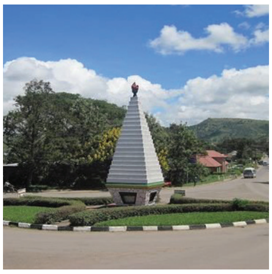
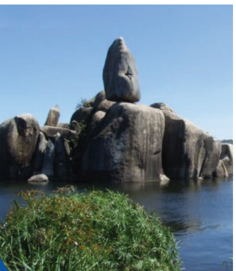
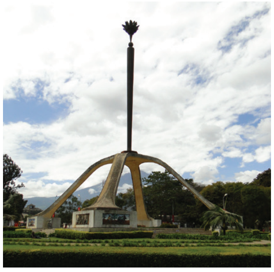
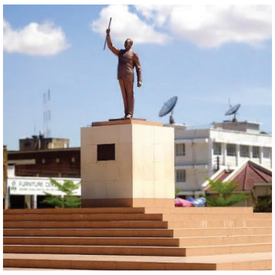
2020

Annual Report

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Mwalimu Commercial Bank Plc

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Mwalimu Commercial Bank Plc

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

For the year ended 31 December, 2020

Years of Growing Together

Table of Contents

REGISTERED OFFICE

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

BOARD OF DIRECTORS	NATIONALITY	
Mr. Francis Cecil Ramadhani	Tanzanian	Chairperson
Mr. Celestine Leonard Muganga	Tanzanian	Vice Chairperson
Mwl. Deus Gracewell Seif	Tanzanian	Director
Mr. Omary Ally Magalla	Tanzanian	Director: Appointed on 24 Apr 2020
Mr. Festus Nicholaus Mitimingi	Tanzanian	Director: Appointed on 31 Mar 2020
Mr. Justine Costantino Kinyaga	Tanzanian	Director: Appointed on 20 Apr 2020
Mr. Mbaruku Hamisi Magawa	Tanzanian	Director: Appointed on 17 Jul 2020
Ms. Enna Victor Mwakipesile	Tanzanian	Director: Appointed on 06 Oct 2020
Ms. Kissa Vivian Kilindu	Tanzanian	Director: Appointed on 23 Dec 2020
Mr. Herman Mark Kessy	Tanzanian	Director: Retired on 13 Aug 2020
Mr. Said Kambi Shaaban	Tanzanian	Director: Retired on 13 Aug 2020
Mr. Ambrose Ntangeki Nshala	Tanzanian	Director: Retired on 13 Aug 2020

COMPANY SECRETARY AND LEGAL ADVISORS

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

INDEPENDENT AUDITOR

HLB Mekonsult,
2nd Floor, Acacia Estates,
Plot no. 84 Kinondoni Road,
P.O. Box 20651,
Dar es Salaam, Tanzania.

1 INTRODUCTION

The directors present their report together with the audited annual financial statements for the year ended 31 December 2020, 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 MISSION AND VISION

Mission
To alleviate economic problems through providing cost effective, friendly and innovative financial solutions for teachers, government employees and general public, so as to create economic emancipation.

Vision
To be the preferred financial solution provider in Tanzania.

4 PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of banking services.

5 COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Bank who held the office from 1st January 2020 until the date of this report, except where otherwise stated are:

Name	Position	Age	Nationality	Qualifications
Mr. Francis Cecil Ramadhani	Chairman	44	Tanzanian	LLM and LLB International Law & International Business Law
Mr. Celestine Leonard Muganga	Vice Chairman	53	Tanzanian	MSc. Finance, BA (Economics)
Mwl. Deus Gracewell Seif	Director	45	Tanzanian	Master of Arts & Bachelor of Education
Mr. Omary Ally Magalla	Director	38	Tanzanian	Bachelor of Commerce with Education
Mr. Festus Nicholaus Mitimingi	Director	55	Tanzanian	Bachelor of Commerce
Mr. Justine Costantino Kinyaga	Director	44	Tanzanian	Master of Science in Mathematics
Mr. Mbaruku Hamisi Magawa	Director	52	Tanzanian	Master of Business Administration (MBA Bcom Marketing)

6 COMPOSITION OF THE BOARD OF DIRECTORS (CONTINUED)

Ms. Enna Victor Mwakipesile	Director	39	Tanzanian	Master's in Business Administration (International Business) MBA-IB
Ms. Kissa Vivian Kilindu	Director	48	Tanzanian	Master of Business Administration
Mr. Herman Mark Kessy	Retired Director	71	Tanzanian	MA (Economics), BA Hons (Economics), PGD (Economics)
Mr. Ambrose Ntangeki Nshala	Retired Director	45	Tanzanian	CPA-T, MBA (Finance & Banking)
Mr. Said Kambi Shaaban	Retired Director	52	Tanzanian	MBA Finance, BA (Public Administration)

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

7 DIRECTORS' INTEREST IN THE SHARES OF THE BANK

The Directors, Mr. Festus Nicholaus Mitimingi, Mr. Justine Costantino Kinyaga, Mwl. Deus Gracewell Seif, Mr. Herman Mark Kessy and Mr. Omary Ally Magalla own 210, 100, 1,000, 1,390 and 100 shares respectively in the share capital of the Bank. Other Directors of the Bank have no interest in the issued share capital of the Bank.

8 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 Board of Directors consist of nine (9) members. 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 Board is required to meet at least four (4) times a year as a best practice. During the year it met four times in ordinary meetings. 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.

Board Audit and Risk Committee

Name	Position
Ms. Enna Victor Mwakipesile	Chairperson
Mr. Festus Nicholaus Mitimingi	Member
Ms. Kissa Vivian Kilindu	Member
Mr. Justine Costantino Kinyaga	Member

Board Credit Committee

Name	Position
Mr. Mbaruku Hamisi Magawa	Chairperson
Mwl. Deus Gracewell Seif	Member
Mr. Omary Ally Magalla	Member
Mr. Celestine Leonard Muganga	Member

5 Years of Growing Together

9 CORPORATE GOVERNANCE (CONTINUED)

Board Nomination, Remuneration & Operations Committee

Name	Position
Mr. Celestine Leonard Muganga	Chairperson
Mr. Mbaruku Hamisi Magawa	Member
Mr. Omary Ally Magalla	Member
Mwl. Deus Gracewell Seif	Member

10 MANAGEMENT

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

- Business Development and Marketing
- Treasury
- Finance
- Risk Management and Compliance
- Human Resources and Administration
- ICT and Operations
- Internal Audit; and
- Credit

11 CAPITAL STRUCTURE

The capital structure of the Bank for the year under review 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.

12 SHAREHOLDERS OF THE BANK

The Bank has institutional as well as individual shareholders. The number of issued shares are held as follows:

	2020		2019	
Name of the Shareholder	**Number of Shares**	**Percentage Share holding**	**Number of Shares**	**Percentage Share holding**
Founder Teachers	21,813,000	35.28%	21,813,000	35.28%
National Health Insurance Fund	10,000,000	16.17%	10,000,000	16.17%
Public Service Pensions Fund	10,000,000	16.17%	10,000,000	16.17%
General Public	10,011,920	16.19%	10,011,920	16.19%
Tanzania Teachers' Union	8,000,000	12.94%	8,000,000	12.94%
Teachers' Development Company Ltd	2,000,000	3.23%	2,000,000	3.23%
	61,824,920	**100.0%**	**61,824,920**	**100.0%**

13 FUTURE DEVELOPMENT PLANS

The Bank plans to grow business on retail loans to teachers, government employees and general public; introduction of highly innovative and customer centric products especially the alternative channels space (mobile, agency banking and recently introduction of Visa card) while managing associated costs and risks so as to increase shareholders' value. To facilitate the foregoing the Bank is expecting to raise deposits primarily from education ecosystem i.e., retiree's retirement funds and funds from education institutions in the year 2021.

14 RESULTS AND DIVIDEND

The Bank recorded after tax loss of TZS 4,062 million during the year (2019: after tax loss of TZS 4,826 million).

The Bank's financial results for the year are set out on page 18 of the annual financial statements.

The directors do not recommend payment of a dividend.

15 PERFORMANCE FOR THE YEAR

Statement of financial position

Total loans and advances to banks increased by 675.05% (TZS 7,308 million) from TZS 1,083 million in 2019 to TZS 8,390 million in 2020.

Total loans and advances to customers increased by (TZS 2,988 million) from TZS 16,109 million in 2019 to TZS 19,098 million.

Deposits from customers as at year end were TZS 18,525 million (2019: TZS 11,073 million) while deposits from banks were NIL (2019: NIL). Loan to deposit ratio (LDR) stood at 103.09% as at 31 December 2020 (2019: 145.48%).

Total assets increased by 29.40% from TZS 29,848 million in 2019 to TZS 38,622 million as at 31 December 2020.

Statement of profit or loss and other comprehensive income

Net Interest income expressed as a percentage of operating income was 84.33% (2019: 81.60%)

Total non-interest income from transactional accounts was TZS 382 million in 2020 (2019: TZS 454 million).

Total operating expenses decreased by 17.64% from TZS 7,360 million in 2019 to TZS 6,061 million in 2020. The decrease is attributed to ongoing cost control measures implemented during the year. The cost to income ratio has slightly increased to 301.36% in 2020 (2019: 288.90%). This results from missed income from low lending during the year.

16 ACCOUNTING POLICIES

The accounting policies of the Bank disclosed in Note 2 have been approved by the Board. The accounting policies for financial instruments form a significant part of the policies.

17 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

There is a general increase in fraudulent transactions in the Banking industry in Tanzania. The bank has implemented a number of 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.

18 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.

19 SOLVENCY AND GOING CONCERN

The Board of directors confirm 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.

20 CASH FLOWS

The Bank continued to implement different strategies to mobilize deposits as cash inflow while investing in loans and receivables as cash outflow.

21 CAPITAL MANAGEMENT

Capital Adequacy is monitored on a monthly basis by comparing the minimum required capital as per the Bank of Tanzania Regulations, 2014 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 2020, the capital position of the Bank is adequate to meet both Tier 1 and 2 regulatory and internal minimum capital requirements. The share capital structure of the Bank is disclosed in clause 9 above.

The regulatory capital computation is disclosed on Note 30 to the annual financial statements.

22 KEY PERFORMANCE INDICATORS FOR THE BANK

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

Performance indicator	Definition and calculation method	2020	2019
Return on equity	Net(loss) profit/Total equity	-23.34%	-29.31%
Return on assets	Net profit/Total assets	-10.52%	-16.17%
Cost to income ratio	Total costs/Net income	301.36%	288.90%
Interest margin on earning assets	Net interest income (interest in government securities +balances with other financial institutions + interbank loan receivables + investments in other securities + net loans, advances and overdraft less cost of funds) /Interest earning assets (government securities +balances with other financial institutions + interbank loan receivables + investments in other securities + net loans, advances and overdraft)	6.06%	11.71%
Non - interest income to Gross income	Non - interest income/Total income	18.97%	17.83%
Gross loans to deposits	Total loans to customers/Total deposits	103.09%	145.48%
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	1.70%	1.78%
Earning assets to total assets	Sum of treasury bills, loans and investments securities/Total assets	71.17%	57.60%

5 Years of Growing Together

23 KEY PERFORMANCE INDICATORS FOR THE BANK (CONTINUED)

Performance indicator	Definition and calculation method	2020	2019
Growth in total assets	Trend (2020 total assets – 2019 total assets/2019 total assets) %	29.40%	-2.76%
Growth in loans and advances to customers	Trend (2020 loans and advances – 2019 loans and advances)/2019 loans and advances) %	18.55%	-9.93%
Growth in customer deposits	Trend (2020 customer deposits – 2019 customer deposits)/ (2019 customer deposits) %	67.30%	39.30%
Capital adequacy			
Tier 1 Capital	Core capital /Risk weighted assets including Off statement of financial position items	66.82%	73.60%
Tier 1+Tier 2 Capital	Total capital /Risk Weighted assets including off-statement of financial position items	66.82%	73.60%

24 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 30 million as training expenses. There are plans for year 2021 as per bank's training needs assessment to take employees to different professional 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 four beneficiaries for each employee were availed medical insurance. Currently these services are provided by The Jubilee Insurance Company of Tanzania Limited.

25 EMPLOYEES' WELFARE (CONTINUED)

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' benefit plan

The Bank pays contributions to publicly administered defined benefit plan namely Public Service Social Security Fund PSSSF on a mandatory basis. The total number of contractual employees as at the year-end was 54 out of which 23 were female and 31 were male (2019: total staff 59, 25 female and 34 male).

26 RELATED PARTIES

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

27 SERIOUS PREJUDICIAL MATTERS

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

28 DONATIONS TO POLITICAL PARTIES

No donations were made to any political institutions during the financial year ending 31 December 2020.

29 RELATIONSHIP WITH STAKEHOLDERS

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

30 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Donations made during the financial year ending 31 December 2020 on CSR amounted to TZS 13 million (2019: 46 million).

31 RESOURCES

Employees with appropriate skills and experience in running the business are a key resource available to the bank and they assist in pursuing the bank's business objectives.

32 INDEPENDENT AUDITORS

The auditors, HLB Mekonsult were the auditors of the bank for the year ended 31 December 2020 and have expressed their willingness to continue in office and are eligible for re-appointment.

33 STATEMENT OF COMPLIANCE

The director's report has been prepared in full compliance with Tanzania Financial Reporting Standard No. 1 (Directors Report) and constitutes an integral part of the financial statements.

BY ORDER OF THE BOARD

Approved by the board of directors and authorized for issue on 30 March**, 2021 and signed on its behalf by:**

Francis Cecil Ramadhani
Board Chairman

Richard Louis Makungwa
Chief Executive Officer

STATEMENT OF DIRECTORS RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2020

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (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 annual 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.

Approved by the board of directors and authorized for issue on 30 March **and signed on its behalf by:**

Francis Cecil Ramadhani	**Richard Louis Makungwa**
Board Chairman	**Chief Executive Officer**

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

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 **Selemani Kijori** 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 2020 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: Selemani Kijori ____________

Head of Finance

NBAA Membership No. ACPA 2484

Date: 30 March____, **2021**

5 Years of Growing Together

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

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Opinion

We have audited the annual financial statements of Mwalimu Commercial Bank Plc (the Bank) set out on pages 18 to 73 which comprise the statement of financial position as at 31 December 2020, 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 2020, 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. These matters were 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
There is a risk of error in accounting for expected credit losses (ECLs) of the Bank's financial assets. Management's estimate of ECLs involves exercise of significant judgment in relation to probability of default (PD), loss given default (LGD), determining values of collateral valuation. This area is also susceptible to bias. Credit quality and risk management processes are continuously evaluated by the Bank of Tanzania giving rise to a risk of non-compliance; and The model developed for the computation of the expected credit losses might not be applied correctly, and or data inputs may not be complete and accurate.	Our response for loans included: • Assessing and testing the design and operating effectiveness of the controls over credit origination, monitoring including controls changed resulting from application of IFRS 9; • Assessing whether the Bank's credit policies are aligned with IFRS 9; • Evaluating, through our Financial Risk Management (FRM) specialists, the appropriateness of the Bank's IFRS 9 expected credit losses model; • Assessing, through our Information Risk Management (IRM) specialist, the completeness, accuracy and validity of data and inputs used in the computation of ECLs provision; • Using available external and independent information to confirm management's assumptions and judgments in determining ECLs provision. • For default loans, evaluating the feasibility of future cash flow forecasts prepared by management, validating the assumptions made, and comparing the estimates to external evidence where available; • For a sample of loans and advances, evaluating the regulatory credit risk grade to determine whether regulatory impairment was calculated based on an appropriate grading; • Using our data analysis tools to analyses the loan book data in performing our risk assessment; and • Considering the adequacy of the Bank's disclosures in respect of ECLs provision. We conclude that the risks noted have been materially reduced by the IFRS 9 Model implemented by management reasonably which covers all the requirements of the IFRS 9 standard i.e. assumption and estimates used of ECLs involve the exercise of significant judgment in relation to probability of default (PD), loss given default (LGD), discount rates used to discount collaterals, credit ratings and classification of IFRS 9 financial assets scope.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Information included in the Bank's 2020 Director's Report

Other information consists of the information included in the Directors' Report, 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 Directors for the Financial Statements

The directors are 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 directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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.

- 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

This report, including the opinion, has been prepared for, and only for, the Bank's members as a body in accordance with the Companies Act, 2002 of Tanzania and for no other purposes.

As required by the Companies Act, 2002 of Tanzania, we report to you, based on our audit, that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit
- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of those books;
- The Directors' Report is consistent with the annual financial statements;
- Information specified by law regarding directors' remuneration and transactions with the Bank is disclosed; and
- The Bank's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

As required by the Banking and Financial Institutions (External Auditors) Regulations, 2014 of Tanzania, we report to you, based on our audit, that;

- In our opinion, the capital adequacy ratios as presented in Note 30 to the annual financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 of Tanzania.

The engagement partner on the audit resulting in this independent auditor's report is Allan Mchaki.

Signed by: Allan Mchaki
HLB Mekonsult
NBAA Membership No. FCPA 140
For and on behalf of HLB Mekonsult
Certified Public Accountants
Dar es Salaam

Date: 30 March 2021

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

	Note	2020 TZS '000	2019 TZS '000
Effective interest income	5	2,769,783	2,936,631
Effective interest expense	6	(693,709)	(547,277)
Other interest and similar expense	19	(410,295)	(375,437)
Net interest income		1,665,779	2,013,917
Expected credit (losses)/write back	16&17	(36,070)	79,536
Net interest income after credit losses		**1,629,709**	**2,093,453**
Net fee and commission income	7	369,683	403,385
Net trading income	8	6,980	26,563
Other income	9	4,991	24,238
Net operating income		**2,011,363**	**2,547,639**
Staff costs	10	(2,801,098)	(3,337,225)
Infrastructure costs	11	(2,254,999)	(3,036,966)
Administration and general expenses	12	(1,005,319)	(985,822)
Operating expenses		**(6,061,416)**	**(7,360,013)**
Loss before tax		**(4,050,053)**	**(4,812,374)**
Income tax expense	13	(12,108)	(14,615)
Loss for the year		**(4,062,161)**	**(4,826,989)**
Total comprehensive loss for the year		**(4,062,161)**	**(4,826,989)**
Basic and diluted earnings per share (TZS)	14	(65.70)	(78.08)

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 TZS '000	2019 TZS '000
Assets			
Cash and balances with Bank of Tanzania	15	5,342,846	4,881,447
Loans and advances to banks	16	8,390,273	1,082,542
Loans and advances to customers	17	19,097,513	16,109,038
Income tax recoverable	13	417,393	429,502
Right of Use Asset	19	988,451	1,110,638
Other assets	18	833,568	1,180,080
Property and equipment	20	918,333	1,213,752
Intangible assets	21	2,774,941	3,841,185
Total assets		**38,763,318**	**29,848,184**
Liabilities			
Deposits from customers	22	18,524,928	11,073,189
Lease Liability	19	988,451	1,110,638
Other liabilities	23	1,845,132	1,197,389
Total liabilities		**21,358,511**	**13,381,216**
Shareholders' equity			
Share capital	24	30,912,460	30,912,460
Advance towards share capital	24	5,000,000	-
Accumulated losses	25	(18,507,653)	(14,445,492)
		17,404,807	16,466,968
Total shareholders' equity and liabilities		**38,763,318**	**29,848,184**

The annual financial statements were approved by the board of directors and authorized for issue on 30 March, 2021 and signed on its behalf by:

Francis Cecil Ramadhani
Board Chairman

Richard Louis Makungwa
Chief Executive Officer

5 Years of Growing Together

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

	Share capital	Accumulated Losses	Advance towards share capital	Bond Revaluation reserve	Provision General reserve	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Year ended 31 December 2020						
At 1 January 2020	30,912,460	(14,445,492)	-	-	-	16,466,968
Loss for the year	-	(4,062,161)	-	-	-	(4,062,161)
Advance towards share capital	-	-	5,000,000	-	-	5,000,000
At end of year	**30,912,460**	**(18,507,653)**	**5,000,000**	**-**	**-**	**17,404,807**
Year ended 31 December 2019						
At 1 January 2019	30,912,460	(9,976,733)	-	178,971	179,260	21,293,958
Loss for the year	-	(4,826,989)	-	-	-	(4,826,989)
Transfer from provision general reserve	-	178,971	-	(178,971)	-	-
Transfer to provision general reserve	-	179,260	-	-	(179,260)	-
At end of year	**30,912,460**	**(14,445,492)**	**-**	**-**	**-**	**16,466,968**

MWALIMU COMMERCIAL BANK PLC
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 TZS '000	2019 TZS '000
Cash flows from operating activities			
Loss before income tax		(4,050,053)	(4,812,374)
Adjusted for:			
Depreciation and amortization	20&21	1,378,048	1,710,110
Net foreign exchange differences	8	4,251	4,268
Trading activities gains	8	(7,322)	(34,327)
Loan credit losses charges		36,070	(79,536)
Interest income		(2,076,074)	(2,389,354)
		(4,715,080)	**(5,601,213)**
Changes in operating assets and liabilities:			
Statutory Minimum Reserve		(277,589)	(275,064)
Loans and advances to banks		(7,307,731)	1,251,266
Loans and advances to customers		(3,026,588)	1,852,668
Other assets		349,605	(972,932)
Deposits from customers		7,578,803	3,284,498
Other liabilities		210,490	(763,933)
Interest received		2,733,712	3,046,226
Interest paid		(693,709)	(573,246)
Net cash inflow from operating activities		**(5,148,086)**	**1,248,270**
Cash flows from investing activities			
Proceeds from sale of investment securities - at FVOCI		-	1,120,603
Acquisition of property and equipment	20	(29,327)	(40,808)
Acquisition of intangible assets	21	(22,395)	(13,762)
Net cash inflow/(outflow) from investing activities		**(51,722)**	**1,066,033**
Cash flows from financing activities			
Repayment of principal portion of lease liabilities		410,295	375,437
Advance towards share capital		5,000,000	-
Net cash inflow from financing activities		**5,410,295**	**375,437**
			-
Net increase in cash and cash equivalents		**210,487**	**2,689,740**
Movement in cash and cash equivalents			
Net increase in cash and cash equivalents		210,487	2,689,740
Net foreign exchange difference		(3,908)	3,496
Cash and cash equivalents at 1 January		4,277,982	1,584,746
Cash and cash equivalents at 31 December	26	**4,484,562**	**4,277,982**

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 2020. The adoption of these new and revised standards and interpretations has resulted in material changes to the Bank's accounting policies. For details of the new and revised accounting policies refer to Note 32.

(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.

3 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 recognised 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 recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

4 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:

<table>
<tr><th colspan="2">Category (as defined by IFRS 9)</th><th colspan="2">Class (as determined by the Bank)</th><th>Subclass</th></tr>
<tr><td rowspan="8">Financial Assets</td><td rowspan="6">Amortized cost</td><td colspan="2">Loans and Advances to Banks</td><td></td></tr>
<tr><td rowspan="4">Loans and advances to customers</td><td rowspan="2">Loans to individuals</td><td>Personal Loans</td></tr>
<tr><td>Mortgage Loans</td></tr>
<tr><td>Loans to corporate entities</td><td>Corporate Loans</td></tr>
<tr><td>Loans to SMEs</td><td>SME Loans</td></tr>
<tr><td>Investment in Debt securities</td><td>Government securities</td><td>Treasury Bills and Bonds (SPPI)</td></tr>
<tr><td>Fair value through profit or loss (FVPL)</td><td colspan="2">Equity Investment (Which are not under scope of IAS 28 and IFRS 10)</td><td></td></tr>
<tr><td>Fair value through other comprehensive income (FVOCI)</td><td colspan="2">Other treasury bonds held to collect contractual cash flows and sale</td><td></td></tr>
<tr><td rowspan="4">Financial liabilities</td><td rowspan="4">Financial liabilities at amortised cost</td><td colspan="2">Deposits from Banks</td><td></td></tr>
<tr><td colspan="2">Borrowings and other liabilities</td><td></td></tr>
<tr><td rowspan="2">Deposits from customers</td><td>Retail customers</td><td></td></tr>
<tr><td>Corporate customers</td><td></td></tr>
</table>

(f) Financial assets

Accounting policies applicable in current period under IFRS 9

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.

5 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (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 amortised cost which are recognised 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 summarised below:

6 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

Determination of fair value (Continued)

- 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.

- 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 − Those 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-collateralised 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.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

Impairment of financial assets

The Bank recognises 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.

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 qualitive 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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

- 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

- 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, amortisation 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

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.

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:

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

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

Definition of default (Continued)

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

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised 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. 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 amortised 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

(i) Assets carried at amortised cost (Continued)

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 recognised 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 recognised 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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is revised by adjusting the allowance account. The amount of the reversal is recognised in profit or loss in impairment charge for credit losses.

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 recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

(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 recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised 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 recognised 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 maximise collection and minimise the risk of default.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises 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 recognised 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 criterias of cure.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

Modification of financial assets (Continued)

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 derecognised. The Bank may determine that the credit risk has significantly improved after modification, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms. Differences in the carrying amount are recognised 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 recognises 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 2020.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

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

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 amortised cost at the end of the period.

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 amortised cost at the end of the period.

Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised 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 derecognised 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 derecognised 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 recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets (Continued)

Accounting policies applicable in current period under IFRS 9 (continued)

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 recognised 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.

(g) Income Tax

Income tax charge

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

Current tax asset 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 recognised 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 recognised 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 recognised directly in equity is recognised in equity and not in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Income Tax (Continued)

Deferred income tax (Continued)

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.

(h) 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 recognised 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	3 years (33%)
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 recognised 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).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Intangible assets

The Bank's intangible assets include the value of computer software licenses. An intangible asset is recognised 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 amortised over their useful economic lives. The amortisation period and the amortisation 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 amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in operating expenses in profit or loss.

Amortisation 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).

(j) 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 recognises 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 recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The 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.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable).

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee benefits

Retirement benefit obligations

All bank employees are members of Public Servant 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 recognised 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 recognised in that period. The expected cost of short-term compensated absences is recognised 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.

(l) 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.

(m) Other assets

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

(n) 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.

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

5 Years of Growing Together

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) 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.

(p) Provisions

Provisions are recognised 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.

(q) 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 a 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. 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Incorporation of forward-looking information (Continued)

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 recognises 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 operating board that makes strategic decisions. As at the date of these annual financial 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.

	2020 TZS '000	2019 TZS '000
5 EFFECTIVE INTEREST INCOME		
Investment securities	-	96,660
Loans and advances to banks	134,415	132,175
Loans and advances to customers	2,635,368	2,707,796
	2,769,783	**2,936,631**
6 EFFECTIVE INTEREST EXPENSE		
Deposits from banks	8,322	3,071
Deposits from customers	685,387	544,206
	693,709	**547,277**
7 FEES AND COMMISSION INCOME		
Loan fees	123,262	288,568
Service charge on customer accounts	11,201	33,727
Bancassurance fees	129,194	28,721
MCB Mobile banking commissions	40,893	19,077
ATM Card fees and commissions	20,116	8,185
Other fees and commissions	45,017	25,107
	369,683	**403,385**
8 NET TRADING INCOME		
Foreign currency translation gains	(4,250)	(4,268)
Cash and cash equivalents fx gains	3,908	(3,496)
Trading activities gains	7,322	34,327
	6,980	**26,563**
9 OTHER INCOME		
Sundry income	4,991	24,238
	4,991	**24,238**
10 STAFF COSTS		
Wages and salaries	2,136,330	2,352,476
Social security costs (Defined contribution plan)	217,320	226,870
Other staff costs	447,448	757,879
	2,801,098	3,337,225

*Other staff costs include; travel allowance, SDL, WCF, Medical, Recruitment, Staff training expenses, responsibility allowance and overtime.

		2020 TZS'000	2019 TZS'000
11	**INFRASTRUCTURE COSTS**		
	Right of Use Asset depreciation	122,187	134,314
	ATM & printer hiring charges	(35,337)	22,840
	Office repair and maintenance costs	141,389	158,888
	Information Technology*	613,374	938,812
	Depreciation of property and equipment (Note 20)	324,747	700,568
	Amortisation of intangible assets	1,088,639	1,081,544
		2,254,999	**3,036,966**

*Information technology includes; core banking system implementation expenses, software licenses, data lines hire and all other ICT software maintenance expenses

		2020 TZS'000	2019 TZS'000
12	**ADMINISTRATION AND GENERAL EXPENSES**		
	Marketing costs	217,049	202,033
	Subscriptions	36,926	46,480
	Professional fees	11,074	12,697
	Telephone, postage & Communication costs	65,858	50,229
	Printing and stationery expenses	25,610	29,277
	Insurance	83,158	75,040
	Service charges & levies	-	5,734
	Bank charges	15,687	15,725
	Office security	82,810	79,953
	Auditor's remuneration	40,611	71,390
	Legal expenses	100,297	93,796
	Directors fees	23,461	24,719
	Directors sitting allowances	74,183	55,520
	Other administrative expenses	228,595	223,229
		1,005,319	**985,822**

13	**INCOME TAX**		
	Tax charge		
	Current tax:		
	Current tax on profits for the year	12,108	14,615
	Total current tax expense	**12,108**	**14,615**
	Deferred income tax:		
	Decrease/(decrease) in deferred tax assets	**(1,215,016)**	**(1,203,094)**
	Total deferred tax expense	(1,215,016)	(1,203,094)
	Deferred tax movement not recognised	1,215,016	1,203,094
	Income tax expense	**12,108**	**14,615**

Reconciliation of tax recoverable		
Current tax asset per statement of financial position	417,393	429,502
Movement of current tax asset		
Balance at the beginning of the year	(429,502)	(444,117)
Income tax charge	12,108	14,615
Taxes paid	-	-
Balance at the end of year	**(417,393)**	(429,502)
Non-current	**(417,393)**	(429,502)

Current income tax of TZS 12,108 million (2019: TZS 14,615) has been charged in accordance with the Alternative Minimum Tax provisions that require that entities that are loss making for more than two tax periods should pay tax at the rate of 0.5% of the revenue reported.

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:

	2020 TZS '000	**2019 TZS '000**
Deferred income tax (asset)/liability		
Property, equipment and intangibles	(187,191)	(233,448)
Provision on loans	(41,005)	19,883
Tax losses	(986,820)	(989,529)
Net deferred income tax asset	**(1,215,016)**	**(1,203,094)**

Deferred income tax asset amounting to TZS 1,215,015,828 (2019: TZS 1,203,093,525) was not recognised during the year due to uncertainty as to whether the Bank will generate taxable profits in the foreseeable future against which tax credits including tax losses will reverse. The tax losses as at year end amounted to TZS 20,306,117,786 (2019: TZS 17,016,009,122). However, this situation will be re assessed at the end of next financial year.

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

	2020 TZS'000	**2019 TZS'000**
Net (loss) attributable to shareholders (TZS'000)	(4,062,161)	(4,826,989)
Weighted average number of ordinary shares in issue (Note 24) ('000)	61,825	61,825
Basic and diluted earnings per share (TZS)	**(65.70)**	**(78.08)**

15 CASH AND BALANCES WITH BANK OF TANZANIA

Cash in hand*	615,862	263,613
Clearing accounts with Bank of Tanzania	3,802,486	3,970,925
Statutory Minimum Reserves (SMR)	924,498	646,909
	5,342,846	**4,881,447**

*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 26). Cash in hand and balances with Bank of Tanzania are non-interest bearing.

16 LOANS AND ADVANCES TO BANKS

	2020 TZS'000	2019 TZS'000
Current account balances with banks	70,122	39,948
Placements with other banks	8,320,942	1,045,427
Less: impairment	(791)	(2,833)
	8,390,273	**1,082,542**
Current	**8,390,273**	**1,082,542**

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

	2020 TZS '000	2019 TZS '000
At 1 January	2,833	6,212
Net impairment charge for the year	(2,042)	(3,378)
At 31 December	**791**	**2,833**

5 Years of Growing Together

	2020 TZS'000	2019 TZS'000
17 LOANS AND ADVANCES TO CUSTOMERS		
Mwalimu loans	17,469,208	14,591,279
Personal loans	908,541	829,555
Business loans	582,584	236,772
Staff loans	511,064	779,490
Gross loans and advances	**19,471,397**	**16,437,096**
Less: allowance for impairment	(330,079)	(291,966)
interest in suspense	(43,805)	(36,092)
	19,097,513	**16,109,038**

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

	2020 TZS '000	2019 TZS '000
At 1 January	291,966	368,124
Net credit loss/ reversal/charge for the year	38,113	(76,158)
At 31 December	**330,079**	**291,966**

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

	Retail	Total
Year ended 31 December 2020	**TZS '000**	**TZS '000**
At 1 January 2020	291,966	368,124
Net credit loss reversal for the year	38,113	(76,158)
At 31 December 2020	**330,079**	**291,966**

	Retail	Total
Year ended 31 December 2019	**TZS '000**	**TZS '000**
At 1 January 2019	**368,124**	12,328
Net increase resulting from adoption of IFRS9	**-**	197,920
Net impairment charge for the year	**(76,158)**	157,875
At 31 December 2019	**291,966**	**368,123**

	2020 TZS '000	2019 TZS '000
18 OTHER ASSETS		
Prepayments	193,280	166,722
Sundry receivables	585,166	778,542
Other receivables	55,122	234,816
	833,568	1,180,080

19 RIGHT OF USE ASSET

(i) Amounts recognised in the balance sheet

	2020 TZS '000	2019 TZS '000
Cost		
At 1 January 2020	1,110,638	1,244,952
At 31 December 2020	**1,110,638**	**1,244,952**
Depreciation		
At 1 January 2020	-	-
Depreciation charge for the year	122,187	134,314
At 31 December 2020	**122,187**	**134,314**
Net Book Value		
At 31 December 2020	**988,451**	**1,110,638**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

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

	2020 TZS '000	2019 TZS '000
Lease liability		
At 1 January 2020	1,110,638	1,218,417
Accretion of interest	410,295	375,437
Payments and reversal adjustments	(532,482)	(483,216)
At 31 December 2020	**988,451**	**1,110,638**

The bank has lease contracts for its branches, head office, regional offices and ATMs connected to a network of banks called UMOJA SWITCH. Upon adoption of IFRS 16, the bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets which includes office printers. The weighted average borrowing rate used at transition is 17% p.a.

20 PROPERTY & EQUIPMENT

	Leasehold Improvements TZS '000	Computer Equipment TZS '000	Office Equipment TZS '000	Motor Vehicles TZS '000	Furniture & Fittings TZS '000	Total TZS '000
Year ended 31 December 2020						
Cost						
At 1 January 2020	1,158,962	1,924,478	704,560	212,997	124,030	4,125,027
Reclassification/Additions		28,757			570	29,327
At 31 December 2020	**1,158,962**	**1,953,235**	**704,560**	**212,997**	**124,600**	**4,154,354**
Accumulated Depreciation						
At 1 January 2020	(318,102)	(1,903,977)	(422,804)	(190,664)	(75,727)	(2,911,274)
Charge for the year	(115,896)	(22,709)	(140,191)	(22,333)	(23,618)	(324,747)
At 31 December 2020	(433,999)	(1,926,686)	(562,995)	(212,997)	(99,345)	(3,236,021)
Net carrying value	**724,963**	**26,549**	**141,565**	**(0)**	**25,256**	**918,333**
Year ended 31 December 2019						
Cost						
At 1 January 2019	1,408,494	1,674,946	667,213	212,997	120,569	4,084,219
Additions	(249,532)	249,532	37,347	-	3,461	40,808
At 31 December 2019	**1,158,962**	**1,924,478**	**704,560**	**212,997**	**124,030**	**4,125,027**
Accumulated Depreciation						
At 1 January 2019	(202,361)	(1,532,190)	(287,320)	(137,415)	(51,420)	(2,210,707)
Charge for the year	(115,741)	(371,787)	(135,484)	(53,249)	(24,306)	(700,568)
At 31 December 2019	(318,102)	(1,903,977)	(422,804)	(190,664)	(75,727)	(2,911,274)
Net carrying value	**840,859**	**20,501**	**281,756**	**22,333**	**48,304**	**1,213,753**

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

		2020 TZS '000	2019 TZS '000
21	**INTANGIBLE ASSETS**		
	At 1 January	3,841,185	4,908,967
	Paid during the year	22,395	13,762
	Amortisation charge for the year	(1,088,639)	(1,081,544)
	At 31 December	**2,774,941**	**3,841,185**
	At 31 December		
	Cost	7,345,755	7,323,360
	Accumulated amortisation	(4,570,814)	(3,482,175)
	Net Book Value	**2,774,941**	**3,841,185**

Intangible assets include core banking system and other software in use by the Bank. The remaining amortization period is three and a half years. No intangible asset has been pledged as security against liabilities.

		2020 TZS'000	2019 TZS'000
22	**DEPOSITS FROM CUSTOMERS**		
	Retail banking:		
	Savings Account	5,458,405	1,075,828
	Current Account	3,267,347	5,466,032
	Term Deposits	9,799,176	4,531,330
		18,524,928	**11,073,189**
	Current	**18,524,928**	**11,073,189**
	Maturity Analysis		
	Repayable on demand	8,725,752	6,541,860
	Maturing within 3 months	5,732,000	1,796,396
		14,457,752	**8,338,256**

Deposits due to customers only include financial instruments classified as liabilities at amortised costs. All deposits are at fixed interest rates. The effective interest rate for the year was 8.19% (2019 was 9.04%).

		2020 TZS '000	2019 TZS '000
23	**OTHER LIABILITIES**		
	Accrued taxes payable	113,675	127,163
	Accrued expenses	584,794	474,380
	Sundry creditors	111,134	15,624
	Other payables	654,630	369,108
	Deferred loan fees	380,898	211,114
		1,845,131	**1,197,389**

Other liabilities are expected to be settled within no more than 12 months after end of reporting period. Accrued tax payable is made up of Value Added Tax (VAT), Withholding taxes and Excise duties.

24 SHARE CAPITAL

	Number of ordinary shares	Total TZS '000
At 1 January 2020	61,824,920	30,912,460
Advance towards share capital	-	5,000,000
At 31 December 2020	**61,824,920**	**35,912,460**
At 1 January 2019	61,824,920	30,912,460
At 31 December 2019	**61,824,920**	**30,912,460**

25 ACCUMULATED LOSS

	Accumulated losses TZS '000
Balance at 1 January 2020	(14,445,492)
Loss for the year	(4,062,161)
Balance at 31 December 2020	**(18,507,653)**
Balance at 1 January 2019	(9,976,733)
Loss for the year	(4,826,989)
Transfer to/(from) retained earnings	358,231
Balance at 31 December 2019	**(14,445,492)**

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

	2020 TZS '000	2019 TZS '000
Cash in hand (Note 15)	615,862	263,613
Clearing accounts with Bank of Tanzania (Note 15)	3,802,486	3,970,925
Loans and advances to banks (Note 16)	70,122	39,948
Net foreign exchange difference	(3,908)	3,496
	4,484,562	**4,277,983**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity: cash and balances with Bank of Tanzania, Government securities and loans and advances to banks. Cash and cash equivalents exclude Statutory Minimum Reserve.

Reserve requirement held with the Central Bank

Banks are required to maintain a prescribed minimum cash balance with the Bank of Tanzania that is not available to finance the bank's day-to-day activities. The amount is determined as 6% for public deposits and 40% for Government deposits of the average outstanding customer deposits over a cash reserve cycle period of two weeks.

27 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Tax assessments

The normal procedure for agreeing final income tax liability in Tanzania involves the Bank filing its final income tax returns with the Tanzania Revenue Authority (TRA) followed by TRA performing their own review of the Bank's submissions and issuing their notice of final income tax assessments to the Bank.

The final income tax assessment may be determined by TRA after their review and possible site visit may differ from the assessments determined by the Bank and procedures are in place for the Bank to object and appeal against the TRA assessments. It is common that a timeframe from the Bank's own submission of its final tax returns and for TRA performing their reviews and issuing of notice of final tax assessment may take several months or years, the Bank has duly submitted it final tax returns since incorporation.

The Bank has not received from TRA final assessments since incorporation. The directors envisage no material tax contingencies as the Bank is in cumulative tax loss of TZS 20,306,117,786 as at year end (2019: TZS 17,016,009,122).

(b) Legal proceedings

There were no legal proceedings outstanding against the Bank as at 31 December 2020 hence no provision made on the same (2019: Nil provision)

(c) Capital commitments

There were no capital commitments at the year-end (2019: nil).

28 RELATED PARTY TRANSACTIONS

The Bank is owned and controlled by TTU (Tanzania Teachers' Union), TDCL (Teachers' Development Company Limited), PSSSF (Public Sector 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 2020 include loans and fixed 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

	2020 TZS '000	2019 TZS '000
At start of year	140,070	287,536
Loans issued during the year	160,500	77,460
Loan repayment during the year	(127,682)	(224,926)
At end of year	172,888	140,070
Interest income earned	22,061	17,410
Current	68,041	35,896
Non current	104,847	104,174

(b) Deposits from related parties

At start of year	5,266,953	1,784,460
Deposits during the year	17,711,423	3,482,493
Deposits matured during the year	-	-
At end of year	22,978,376	5,266,953
Interest expense incurred	-	-

(c) Key management compensation

	2020 TZS '000	2019 TZS '000
Social Security	78,802	76,600
Salaries and other short-term employment benefits	1,052,871	1,050,177

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

(d) Directors remuneration

Fees and other emoluments paid to directors of the Bank during the year amounted to TZS 97.6 million (2019: 80.2 million). Details of payment to individual directors are tabled at the annual general meeting and approved every year.

	2020 TZS '000	2019 TZS '000
Directors fees	23,461	24,719
Directors sitting allowances	74,183	55,520
Total	**97,644**	**80,239**

29 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables	Total

At 31 December 2020	**TZS '000**	**TZS '000**
Financial assets		
Cash and balances with Bank of Tanzania	5,342,846	5,342,846
Loans and advances to banks	8,390,273	8,390,273
Loans and advances to customers	19,097,513	19,097,513
Other assets	499,321	499,321
	33,329,953	**33,329,953**

At 31 December 2020	**other liabilities at amortised cost**	**Total**
Financial liabilities	**TZS '000**	**TZS '000**
Deposits from customers	18,524,928	18,524,928
Other liabilities	1,590,489	1,590,488
	20,115,417	**20,115,417**

At 31 December 2019	**Loans and receivables TZS '000**	**Total TZS '000**
Financial assets		
Cash and balances with Bank of Tanzania	4,881,447	4,881,447
Loans and advances to banks	1,082,542	1,082,542
Loans and advances to customers	16,109,038	16,109,038
Other assets	1,013,358	1,013,358
	23,086,385	**23,086,385**

At 31 December 2019	**other liabilities at amortised cost**	**Total**
Financial liabilities	**TZS '000**	**TZS '000**
Deposits from customers	11,073,189	11,073,189
Other liabilities	1,070,225	1,070,225
	12,143,414	**12,143,414**

30 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%

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties 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 recognised 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 incurred credit losses 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:

	31-Dec-20				31-Dec-19			
Bank's rating	Loans and advances		Impairment provision		Loans and advances		Impairment provision	
	Amount TZS '000	(%)	Amount TZS '000	(%)	Amount TZS '000	(%)	Amount TZS '000	(%)
1. Current	18,592,299	97.4	291,567	88	15,498,971	96.2	256,906	88
2. Especially mentioned	116,056	0.6	-	-	251,287	1.6	-	-
3. Substandard	108,662	0.6	10,606	3	71,777	0	6,889	2
4. Doubtful	6,956	0.0	696	0	145,954	0.9	14,075	5
5. Loss	273,540	1.4	27,210	8	141,049	1	14,096	5
	19,097,513	100.0	330,079	100	16,109,038	100.0	291,966	100

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Impairment and provisioning policies (Continued)

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 2020 and 31 December 2019 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:

5 Years of Growing Together

	2020	2019
	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	5,342,846	4,881,447
Loans and advances to banks	8,390,273	1,082,542
Loans and advances to customers	19,097,513	16,109,038
Other assets	499,321	1,013,358
Total	**33,329,953**	**23,086,385**

*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 31% (2019: 6%) and 69% (2019: 94) 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. 97.4% of the loans and advances portfolio is considered to be current (2019: 96.2%).

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Loans and advances

Loans and advances are summarised as follows:

Loans and advances	2020	2019
Loans and advances are summarised as follows:	**TZS '000**	**TZS '000**
Loans and advances	19,427,591	16,401,003
Gross loans and advances to customers	**19,427,591**	**16,401,003**
Less: expected credit losses		
Stage 3	(2,282)	(2,227)
Stage 2	(1,124)	(1,104)
Stage 1	(326,673)	(288,635)
Credit losses	**(330,079)**	**(291,966)**
Net loans and advances to customers	**19,097,513**	**16,109,038**

Loans and advances to customers

Impairment provision for loans and advances was TZS 330 million (2019: TZS 292 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 2020 (2019: nil).

5 Years of Growing Together

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.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Concentration of risks of financial assets with credit risk exposure

a) ***Geographical sectors***

As of 31 December 2020, all financial instruments are with counterparties in Tanzania.

Year ended 31 December 2020	**Tanzania TZS '000**	**Total TZS '000**
Cash and balances with Bank of Tanzania	5,342,846	5,342,846
Loans and advances to banks	8,390,273	8,390,273
Loans and advances to customers	19,097,513	19,097,513
Other assets	499,321	499,321
Total	**33,329,953**	**33,329,953**
Year ended 31 December 2019		
Cash and balances with Bank of Tanzania	4,881,447	4,881,447
Loans and advances to banks	1,082,542	1,082,542
Loans and advances to customers	16,109,038	16,109,038
Other assets	1,013,358	1,013,358
Total	**23,086,385**	**23,086,385**

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 2020	Financial Institutions TZS '000	Individuals TZS '000	Others TZS '000	Total TZS '000
Cash and balances with Bank of Tanzania	5,342,846	-	-	5,342,846
Loans and advances to banks	8,390,273	-	-	8,390,273
Loans and advances to customers	-	19,097,513	-	19,097,513
Other assets	-	-	499,321	499,321
Total	**13,733,119**	**19,097,513**	**499,321**	**33,329,953**

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (Continued)

Concentration of risks of financial assets with credit risk exposure (Continued)

Year ended 31 December 2019	Financial Institutions TZS '000	Individuals TZS '000	Others TZS '000	Total TZS '000
Cash and balances with Bank of Tanzania	4,881,447	-	-	4,881,447
Loans and advances to banks	1,082,542	-	-	1,082,542
Loans and advances to customers	-	16,109,038	-	16,109,038
Other assets	-	-	1,013,358	1,013,358
Total	5,963,989	16,109,038	1,013,358	23,086,385

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 2020.

30 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Non-derivative cash flows (Continued)

As at 31 December 2020	Up to1 month	1 to 3 months	4 to 12 months	1 to 5 years	over 5 years	Total
Liabilities						
Deposits from customers	4,130,795	5,312,000	8,646,713	435,420	-	18,524,928
Other liabilities *	1,590,488	-	-	-	-	1,590,488
Total liabilities (contractual maturity dates)	**5,721,283**	**5,312,000**	**8,646,713**	**435,420**	**-**	**20,115,417**
Assets						
Cash and balances with Bank of Tanzania	5,342,846	-	-	-	-	5,342,846
Loans and advances to banks	70,122	8,320,942	-	-	-	8,391,064
Loans and advances to customers	53,094	73,233	592,268	11,089,429	7,663,373	19,471,397
Other assets	-	-	499,321	-	-	499,321
Total assets (expected maturity dates)	**5,466,062**	**8,394,175**	**1,091,589**	**11,089,429**	**7,663,373**	**33,704,628**

*Other liabilities exclude statutory obligations.

30 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Non-derivative cash flows (Continued)

As at 31 December 2019	Up to1 month	1 to 3 months	4 to 12 months	1 to 5 years	over 5 years	Total
Liabilities						
Deposits from customers	5,987,458	158,780	4,345,578	581,373	-	11,073,189
Other liabilities *	1,070,225	-	-	-	-	1,070,225
Total liabilities (contractual maturity dates)	**7,057,683**	**158,780**	**4,345,578**	**581,373**	**-**	**12,143,414**
Assets						
Cash and balances with Bank of Tanzania	4,881,447	-	-	-	-	4,881,447
Loans and advances to banks	39,948	-	1,045,427	-	-	1,085,376
Loans and advances to customers	142,567	23,456	18,745	6,452,486	10,526,387	17,163,641
Other assets	-	-	1,013,358	-	-	1,013,358
Total assets (expected maturity dates)	**5,063,962**	**23,456**	**2,077,531**	**6,452,486**	**10,526,387**	**24,143,822**

*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 6.121 million as at 31 December 2020 (2019: TZS 3.316 million).

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2020. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (amounts are in USD).

As at 31 December 2020	**USD**	**Total**
Assets		
Cash and balances with Bank of Tanzania	141,929	141,929
Balances with other banks	5,762	5,762
Total financial assets	147,691	147,691
Liabilities		
Deposits	25,272	25,272
Total financial liabilities	25,272	25,272
Net on-balance sheet financial position	122,419	122,419
Credit commitments	-	-

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign exchange risk (Continued)

As at 31 December 2019	USD	Total
Assets		
Cash and balances with Bank of Tanzania	70,872	70,872
Balances with other banks	31,604	31,604
Total financial assets	102,476	102,476
Liabilities		
Deposits	36,164	36,164
Total financial liabilities	36,164	36,164
Net on-balance sheet financial position	66,312	66,312
Credit commitments	-	-

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 2020 as the bank does not have the instruments held in 2019

Fair value of financial assets and liabilities

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

Year ended 31 December 2019	Carrying value TZS '000	Fair value TZS '000
Cash and balances with Bank of Tanzania	5,342,846	5,342,846
Loans and advances to banks	8,390,273	8,390,273
Loans and advances to customers	19,097,513	19,097,513
Other assets	499,321	499,321
Total financial assets	**33,329,953**	**33,329,953**
Deposits from customers	18,524,928	18,524,928
Other liabilities	1,590,489	1,590,488
Total financial liabilities	**20,115,417**	**20,115,417**

Year ended 31 December 2018	Carrying value TZS '000	Fair value TZS '000
Cash and balances with Bank of Tanzania	4,881,447	4,881,447
Loans and advances to banks	1,082,542	1,082,542
Loans and advances to customers	16,109,038	16,109,038
Other assets	1,013,358	1,013,358
Total financial assets	**23,086,385**	**23,086,385**
Deposits from customers	11,073,189	11,073,189
Other liabilities	1,070,225	1,070,225
Total financial liabilities	**12,143,414**	**12,143,414**

5 Years of Growing Together

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair value of financial assets and liabilities (Continued)

The table below presents the fair value hierarchy of the financial instruments presented above.

	Level 2	Total
Financial assets		
Cash and balances with Bank of Tanzania	5,342,846	5,342,846
Loans and advances to banks	8,390,273	8,390,273
Loans and advances to customers	19,097,513	19,097,513
Other assets	499,321	499,321
Total financial assets	**33,329,953**	**33,329,953**
Financial liabilities		
Deposits from customers	18,524,928	18,524,928
Other liabilities	1,590,488	1,590,488
Total financial liabilities	**20,115,417**	**20,115,417**

Year ended 31 December 2018

	Level 2	Total
Financial assets		
Cash and balances with Bank of Tanzania	4,881,447	4,881,447
Loans and advances to banks	1,082,542	1,082,542
Loans and advances to customers	16,109,038	16,109,038
Other assets	1,013,358	1,013,358
Total financial assets	**23,086,385**	**23,086,385**
Financial liabilities		
Deposits from customers	11,073,189	11,073,189
Other liabilities	1,070,225	1,070,225
Total financial liabilities	**12,143,414**	**12,143,414**

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

(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.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Fair valuation methods and assumptions (Continued)

b) Basis for the fair value hierarchy (Continued)

(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 maximise 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.

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:

ii. hold the minimum level of Core Capital of TZS 15 billion;
iii. 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%;
iv. 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 unrealised gains arising on the fair valuation of equity instruments held as available for sale.

30 FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital management (Continued)

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 summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2020 and year ended 31 December 2019. During the year, the Bank complied with all of the externally imposed capital requirements to which they are subject.

Capital management

	2020	2019
Tier 1 capital	**TZS '000**	**TZS '000**
Share capital	30,912,460	30,912,460
Advance towards share capital	5,000,000	-
Retained earnings	(18,507,653)	(14,445,492)
Prepaid expenses	(193,279)	(166,722)
Intangible assets	-	-
Total qualifying tier 1 capital	**17,211,528**	**16,300,246**
Tier 2 capital (1% general provision)	-	-
Total regulatory capital	**17,211,528**	**16,300,246**
Risk weighted assets		
On-balance sheet	23,808,999	20,132,129
Capital charge for market risk	281,614	99,467
Capital charge for operational risk	1,604,332	1,914,844
Off-balance sheet	62,356	-
Total risk weighted assets	**25,757,301**	**22,146,440**

	Required ratio	Bank's ratio	Bank's ratio
	%	%	%
Tier 1 capital	10	66.82	74
Tier 1 + Tier 2 capital	12	66.82	74

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

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 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9 and IFRS 7.

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms. The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9.

The amendments are irrelevant to the Bank given that it doesn't apply hedge accounting to its benchmark interest rate exposures.

Impact of the initial application of Covid-19-Related Rent Concessions Amendment to IFRS 16

In May 2020, the IASB issued Covid-19-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and

c) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Bank has not applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

32 NEW AND AMENDED STANDARDS THAT ARE EFECTIVE FOR THE CURRENT YEAR (CONTINUED)

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year.

Amendment(s)	**Impact of the initial application**
Amendments to References to the Conceptual Framework in IFRS Standards	The Bank has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.
Amendments to IFRS 3 Definition of a business	The Bank has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired. The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or Bank of similar assets. The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020.
Amendments to IAS 1 and IAS 8 Definition of material	The Bank has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of *materiality* in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

33 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Bank.

i) New and revised IFRS Standards in issue but not yet effective

IFRS 17 Insurance Contracts	IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates	1 January 2021 (likely to be

	are re-measured in each reporting period. Contracts are measured using the building blocks of: ▪ discounted probability-weighted cash flows ▪ an explicit risk adjustment, and ▪ a contractual service margin (CSM) representing the unearned profit of the contract which is recognized as revenue over the coverage period. The standard allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.	extended to 1 January 2022)
IFRS 10 and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint venture* The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. The directors of the Bank anticipate that the application of these amendments may have an impact on the Bank's financial statements in future periods should such transactions arise.	The effective date of the amendments has yet to be set.
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current.* The amendments to IAS 1 affect only the presentation of liabilities as current or non-current 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.	annual periods beginning on or after 1 January 2023, with early

	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 2023, with early application permitted.	application permitted.
Amendments to IFRS 3	*Reference to the Conceptual Framework* The amendments update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. Finally, the amendments add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.	1 January 2022
Amendments to IAS 16	*Property, Plant and Equipment—Proceeds before Intended Use.* The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognises such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories. The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.	annual periods beginning on or after 1 January 2022, with early application permitted

	The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.	
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract* The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.	annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Improvements to IFRS Standards 2018-2020 Cycle	*Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture* *IFRS 9 Financial Instruments* The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.	annual periods beginning on or after 1 January 2022, with early application permitted.
	IFRS 16 Leases The amendment removes the illustration of the reimbursement of leasehold improvements. As the amendment to IFRS 16 only regards an illustrative example.	
	IAS 41 Agriculture The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 *Fair Value Measurement* to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement. The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.	no effective date is stated annual periods beginning on or after 1 January 2022, with early application permitted.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods, except as noted above. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

5 Years of Growing Together

Mwalimu Mobile

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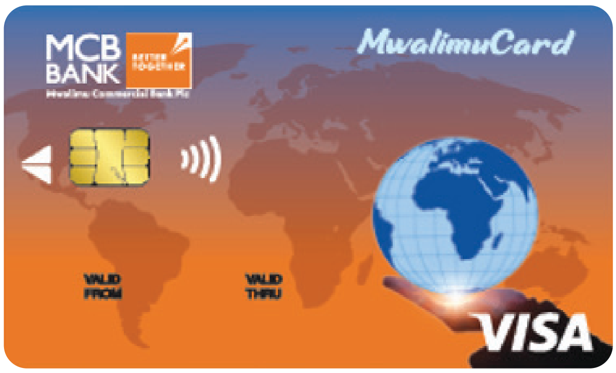

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