory obligations.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)**Liquidity risk (Continued)****Non-derivative cash flows (Continued)**

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

Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates and foreign currencies, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates.

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. With all other variables held constant, a shift in foreign exchange rate by 5% on all foreign denominated assets, liabilities and equity, would lead to foreign currency exposure to the Bank of a lower or higher loss after tax of TZS 2.61 million as at 31 December 2024 (2023: TZS 2.49 million).

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2024. Included in the table are the Bank's financial instruments at carrying amounts, categorized by currency (amounts are in USD).

As at 31 December 2024	USD	Total
Assets		
Cash and balances with Bank of Tanzania	44,792	44,792
Balances with other banks	1,414,943	1,414,943
Total financial assets	<u>1,459,735</u>	<u>1,459,735</u>
Liabilities		
Deposits	2,203,701	2,203,701
Total financial liabilities	<u>2,203,701</u>	<u>2,203,701</u>
Net on-balance sheet financial position	<u>(743,966)</u>	<u>(743,966)</u>

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

As at 31 December 2023	USD	Total
Assets		
Cash and balances with Bank of Tanzania	130,342	130,412
Balances with other banks	6,918,640	6,918,640
Total financial assets	7,048,982	7,048,982
Liabilities		
Deposits	7,503,017	7,503,017
Total financial liabilities	7,503,017	7,503,017
Net on-balance sheet financial position	(454,035)	(454,035)

Foreign exchange risk (Continued)

Interest rate risk

Interest rate risk represents exposures to instruments whose values vary with the level or volatility of interest rates. These instruments include, but are not limited to loans, debt securities, certain traded assets and liabilities, deposits, borrowings and derivative instruments.

The bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates, as funds are sourced and invested at both fixed and floating rates. The maturities of assets and liabilities, plus the ability to replace interest bearing liabilities at an acceptable cost as they mature, are important factors in assessing the bank's exposure to changes in interest rates.

In addition to maintaining an appropriate mix between fixed and floating rates deposit base, interest rates on advances to customers and other risk assets are mainly pegged to the bank's base lending rate (floating rates). The base lending rate is adjusted from time to time to reflect prevailing market costs of deposits.

Interest rates on customer deposits are negotiated between the bank and its customers, with the bank retaining the discretion to re-negotiate the rates at maturity in line with changes in market trends. The interest rates given or charged to clients therefore fluctuate depending on the movements in the market interest rates. The bank also invests in fixed interest rate instruments issued by the Government of Tanzania through the Bank of Tanzania.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank's interest rate risk. It is unusual for a bank ever to completely be matched due to the nature of business terms and types of products offered.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)**Interest rate risk (Continued)****Bank's exposure to interest rate risks**

No exposure in 2024 as the bank does not have the instruments held in 2024

Fair value of financial assets and liabilities

The table below summarizes the carrying amounts and fair values of the financial assets and liabilities presented on the Bank's statement of financial position:

	Carrying value	Fair value
Year ended 31 December 2024	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	13,293,568	13,293,568
Loans and advances to banks	13,545,364	13,545,364
Loans and advances to customers	57,519,378	57,519,378
Other assets	129,823	129,823
Total financial assets	84,488,133	84,488,133
Deposits from customers	68,683,274	68,683,274
Other liabilities	1,399,360	1,399,360
Total financial liabilities	70,082,634	70,082,634
	Carrying value	Fair value
Year ended 31 December 2023	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	7,486,261	7,486,261
Loans and advances to banks	7,424,693	7,424,693
Loans and advances to customers	62,553,655	62,553,655
Other assets	1,551,949	1,551,949
Total financial assets	79,016,558	79,016,558
Deposits from customers	60,236,978	60,236,978
Other liabilities	1,950,242	1,950,242
Total financial liabilities	62,187,221	62,187,221

Fair valuation methods and assumptions**a) Financial instruments not measured at fair value**

The fair values of the Bank's financial assets such as loans and advances to customers, loans and advances to banks, other assets, deposits from customers and other liabilities approximate their respective carrying amounts due to the generally short periods to maturity dates.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)**(i) Cash and bank balances**

Cash and bank balances comprises cash at bank. The carrying amount of cash and balances with banks is a reasonable approximation of fair value.

(ii) Loans and advances to banks

Loans and advances to banks include inter-bank placements. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(iii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iv) Other liabilities

Other liabilities contain accruals and other payables, which are non-interest bearing and therefore carrying value, approximated to the fair value.

b) Basis for the fair value hierarchy

The fair value hierarchy of the financial instruments presented above is based on the following:

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. Specific valuation techniques used to value financial instruments include quoted market prices or dealer quotes for similar instruments and other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

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

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

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, for supervisory purposes. The required information is filed with the Bank of Tanzania on monthly basis.

The Bank of Tanzania requires each bank or banking group to:

- i. hold the minimum level of Core Capital of TZS 15 billion.
- ii. maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-statement of financial position assets (the 'Basel ratio') at or above the required minimum of 10%; and
- iii. and maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings.
Intangible assets, leasehold improvements and prepaid expenses are deducted in arriving at Tier 1 capital.
And
- Tier 2 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 measured by means of a hierarchy of five risk weights classified according to the nature of - and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2024 and year ended 31 December 2023. During the year, the Bank complied with all of the externally imposed capital requirements to which they are subject.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital management (Continued)

	2024	2023
	TZS '000	TZS '000
Tier 1 capital		
Share capital	30,912,460	30,912,460
Advance towards share capital	7,000,000	5,000,000
Retained earnings	-21,283,237	-20,400,395
Prepaid expenses	-477,079	-316,922
Deferred Tax Assets	-31,921	-
Total qualifying tier 1 capital	16,120,223	15,195,143
Tier 2 capital (1% general provision)	-	-
Total regulatory capital	16,120,223	15,195,143
Risk weighted assets		
On-balance sheet	49,764,614	67,700,231
Capital charge for market risk	679,218	718,648
Capital charge for operational risk	3,148,705	5,416,660
Off-balance sheet	620,469	1,482,900
Total risk weighted assets	54,213,006	75,318,439
	Bank's ratio	Bank's ratio
	%	%
Tier 1 capital	29.7%	20.2%
Tier 1 + Tier 2 capital	29.7%	20.2%

32 NEW AND AMENDED STANDARDS THAT ARE EFFECTIVE FOR THE CURRENT YEAR

In the current year, the company has applied a number of amendments to IFRS Accounting Standards issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2024. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

a. IFRS 17 Insurance Contracts (including the June 2020 and December 2021 Amendments to IFRS 17)

The company has adopted IFRS 17 and the related amendments for the first time in the current year. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using premium allocation approach. The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The company does not have any contracts that meet the definition of an insurance contract under IFRS 17.

b. Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies

The company has adopted the amendments to IAS 1 for the first time in the current year. The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

c. Amendments to IAS 12 Income Taxes—Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The company has adopted the amendments to IAS 12 for the first time in the current year. The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

d. Amendments to IAS 12 Income Taxes— International Tax Reform—Pillar Two Model Rules

The company has adopted the amendments to IAS 12 for the first time in the current year. The IASB amends the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top up taxes described in those rules.

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The amendments introduce a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognize nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

Following the amendments, the company is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes.

e. Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors—Definition of Accounting Estimates

The company has adopted the amendments to IAS 8 for the first time in the current year. The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. The definition of a change in accounting estimates was deleted.

In the current year, the Bank has applied the below amendments to IFRS Standards and Interpretations issued that are effective for an annual period that begins on or after 1 January 2024. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

New and revised IFRS Accounting Standards in issue but not yet effective

At the date of authorization of these financial statements, the company has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective;

Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current

Amendments to IAS 1 - Non-current Liabilities with Covenants

Amendments to IAS 7 and IFRS 7 - Supplier Finance Arrangements

Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods, except if indicated below.

a. Amendments to IAS 1 Presentation of Financial Statements—Classification of Liabilities as Current or Non-current

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2024, with early application permitted. The IASB has aligned the effective date with the 2022 amendments to IAS 1. If an entity applies the 2020 amendments for an earlier period, it is also required to apply the 2022 amendments early.

The directors of the parent company anticipate that the application of these amendments may have an impact on the company's financial statements in future periods.

b. Amendments to IAS 1 Presentation of Financial Statements—Non-current Liabilities with Covenants

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or noncurrent). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual reporting periods beginning on or after 1 January 2024. Earlier application of the amendments is permitted. If an entity applies the amendments for an earlier period, it is also required to apply the 2020 amendments early.

The directors of the company anticipate that the application of these amendments may have an impact on the company's financial statements in future periods.