FINCA MICROFINANCE BANK LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS

31 DECEMBER 2019

FINCA MICROFINANCE BANK LIMITED

ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

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FINCA MICROFINANCE BANK LIMITED

CORPORATE INFORMATION

DIRECTORS

Name	Position	Nationality	Date of appointment/ Resignation
Mike Gama-Lobo	Chairman	American	Appointed on 1 October 2015
Edward Talawa	Member	Tanzanian	Resigned on 13 June 2019
Volker Renner	Member	Germany	Appointed on 31 May 2017
Monica Joseph	Member	Tanzanian	Appointed on 2 September 2015
Kelvin Twissa	Member	Tanzanian	Resigned on 17 October 2019
Mary Pascal Mabiti	Member	Tanzanian	Appointed on 11 June 2019
Nasama Massinda	Member	Tanzanian	Appointed on 22 October 2019
Barbara Wasmus	Member	Netherland	Appointed on 23 June 2019

KEY MANAGEMENT

Name	Position	Nationality	Resignation date
Bastiaan Nierop	Chief Executive Officer	Netherland	Resigned on 10 June 2019
Edward Talawa	Chief Executive Officer	Tanzanian	Appointed on 10 June 2019

REGISTERED OFFICE

Plot No.34/1, 8th Floor, TAN House
Victoria, Bagamoyo Road
P.O. Box 78783
Dar es Salaam, Tanzania

AUDITORS

KPMG
Certified Public Accountants
2nd Floor, The Luminary,
Haile Selassie Road
P.O. Box 1160
Dar es Salaam, Tanzania

PRINCIPAL BANKERS

NMB Bank Plc

Head Office
Ohio/Ali Hassan Mwinyi Road
P.O. Box 9213
Dar es Salaam, Tanzania

NBC Bank Limited
Head Office
Sokoine Drive
P.O. Box 1863
Dar es Salaam, Tanzania

CRDB Bank Plc
Head Quarters
Azikiwe Street
P.O. Box 268
Dar es Salaam, Tanzania

Diamond Trust Bank (Tanzania) Limited
Samora avenue
P.O. Box 115
Dar es Salaam, Tanzania

CORPORATE INFORMATION (CONTINUED)

PRINCIPAL BANKERS

Citibank (Tanzania) Limited
36 Upanga Road
P.O Box 71625
Dar es Salaam, Tanzania

Bank of Tanzania,
2 Mirambo street
P.O Box 11884
Dar es Salaam, Tanzania

LAWYERS

Mwema Advocates
Bibi Titi/Morogoro Road
P.O Box 4182
Dar es Salaam, Tanzania

Attorneys at Law and Management Consultants
477 Prince Street/Adjacent to Lugalo Golf Club
P.O Box 35970
Dar es Salaam, Tanzania

Leo Attorneys
21 Tunisia Rd, Ada Estate
P.O Box 78572
Dar es Salaam, Tanzania

KZR Law Chambers
P.O Box 988
Mwanza, Tanzania

Mwakingwe & Bank Advocates
NHC Building, Uhuru Bendera Road
P.O Box 92
Iringa, Tanzania

Octavian and Bank
2nd Floor, NIC Life House,
Sokoine Drive/Ohio Street,
P. O. Box 77353,
Dar es Salaam, Tanzania

PRINCIPAL FINANCIERS

Blue Orchard Microfinance Fund
Symbiotics Sicav (Lux.)
INCOFIN
MCE Social Capital
FINCA Microfinance Holdings (FMH)
Global Partnerships Social Investment Fund 6.0 LLC
Financial Sector Deepening Trust Tanzania (FSDT)
SELF Microfinance

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors present their annual report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of FINCA Microfinance Bank Limited ("the Bank").

INCORPORATION

The Bank was incorporated on 12 September 2000 under the Companies Act, 2002 as a Bank limited by guarantee not having a share capital. However, in September 2011 the Bank converted to a Bank limited by shares.

PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of banking and related financial services stipulated under the Banking and Financial Institutions Act, 2006.

The Bank's mission is to alleviate poverty through lasting solutions that help people build assets, create jobs and raise their standard of living and become number one financial institutions serving low income individuals and borrowers. This is accomplished through offering financial services to individual entrepreneurs and principally through the creation of group lending representing peer groups of approximately 5 members to whom two critical services are provided as follows:

a) Working capital loans to finance self-employment activities; and

b) Mutual support for personal growth.

BANK SECRETARY

Bank Secretary during the year ended 31 December 2019 was Pascal Mihayo.

CORPORATE GOVERNANCE

The Board of the Bank consists of six Directors. 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 operative, and in compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board delegates day-to-day management of the business to the Chief Executive Officer who is assisted by senior management. Senior management is invited to attend board meetings and facilitate the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

The Bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year, the following board subcommittees were in place to ensure a high standard of corporate governance throughout the Bank:

Audit Committee

Name	Position	Country of residence	Date of appointment
Volker Renner	Chairperson	Germany	12 November 2017
Mary Mabiti	Member	Tanzania	11 June 2019
Barbara Wasmus	Member	Netherland	23 June 2019

CORPORATE GOVERNANCE (CONTINUED)

Asset-Liability Committee

Name	Position	Country of residence	Date of appointment
Monica Joseph	Chairperson	Tanzania	1 December 2015
Barbara Wasmus	Member	Dutch	25 June 2019
Nasama Massinda	Member	Tanzania	22 October 2019

Risk Committee

Name	Position	Country of residence	Date of appointment
Barbara Wasmus	Chairperson	Dutch	25 June 2019
Monica Joseph	Member	Tanzania	1 December 2015
Volker Renner	Member	Germany	12 November 2017

Human Resources Committee

Name	Position	Country of residence	Date of appointment
Mary Mabiti	Chairperson	Tanzania	11 June 2019
Nasama Massinda	Member	Tanzania	22 October 2019
Monica Joseph	Member	Tanzania	1 December 2015

CAPITAL STRUCTURE

The Bank capital structure for the year under review is shown below.

	2019 TZS '000	2018 TZS '000
Authorized share capital		
35,000,000 ordinary shares of TZS 1,000 each	35,000,000	35,000,000
Issued and fully paid capital		
31,574,605 (2018: 31,574,605) ordinary shares of TZS 1,000 each	31,574,605	31,574,605

SHAREHOLDERS OF THE BANK

The total number of shareholders during the year 2019 was two. There were no Directors holding shares in the Bank.

Shareholding structure of the Bank was as follows:

	2019	2018
FINCA Microfinance Holding Bank LLC	31,574,604	31,574,604
FINCA International LLC	1	1
	31,574,605	31,574,605

MANAGEMENT

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

- Banking Services;
- Finance and Administration ;
- Credit;
- Human Resources;
- Legal and Compliance;
- Internal Audit;
- Risk Management;
- Information Systems; and
- Marketing.

FUTURE DEVELOPMENT PLANS

The Bank will continue focusing on the current core business, particularly the bottom of the pyramid to improve its profitability while being innovative in delivery mechanism to ensure sustainability and good customer experience through all the touch points.

RESULTS AND DIVIDEND

During the year, the Bank made loss of TZS 7,123,881,000 (2018: Loss of TZS 9,495,114,000). The Directors do not propose payment of dividend for the year ended 31 December 2019 (2018: Nil).

PERFORMANCE FOR THE YEAR

The following is a summary highlight of the Bank's performance.

	2019	**2018**
Branches	23	24
Total number of staff	411	488
Gross outstanding portfolio (TZS `000)	60,348,363	59,265,785
Total current and demand accounts (TZS '000)	36,757,690	35,079,755
Total assets (TZS '000)	87,797,164	100,103,798
Portfolio At Risk > 1 day (PAR 1)	11.18%	9.72%
Portfolio At Risk over 30 days (PAR 30)	8.45%	6.66%
Portfolio yield	50.0%	45.6%
Debt/Equity	180.4%	161.2%
Total deposits/gross loans and advances	60.9%	59.2%
Capital/assets	36.0%	31.7%

The Bank's results are set out on page 14 of the financial statements. Performance of the Bank is consistent with the poor performance of financial sector that was mainly attributed by decline in loans and advances growth and deterioration of the quality of loan portfolio. Sector performance has been noted by the central Bank and they have been implementing various accommodative monetary stance to rectify the situation. The Bank is continuing to invest on technology and innovations to improve efficiency service delivery and thus improving ability to withstand both internal as well external shocks.

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 ongoing 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;

RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

- 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's system designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2019 and is of the opinion that they met accepted criteria.

The Board carries risk and internal control assessment through the Audit Committee.

SOLVENCY

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

EMPLOYEES' WELFARE

Management and Employees' Relationship

Relationship between employees and management continued to be cordial for the year 2019. There were no unresolved complaints received by management from the employees during the year. A healthy relationship continues to exist between management and the employee. 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, tribes, religion and disability, which does not impair ability to discharge duties.

Training Facilities

Training programs have been, and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development both individually and as a group, with the goal to benefit both the organization and employees.
During the year the Bank spent TZS 39 million for staff training in order to improve employees' technical skills and hence effectiveness (2018: TZS 170 million).

Medical Assistance

All members of staff with a maximum number of four beneficiaries (dependents) for each employee were availed medical insurance. The Bank used AAR Health Insurance providers until October 2019 when the Bank changed to National Health Insurance Fund (NHIF).

Health and Safety

A safe working environment is ensured for all employees and contractors by providing adequate and proper personal protective equipment, training and supervision as necessary.

Financial Assistance to Staff

Loans are available to all confirmed employees depending on the assessment and the discretion of management as to the need and circumstances. Management has established a policy that provides loans to staff and these loans are limited by the size of the loan portfolio.

EMPLOYEES' WELFARE (CONTINUED)

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, the Bank makes necessary efforts to ensure that the respective staff's 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

All eligible employees are members of the National Social Security Fund (NSSF). The fund is a defined contribution pension scheme with the Bank having no legal or constructive obligation to pay further top-up contributions.

GENDER PARITY

The Bank had 411 employees, out of which 203 were female and 208 were male (2018: 488 employees).

RELATED PARTY TRANSACTIONS

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

POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political or charitable donations during the year (2018: Nil).

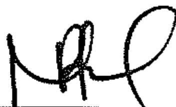
ENVIRONMENTAL CONTROL PROGRAMME

The Bank subscribes to sustainable protection of the environment and as such always ensures that it does business with customers who observe laws of the country with respect to the protection of the environment.

AUDITORS

The auditors, KPMG have expressed their willingness to continue in office. A resolution proposing the appointment of auditor of the Bank for the financial year 2020 will be tabled at the Annual General Meeting.

BY ORDER OF THE BOARD



Monica Joseph
Director

...18/04/............... 2020

Mary Pascal Mabiti
Director

FINCA MICROFINANCE BANK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the financial statements of FINCA microfinance Bank Limited comprising the statement of financial position at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 as well as the Banking and Financial Institutions Act, 2006.

The Directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The Auditors are responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

The Directors have made an assessment of the ability of the Bank to continue as going concern and have no reason to believe that the business will not be a going concern at least for the next twelve months from the date of approval of these financial statements.

Approval of financial statements

The financial statements of FINCA Microfinance Bank Limited as identified in the first paragraph, were approved and authorised for issue by the board of directors on ..15/04/.............2020 and signed by:

Monica Joseph
Director

Mary Pascal Mabiti
Director

DECLARATION OF THE HEAD OF FINANCE

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

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

I, **Deusdedith Edward Mulindwa**, being the Head of finance of FINCA Microfinance Bank Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2019 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Deusdedith Edward Mulindwa
Head of Finance

NBAA Membership No.: ACPA 3834

15 April 2020

KPMG
Certified Public Accountants
2nd Floor, The Luminary
Haile Selassie Road, Masaki
P O Box 1160
Dar es Salaam, Tanzania

Telephone +255 22 2600330
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FINCA MICROFINANCE BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of FINCA Microfinance Bank Limited ("the Bank"), set out on pages 14 to 67 which comprise the statement of financial position as at 31 December 2019 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Finca Microfinance Bank Limited as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with 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 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.

Other matter relating to the impact of uncertainties due to the covid-19 on our audit

On 11 March 2020, the World Health Organization declared Coronavirus (COVID-19) outbreak a pandemic in recognition of its rapid spread across the globe. COVID-19 affects the Bank and results in certain uncertainties for the future financial position and performance of the Bank. Uncertainties related to the potential effects of COVID-19 are relevant to understanding our audit of the financial statements. Our audits assess and challenge the reasonableness of estimates made by the Bank, the related disclosures and the appropriateness of the going concern assumption in the financial statements. The appropriateness of the going concern assumption depends on assessment of the future economic environment and the Bank's future prospects and performance. The COVID-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to levels of uncertainty. An audit cannot predict the unknowable factors or all possible future implications for a Bank and this is particularly the case in relation to COVID-19.

Key Audit Matters

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

KPMG is registered partnership and a member of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Partners A Njombe M S Bashir K Shah V Onjala

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FINCA MICROFINANCE BANK LIMITED (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters (Continued)

Impairment on loans and advances to customers - Refer to Note 6(d)(iii) and Note 19 to the financial statements	
The key matter	**How the matter was addressed in our audit**
Loans and advances to customers amounted to TZS 60,348 million and the total impairment allowance for the Bank amounted to TZS 3,153 million as at 31 December 2019. Measurement of impairment losses on loans and advances to customers is deemed a key audit matter as the determination of expected credit losses is highly subjective as it involves significant level of judgement applied by management and is a significant estimate. The key areas where we identified significant levels of management judgement and therefore increased levels of audit focus on the Bank's impairment charge on loans and advances to customers are: — Quantitative and qualitative criteria used in determining criteria for significant increase in credit risk and default for classification of loans and advances to customers; — Choosing appropriate models and assumptions for the determination of probabilities of default (PD), exposures at default (EAD) and loss given default (LGD) and ultimately measurement of Expected Credit Loss ("ECL"); — Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated impact on ECL; — Estimation of cash flows from collateral realisation for secured facilities used in the determination of loss given default; and — Establishing groups of similar financial assets based on the shared risk characteristics for the purposes of measuring general ECL.	*Our audit procedures in this area, included, among others:* — Testing of controls over the compilation and review of the credit watch list, credit review processes, approval of external collateral valuation vendors and review of controls over the approval of impairment; — Testing of reasonableness and reliability of data used for estimating probability of default and loss given default; — Challenging management's basis of establishing the correlation between forward looking variables and the Banks non-performing book; — Evaluating management model for establishing Stage 3 impairment amounts. This includes challenging reasonability of management assumptions through among others performing retrospective review of prior year assumptions; — Selecting a sample from the Bank's loan book and carrying out tests to establish whether significant facilities are correctly staged/classified and valued based on IFRS 9 as well as regulatory considerations; — Testing on a sample basis key assumptions impacting ECL calculations to assess accuracy and the reasonableness; — Evaluating management method of determining groups of similar financial assets for purposes of measuring ECL to confirm that assets are properly stratified based on shared credit risk; and — Assessing whether the disclosures appropriately disclose the key judgements and assumptions used in determining the expected credit losses.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FINCA MICROFINANCE BANK LIMITED (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Information, Report of the Board of Directors, Statement of directors' responsibilities and Declaration of the Head of Finance. The other information does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, 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 Directors for the Financial Statements

As stated on page 8, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006, and for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Directors are responsible for overseeing the Bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing ("ISAs") will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF FINCA MICROFINANCE BANK LIMITED (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

- Conclude on the appropriateness of 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

From the matters communicated with directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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

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

- in our opinion, proper records have been kept by FINCA Microfinance Bank Limited;
- the individual accounts are in agreement with the accounting records of the Bank; and
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

KPMG
Certified Public Accountants (T)

KPMG

Signed by: CPA Vincent Onjala (TACPA 2722)
Dar es Salaam

Date: 19 April 2020

FINCA MICROFINANCE BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 TZS '000	2018 TZS '000
Income			
Interest and similar income	8	25,894,925	25,670,100
Interest and similar expense	9	(6,607,813)	(7,636,145)
Net interest income		**19,287,112**	**18,033,955**
Impairment on financial instruments	19(b)(ii)	(4,174,464)	(3,633,766)
Net interest income after loan impairment charge		15,112,648	14,400,189
Fees and commission income	10	6,174,901	5,768,820
Fees and commission expense	11	(562,271)	(612,350)
Net fee and commission income		5,612,630	5,156,470
Net income from lending activities		**20,725,278**	**19,556,659**
Grant income	12	174,536	235,653
Other income/(losses)	13	185,072	(28,838)
Personnel expenses	14	(11,888,672)	(13,151,047)
Operating expenses	15	(8,433,323)	(15,737,655)
Depreciation and amortisation	22,23 & 24	(2,776,378)	(2,076,570)
Loss before tax		**(2,013,487)**	**(11,201,798)**
Income tax (expense)/credit	16(a)	(5,110,394)	1,706,684
Loss for the year		**(7,123,881)**	**(9,495,114)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(7,123,881)**	**(9,495,114)**

Notes and related statements forming part of these financial statements appear on pages 18 to 67.

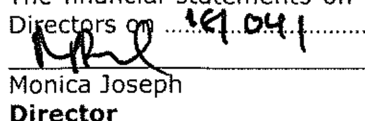
Report of the auditors is on page 10 to 13.

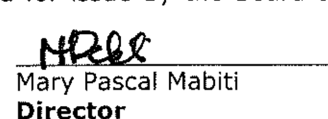
FINCA MICROFINANCE BANK LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Notes	2019 TZS '000	2018 TZS '000
ASSETS			
Cash and bank balances	18	5,326,299	16,024,342
Investment in fixed deposits	17	11,589,424	11,433,077
Loans and advances to customers	19	57,195,085	56,791,916
Due from related parties	27	14,482	128,233
Other assets	20	2,129,152	3,252,385
Deferred tax assets	16(c)	-	4,957,545
Work in progress	21	14,716	2,681,890
Property and equipment	22	2,525,282	3,269,071
Right of use Asset	23(a)	4,780,539	-
Intangible assets	24	4,222,185	1,565,339
Total assets		**87,797,164**	**100,103,798**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from customers	25	28,386,803	28,359,996
Deposits from banks	25	8,370,887	6,719,759
Borrowings	26	25,895,587	34,937,760
Amounts due to related parties	27	109,944	114,311
Deferred grants	28	751,373	961,118
Lease liabilities	23(b)	4,057,608	-
Tax payable	16(e)	138,492	368,089
Other payables	29	5,735,586	7,168,000
Total liabilities		**73,446,280**	**78,629,033**
Capital and reserves			
Share capital		31,574,605	31,574,605
Accumulated losses		(18,823,271)	(12,208,092)
General provision reserve		-	522,010
Statutory reserve		1,599,550	1,586,242
Total equity		**14,350,884**	**21,474,765**
Total liabilities and equity		**87,797,164**	**100,103,798**

The financial statements on pages 14 to 67were approved and authorised for issue by the Board of Directors on ..19.04.............. 2020 and were signed on its behalf by:





Monica Joseph
Director

Mary Pascal Mabiti
Director

Notes and related statements forming part of these financial statements appear on pages 18 to 67.
Report of the auditors is on page 10 to 13.

Report of the auditors is on page 10 to 13.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital TZS'000	Accumulated losses/Retained earnings TZS'000	Regulatory reserve* TZS'000	General Reserve TZS'000	Total TZS'000
At 1 January 2018	23,030,150	(1,974,890)	780,091	590,073	22,425,424
Transactions with owners of the Bank					
Issue of share	8,544,455	-	-	-	8,544,455
Total comprehensive loss for the year					
Loss for the year	-	(9,495,114)	-	-	(9,495,114)
General provision reserve*	-	68,063	-	(68,063)	-
Regulatory reserve**	-	(806,151)	806,151	-	-
At 31 December 2018	**31,574,605**	**(12,208,092)**	**1,586,242**	**522,010**	**21,474,765**
At 1 January 2019	**31,574,605**	**(12,208,092)**	**1,586,242**	**522,010**	**21,474,765**
Loss for the year	-	(7,123,881)	-	-	(7,123,881)
General provision reserve	-	522,010	-	(522,010)	-
Regulatory reserve*	-	(13,308)	13,308	-	-
At 31 December 2019	**31,574,605**	**(18,823,271)**	**1,599,550**	**-**	**14,350,884**

*Regulatory reserve represents the surplus of loan provision computed as per Bank of Tanzania regulations over the impairment of loans and advances as per International Financial Reporting Standards. The reserve is not distributable.

Notes and related statements forming part of these financial statements appear on pages 18 to 67.

Report of the auditors is on page 10 to 13.

FINCA MICROFINANCE BANK LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	2019 TZS '000	2018 TZS '000
Cash flows from operating activities			
Loss before tax		(2,013,487)	(11,201,798)
Adjustments for:			
Depreciation	22	1,182,538	1,234,778
Amortisation of intangible assets	24	537,663	841,792
Impairment on financial instruments	19(b)(ii)	4,174,464	3,633,766
Depreciation of right of use asset	23(a)	1,056,177	-
Grant income	12	(174,536)	(235,653)
Gain on disposal of property and equipment	13	(21,654)	(6,769)
Interest expense on term loans	9	3,249,177	3,337,724
Interest expense on lease liability	9	468,611	-
Write-off of WIP during the year	21	41,329	887,739
		8,500,282	**(1,508,421)**
Changes in:			
Increase/(decrease) in loans and advances to customers		(4,588,866)	4,789,562
Decrease/(increase) in other assets		442,803	(90,130)
Increase/(decrease) in deposits		1,678,135	(10,075,267)
(Decrease)/increase in other payables		(1,372,460)	1,985,684
Income tax paid	16(e)	(382,446)	-
Interest paid on term loans		(3,375,170)	(3,892,633)
Interest paid on lease liability	23(c)	(428,659)	-
Net movement in related party balances		109,384	(513,991)
Net cash generated by operating activities		**583,003**	**(9,305,196)**
Cash flows from investing activities			
Purchase of property and equipment	22	(371,924)	(406,358)
Purchase of intangible assets	24	(82,735)	(199,406)
Purchase of WIP	21	(554,028)	(1,319,778)
Proceeds from disposal of property and equipment		22,390	6,769
Net cash used in investing activities		**(986,297)**	**(1,918,773)**
Cash flows from financing activities			
Borrowings received during the year	26	12,016,914	24,767,370
Borrowings repaid during the year	26	(20,933,093)	(23,627,070)
Proceed of deferred grants	28	(35,209)	(285,515)
Payment of lease liabilities	23	(1,187,014)	-
Proceeds from issue of shares		-	8,544,455
Net cash generated from financing activities		(10,138,402)	9,399,240
Net increase in cash and cash equivalents		(10,541,696)	(1,824,729)
Cash and cash equivalents at beginning of the year		27,457,419	29,282,148
Cash and cash equivalents at the end of the year		16,915,723	27,457,419
Cash and cash equivalents:			
Cash and bank balance	18	5,326,299	16,024,342
Investments in fixed deposits	17	11,589,424	11,433,077
		16,915,723	**27,457,419**

Notes and related statements forming part of these financial statements appear on pages 18 to 67.
Report of the auditors is on page 10 to 13

1. REPORTING ENTITY

FINCA Microfinance Bank Limited ("the Bank") is a Limited liability Bank incorporated in Tanzania under the Companies Act 2002 and domiciled in Tanzania. The microfinance bank licensed under the Banking and Financial Institutions (Microfinance Activities) Regulation, 2014 and regulated by the Bank of Tanzania. Details of the address of its registered office and principal place of business are disclosed on page one whilst its principal activities are described in the report of Directors.

2. BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention except for certain financial instruments that are measured at revalued amounts or fair values.

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

This is the first set of the annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 5.

Statement of compliance

The financial statements of FINCA Microfinance Bank Limited have been prepared in accordance with International Financial Reporting Standards (IFRSs), and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

3. FUNCTIONAL AND PRESENTATION CURRENCY

The financial statements are measured using the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are presented in Tanzania Shillings, which is also the functional currency.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

4. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

A. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

Note 6 (d)(iii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

Notes 6(d)(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

B. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes.

Note 6(d)(iii): Impairment of financial instruments, determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

Note 7(e): measurement of the fair value of financial instruments with significant unobservable inputs.

Note 6(e): critical estimates are made by the directors in determining depreciation rates for property and equipment and their residual values. The rates are set out in note 6(e)

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

A number of new standards were effective from 1 January 2019. Except for IFRS 16, all other new standards do not have material impact to the Bank's financial statements. The following paragraphs highlight the changes from the initial application of IFRS 16.

IFRS 16 introduced a single, on-balance sheet accounting model for leases. As a result, the Bank, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Bank has adopted IFRS 16 as issued by the IASB with a date of transition of 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 16 in previous periods.

The Bank applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in equity. However, the Bank opted to measure right of use asset same as lease liability at 1 January 2019, hence no cumulative effect was recognized in retained earnings. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Definition of leases

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 6 (f).

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

ii) As a lessee

As a lessee, the bank leases office premises. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the bank recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.
However, for leases of office premises the bank has elected to separate lease and non-lease components and account for them separate.

On transition, for these leases, lease liabilities and right of use asset were measured at the present value of the remaining lease payments, discounted at the bank's incremental borrowing rate as at 1 January 2019.

The Company used a number of practical expedients and exemptions when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the bank:

- relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;

- did not recognise right-of-use assets and liabilities for leases of low-value assets;

- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and

- used hindsight when determining the lease term.

iii) Impact on financial statements

On transition to IFRS 16, the bank recognised right-of-use assets and lease liabilities. As at inception, right of use asset was TZS 5,455,665,000 and lease liability was TZS 4,820,514,000. The Company had prepaid rent for office premises amounting to TZS 635,150,000 as at 1 January 2019 which forms part of right of use asset.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The average rate applied is 17.69% for leases denominated in TZS and 6.5% for leases denominated in USD.

6. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies used in the preparation of these financial statements are set out below:

(a) Foreign currencies

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. 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 recognised in the profit or loss in the year in which they arise.

Foreign currency non-monetary items measured at fair value are translated into functional currency using the rate of exchange at the date the fair value was determined. Foreign currency gains and losses on non-monetary items are recognized in profit or loss.

(b) Income recognition

Income is derived substantially, from banking business and related activities and comprises net interest income and fee and commission income.

i) Net interest income

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset;
- or the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Income recognition (Continued)

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset.

The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. For information on when financial assets are credit-impaired.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at Fair Value through OCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

ii) Net fee and commission income

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

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Income recognition (continued)

ii) Net fee and commission income (continued)

Other fee and commission income – including account servicing fees and sales commissions – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Other operating income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences. It also includes rental income and gain on disposal of property and equipment.

(c) Income tax expense

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- temporary differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Income tax expense (Continued)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

(d) Financial assets and liabilities

i) Recognition

The bank initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognised on the trade date on which the bank becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

ii) Classification (continued)

Business model assessment

The bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI Test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

ii) Classification (continued)

The bank holds a portfolio of long-term fixed rate loans for which the bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty.

The bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

The Bank's financial assets classified into the measurement categories are as following;

Financial assets	Business Model	SPPI	Measurement Category
Cash and cash equivalents	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost
Loans and advances to banks	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the bank changes its business model for managing financial assets.

Financial liabilities

The bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised.

iii) Impairment

The bank recognises loss allowances Expected Credit Losses ("ECL") on the following financial instruments that are not measured at FVTPL:

The Bank recognises loss allowances at an amount equal to lifetime ECLs, except for the following cases, for which the amount recognised will be 12-month ECLs. Other financial instruments for which credit risk has not increased significantly since initial recognition.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in details below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition; and
- incorporating forward-looking information into the measurement of ECLs

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments.

Life-time ECL is the ECL that results from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

iii) Impairment (Continued)

Measurement of expected credit loss allowance

The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Measurement of ECL is affected number of factors including how the Bank define certain terms referred into the standards as well as inputs used in measuring ECL. Below is the discussion of some of the key terms that will affect measurement of ECL as well discussion of key inputs to the ECL model.

Definition of default

Under IFRS 9, the Bank considers at a minimum both quantitative and qualitative information to determine financial asset that are in default. For term loans, the borrower who is more that than 90 days past due will generally be regarded as being in default. Overdrafts are generally considered past due once the customer has breached an advised limit. This approach is largely consistent with the definition that is required by the Bank of Tanzania, the regulator.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain facilities e.g. overdraft, the date when the facility was first entered could be a long time ago. Modifying/restructuring the contractual terms of financial instrument may also affect this assessment.

Credit risk grade

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. At transition, the Bank puts financial instruments without significant increase in credit risk in the 12-months ECL bucket irrespective of the obligor's credit risk rating at origination. However, where significant increase in credit risk has been observed, such credits shall be moved to Lifetime ECL. This is in line with the guidance issued by the Bank of Tanzania.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

iii) Impairment (Continued)

Modified financial assets

The contractual terms of loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value.

Under IFRS 9, when the terms of financial assets are modified and the modification does not result in de-recognition, the determination of whether to the asset's credit risk has increased significantly is affected by the stage it was at the time of the modification. Financial assets restructured while under lifetime ECL shall not be moved to 12-months ECL unless it complies with the requirements of staging and migration referred and credit risk grade paragraph above. For financial assets which have been restructured while under 12-months ECL and there is evidence of significant increase credit risk the Bank treat those asset as originated credit impaired financial asset. This policy is in line with the Bank of Tanzania requirement.

Inputs into measurement of ECLs

The key inputs into measurement of ECL are like to be the term structure of the following variables which are derived from internally developed statistical models and other historical data that leverage Bank of Tanzania impairment requirements. The inputs are adjusted to reflect forward-looking information as described below;

Probability of Default (PD): PD are estimates at a certain date, which are calculated based on statistical models. The statistical model has been based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD of certain customers. For portfolio in respect of which the Bank has limited historical data, external benchmark information has been used to supplement internally available data.

Loss given default (LGD): LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider among others, the structure, and collateral, seniority of claims, counterparty industry and recovery costs of any collateral that is integral to the financial asset. Further, the Bank considers forecasts of future collateral valuations (including expected sale discount), time to realisation of collateral (and other recoveries), allocation of collateral across exposures where there are several exposures to the same borrower, recovery rates, haircuts, type of collateral and external costs of realisation of collateral in line with The Bank of Tanzania requirements.

Exposure at Default (EAD): EAD represents the expected exposure in the event of a default. The Bank derives EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation and prepayments. EAD of financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract which is been estimated based on historical observations and forward-looking forecast. The EAD is also in line with the Bank of Tanzania requirements.

As described above and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if for risk management purpose the Bank considers a longer period.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

iii) Impairment (Continued)

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include industry, instrument type, collateral type and remaining term to maturity. The groupings are subject to regular review to ensure that the exposures within a particular group remain appropriately homogenous.

Incorporating Forward-looking information

Under IFRS 9, the Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank shall take into consideration the impact of Macroeconomic factors on how they relate to the inputs into ECLs models and how they impact them.

The Bank formulates one economic scenario, a base case as the there was no possibility of obtaining the other scenarios without undue cost and efforts. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the OECD and the International Monetary Fund, and selected the National Bureau of statistics. A comprehensive review is performed at least annually on the design of the scenario by a panel of experts that advises the Bank's senior management.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key driver for credit risk for wholesale portfolios is GDP growth.

Year	2019	2020	2021	2022	2023
GDP-Base case	6.875	7.55	8.31	9.05	9.60

Credit-impaired financial assets

At each reporting date, the bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as stage 3 financial assets). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the bank on terms that the bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that is overdue for 90 days or more is considered impaired. In addition, a loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

iii) Impairment (Continued)

Incorporating Forward-looking information (Continued)

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets at both amortised and FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the bank's procedures for recovery of amounts due.

iv) De-recognition

Financial assets

The bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

The bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

iv) De-recognition (Continued)

In certain transactions, the bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the de-recognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

v) Offsetting of financial assets and financial liabilities

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(e) Property and Equipment

Recognition and measurement

Items of property and equipment measured at cost less accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

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

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property and Equipment (continued)

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are as stated:

Leasehold improvement over the term of the lease

Furniture and fittings, motor vehicles and computer equipment 4 - 5 years

(f) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Bank uses its incremental borrowing rate as the discount rate.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leases (continued)

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in and lease liabilities separately in the statement of financial position.

Short term leases and leases of low value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset

As a lessee

The Bank did not have any finance leases under IAS 17. Assets held under other leases were classified as operating leases and were not recognised in the Bank's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(g) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Employee benefits

i) Pension obligations

The Bank subscribes to a defined contribution scheme and pays contributions to a publicly administered pension insurance plan on a statutory basis. The contributions are recognized as employee benefit expense when they are due.

The Bank's obligations under the scheme are limited to 10% of the employees' gross emoluments with the other 10% contribution being borne by the employees. The Bank's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

ii) Other benefits

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(i) Grants

Grants received are mainly to support various strategic projects including credit scoring, Digital Fields Automation (DFA), mobile savings (Haloyako) and channels expansions (agent banking).

Grants to support strategic initiatives were recorded in the statement of income as grant income. Grants to finance lending operations or the purchase of fixed assets are shown as direct additions to equity and the corresponding asset account. Grants for future project implementation are deferred until the project implementation is effected, upon which they will be recognized in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(k) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate: that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred. Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Intangible assets (Continued)

The estimated useful life of software for the current and comparative periods is three to five years. Estimated useful life for computer software is 2 - 5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(l) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

(m) Comparatives

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

(n) New standards and interpretations

A. New standards, amendments and interpretations effective during the year

IFRS 16: Lease

The Bank applied IFRS 16 using the modified retrospective approach and therefore the comparative information presented for 2018 has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed under note 5.

IFRIC 23: Clarification on accounting for Income tax exposure

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

6. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) New standards and interpretations (Continued)

A. New standards, amendments and interpretations effective during the year (Continued)

Amendments to IFRS 9 Prepayment Features with negative compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019.

Adoption of the above amendments did not have a material impact on the Bank's financial statements.

New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements.

New standard or amendments	Effective for annual periods beginning on or after
• Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
• Amendments to the Conceptual Framework in IFRS Standards	1 January 2020
• IFRS 17 Insurance Contracts	1 January 2023

The directors are in the process of assessing the impact of these new standards.

7. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks, including credit risk and the risks of changes in debt and equity market prices, foreign currency exchange rates, liquidity risk and interest rates.

7.1 FINANCIAL RISK MANAGEMENT FRAME WORK

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Bank Asset and Liability Committee (ALCO) that is responsible for developing and monitoring Bank risk management policies in their specified areas. All Board committees have non-executive members and report regularly to the Board on their activities.

The Bank's risk management policies established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks - e.g. those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank policy requires compliance with all applicable legal and regulatory requirements.

The Board of Directors is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall Bank standards for the management of operational risk in among others, the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- Development of a contingency plan; and
- Ethical and business standards.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial Instrument fails to meet its contractual obligations, and arises principally from the Bank's loans to customers. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Bank Credit Committee. The Credit Committee is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with branches, covering collateral requirements (for individual loans), credit assessment, risk grading and reporting, documentary and legal procedures.
- Reviewing and assessing credit risk. The Bank's Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branch concerned. Recapitalisation and reviews of facilities are subject to the same review process.
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against the respective loan group credit exposures. The current risk-grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Bank's Board of Directors.
- Reviewing compliance of branches with agreed exposure limits. Regular reports are provided to Bank operation manager/credit committee on the credit quality of local portfolios and appropriate corrective action is taken.

7. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Bank in the management of credit risk.

Each branch is required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank credit committee.

Each branch manager reports on all credit related matters to management and the credit committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.

Internal Audit undertakes regular audits of branches and the Bank's credit processes.

The Bank credit committee determines that the loans are uncollectible; internal audit does an independent review of these loans; final write-off proposal is compiled and submitted to Board for approval; and finally, the Board approves the write-off. The credit committee's determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Credit quality analysis

Compliance with the Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with management and reported to the Audit Committee.

The following table sets out information about the credit quality of financial assets measures at amortised costs, FVOCI debt instruments (Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

	2019			
	Stage 1 TZS'000	**Stage 2 TZS'000**	**Stage 3 TZS'000**	**Total TZS'000**
Loans and advances to customers				
Grade 1: Current	51,079,503	577,130	1,319,596	52,976,229
Grade 2: Especially mentioned	95,114	1,742,925	400	1,838,439
Grade 3: Substandard	-	776,382	14,981	791,363
Grade 4: Doubtful	-	556,663	18,193	574,856
Grade 5: Loss	-	-	4,167,481	4,167,481
	51,174,617	3,653,100	5,520,646	60,348,363
Less: Allowance for impairment	(397,626)	(186,979)	(2,568,673)	(3,153,278)
Carrying amount	**50,771,894**	**3,405,616**	**3,017,575**	**57,195,085**
Other financial assets (all at Grade 1: current)				
Cash and bank balances	5,326,299	-	-	5,326,299
Investment in fixed deposits	11,636,225	-	-	11,636,225
	16,962,524	-	-	**16,962,524**
Less: Allowance for impairment	(46,802)	-	-	(46,802)
Carrying amount	**16,915,722**	-	-	**16,915,722**

7. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Credit quality analysis (Continued)

	2018			
	Stage 1 TZS'000	Stage 2 TZS'000	Stage 3 TZS'000	Total TZS'000
Loans and advances to customers				
Grade 1: Current	51,586,450	121,395	560	51,708,405
Grade 2: Especially mentioned	47,692	1,863,323	28,814	1,939,829
Grade 3: Substandard	-	979,202	10,254	989,456
Grade 4: Doubtful	-	704,270	59,142	763,412
Grade 5: Loss	-	-	3,864,683	3,864,683
	51,634,142	3,668,190	3,963,453	59,265,785
Less: Allowance for impairment	(338,784)	(211,978)	(1,923,107)	(2,473,869)
Carrying amount	**51,295,358**	**3,456,212**	**2,040,346**	**56,791,916**
Other financial assets (all at Grade 1: current)				
Cash and balances	16,024,342	-	-	16,024,342
Investment in fixed deposits	11,433,077	-	-	11,433,077
	27,457,419	-	-	**27,457,419**
Less: Allowance for impairment	-	-	-	-
Carrying amount	**27,457,419**	-	-	**27,457,419**

Collateral held and other credit enhancements

The general creditworthiness of a corporate customer tends to the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally request corporate borrowers provide it.

The Bank uses a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The acceptability of collateral for credit risk mitigation is guided by the Bank's procedures and policies. The main types of collateral taken include mortgages both surveyed and un-surveyed, cash collaterals, fixed assets, inventories, motor vehicles and other household goods.

Valuation of collaterals

The Bank has a panel of valuers who undertake valuation of property and other assets to be used as Collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. Valuation of collateral are performed between 3 to 5 year intervals. The bank has a policy of performing valuation to collaterals with a value of TZS 30 million and above.

7. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Expected credit loss measurement

The Bank align the classification criteria for assets that are past due or impaired in line with regulatory guidelines. In the determination of the classification of accounts, performance is the primary consideration. The classification of an account reflects a judgment about risks of default and loss associated with the credit facility. The classification process establishes a consistent approach to problem recognition, problem labelling, remedial action and the initiation of credit write-offs.

IFRS 9, Financial Instruments, outlines a 'three-Stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk

The Bank decision on whether expected credit losses are based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk since initial recognition. An assessment of whether credit risk has increased significantly is made at each reporting date. When making the assessment, the Bank uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. This form the basis of stage 1, 2 and 3 classification and subsequent migration.

The Bank applies qualitative and quantitative criteria for stage classification and for its forward and backward migration.

Quantitative criteria

The quantitative criteria is based on relative and not absolute changes in credit quality as stated in the table above driven by ratings and days past due.

The Bank considers that financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of a default occurring over the next 12 months may be a reasonable approximation of the changes in the lifetime risk of a default occurring and could be used to determine whether credit risk has increased significantly since initial recognition.

7. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Expected credit loss measurement (Continued)

<u>Qualitative criteria (continued)</u>

The appropriateness of using changes in the risk of a default occurring over the next 12 months to determine whether lifetime expected credit losses should be recognized depends on the specific facts and circumstances. Risk of default occurring over the next 12 months is not suitable basis for determining whether credit risk has increased on a financial instrument with a maturity of more than 12 months when:

- the financial instruments only have significant payment obligations beyond the next 12 months;
- changes in relevant macroeconomic or other credit-related factors occur that are not adequately reflected in the risk of a default occurring in the next 12 months; or
- changes in credit-related factors only have an impact on the credit risk of the financial instrument (or have a more pronounced effect) beyond 12 months.

The Bank's quantitative credit grading, as compared to Bank of Tanzania (BOT) prudential guidelines, into five prudential guidelines categories is as follows:

Days past due	BOT Guidelines	IFRS 9 credit staging
0 to 5 days overdue	Current	Stage 1
6 to 30 days overdue	Especially mentioned	Stage 1
31 to 60 days overdue	Substandard	Stage 2
61 to 90 days overdue	Doubtful	Stage 2
More than 90 days	Loss	Stage 3

In addition to the above, the Bank considers other qualitative factors in determining the classification above, and may accelerate the classification of credit facilities where deemed appropriate. Qualitative factors includes but not limited to the following:

- Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g.: increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.
- Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), e.g.: credit spread; credit default swap prices; length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).
- Changes in the Bank's credit management approach in relation to the financial instrument (e.g. based on emerging indicators of changes in the credit risk of the financial instrument, the bank's credit risk management practice is expected to become more active or focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the bank specifically intervening with the borrower).
- Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).

7. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Expected credit loss measurement (Continued)

Qualitative criteria (continued)

- Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations (e.g. increase in interest rates or unemployment rates); operating results of the borrower e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organizational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations; or regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology).
- Significant changes in the value of collateral or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to pay or otherwise effect the probability of default (e.g. if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages); or quality of a guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group (e.g. increase in delayed contractual payments or number of credit card borrowers expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount)

Definition of default

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing of security (if any is held)
- The borrower is more than 90 days past due on any material credit obligation to the Bank.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to borrower's inability to pay its credit obligations.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since initial recognition and the measurement of ECL. The Bank formulates three economic scenarios, best case, worst case and basic scenario and from the three the ECL is determined.

7. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 6(d).

When the terms of a financial asset are modified and the modification does not result in de-recognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in de-recognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The Bank sources macro-economic information from the National Bureau of Statistics and the Bank of Tanzania.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both small and large loans are subject to the forbearance policy. The Bank's Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

7. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by the LGD and EAD.

Loss allowance

Loss allowances recognised is impacted by a variety of factors as described below;

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent "step up" (or "step down") between 12 month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the year, as well as releases for financial instruments de recognised in the year;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the year, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Financial assets derecognised during the period and write offs of allowances related to assets that were written off during the period.

7. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Measurement of ECL (Continued)

Loans and advances to customers	**2019**			
Gross loans	**Stage 1 TZS'000**	**Stage 2 TZS'000**	**Stage 3 TZS'000**	**Total TZS'000**
Balance at 1 January	50,697,065	3,387,975	5,180,745	59,265,785
Transfer from Stage 1 to stage 2	(14,534,817)	14,534,817	-	-
Transfer from stage 2 to Stage 1	4,698,510	(4,698,510)	-	-
Transfer from Stage 2 to Stage 3	-	(5,281,602)	5,281,602	-
Transfer from Stage 1 to Stage 3	(20,271)	-	20,271	-
Transfer from Stage 3 to Stage 2	-	7,225	(7,225)	-
Write-offs			(3,561,711)	(3,561,711)
New financial assets originated	107,471,249	2,261,804	2,739,585	112,472,638
Repayment of principal amount	(88,692,737)	(5,620,876)	(3,393,357)	(97,706,970)
Changes in interest accrual	(4,157,529)	186,160	(382,894)	(4,354,263)
Modification of contractual cash flows of financial instruments	(14,130)	(988)	(910)	(16,028)
De-recognition during the period	(3,438,203)	(1,454,401)	(858,484)	(5,751,088)
Balance at 31 December 2019	**52,009,137**	**3,321,604**	**5,017,622**	**60,348,363**

Loss Allowance	**Stage 1 TZS'000**	**Stage 2 TZS'000**	**Stage 3 TZS'000**	**Total TZS'000**
Balance at 1 January	**353,472**	**201,138**	**1,919,259**	**2,473,869**
Transfer from Stage 1 to Stage 2	(112,730)	388,274	-	275,544
Transfer from Stage 2 to Stage 1	26,513	(292,316)	-	(265,803)
Transfer from Stage 2 to Stage 3	-	(1,133,556)	3,294,270	2,160,714
Transfer from Stage 3 to Stage 2	-	5,686	(7,161)	(1,475)
Transfer from Stage 1 to Stage 3	(503)	-	10,731	10,228
Write-offs	-	-	(3,561,711)	(3,561,711)
New financial assets originated	323,558	190,702	367,773	882,033
Financials assets derecognized	(314,416)	(130,384)	(26,984)	(471,784)
Changes in PDs/LGDs/EADs	129,397	958,116	600,183	1,687,696
Modification of contractual cash flows of financial instrument	(7,665)	(681)	(27,687)	(36,033)
Balance at 31 December 2019	**397,626**	**186,979**	**2,568,673**	**3,153,278**

7. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Measurement of ECL (Continued)

Loans and advances to customers	2018			
Gross loans	**Stage 1 TZS'000**	**Stage 2 TZS'000**	**Stage 3 TZS'000**	**Total TZS'000**
Balance at 1 January	**58,224,139**	**5,519,425**	**4,903,100**	**68,646,664**
Transfer from Stage 1 to stage 2	(17,856,775)	17,856,775	-	-
Transfer from stage 2 to Stage 1	6,497,422	(6,497,422)	-	-
Transfer from Stage 2 to Stage 3	-	(7,243,902)	7,243,902	-
Transfer from Stage 1 to Stage 3	-	63,902	(63,902)	-
Transfer from Stage 3 to Stage 2	(560)	-	560	-
Write-offs	-	-	(5,212,181)	(5,212,181)
New financial assets originated	91,802,903	675,810	235,368	92,714,081
Repayment of principal amount	(89,468,432)	(6,479,115)	(1,468,186)	(97,415,733)
Changes in interest accrual	1,636,223	256,398	(306,757)	1,585,864
De-recognition during the period	(137,855)	(763,896)	(151,159)	(1,052,910)
Balance at 31 December 2018	**50,697,065**	**3,387,975**	**5,180,745**	**59,265,785**

Loss Allowance

	Stage 1 TZS'000	**Stage 2 TZS'000**	**Stage 3 TZS'000**	**Total TZS'000**
Balance at 1 January	**340,919**	**475,473**	**3,100,949**	**3,917,341**
Transfer from Stage 1 to Stage 2	(86,806)	429,319	-	342,513
Transfer from Stage 2 to Stage 1	29,557	(440,344)	-	(410,787)
Transfer from Stage 2 to Stage 3	-	(1,419,654)	2,800,849	1,381,195
Transfer from Stage 3 to Stage 2	-	8,864	(8,735)	129
Transfer from Stage 1 to Stage 3	(15)	-	478	463
Write-offs	0	0	(5,212,181)	(5,212,181)
New financial assets originated	166,615	23,427	41,091	231,133
Financials assets derecognized	(29,901)	(96,105)	(11,527)	(137,533)
Changes in PDs/LGDs/EADs	(66,897)	1,220,158	1,208,335	2,361,596
Balance at 31 December 2019	**353,472**	**201,138**	**1,919,259**	**2,473,869**

(c) Liquidity risk

Liquidity risk' is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

7. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities as well as loans and advances to customers, to ensure that sufficient liquidity is maintained within the Bank as a whole.

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (Continued)

Exposure to liquidity risk

Maturity profile of the carrying value financial instruments based on the contractual cash flows (i.e. undiscounted) including the impact of netting is as follows:

2019	Up to 3 months TZS'000	4 - 6 Months TZS'000	7 - 12 Months TZS'000	1 - 3 years TZS'000	More than 3 years TZS'000	Total TZS'000
ASSETS						
Cash and cash equivalents	5,326,299	-	-	-	-	5,326,299
Investment in fixed deposits	-	8,064,252	3,525,172	-	-	11,589,424
Loans and advances to customers	12,191,250	14,144,748	22,469,211	8,389,876	-	57,195,085
Due from related parties	14,482	-	-	-	-	14,482
Other assets (excluding non-financial assets)	1,199,414	-	-	-	-	1,199,414
Total assets	**18,731,445**	**22,209,000**	**25,994,383**	**8,389,876**	**-**	**75,324,704**
LIABILITIES						
Deposits from customers	9,449,722	3,192,965	15,744,116	-	-	28,386,803
Deposit from banks	-	4,603,282	3,767,605		-	8,370,887
Borrowings	16,128,497	6,297,797	1,176,026	2,293,267	-	25,895,587
Due to related parties	109,944	-	-	-	-	109,944
Lease liabilities	345,329	221,052	524,325	2,396,926	1,896,462	5,384,094
Other payables (excluding non-financial liabilities)	4,789,345	-	-	-	-	4,789,345
Total liabilities	**30,822,837**	**14,315,096**	**21,212,072**	**4,690,193**	**1,896,462**	**72,936,660**
Net liquidity gap	**(12,091,392)**	**7,893,904**	**4,782,311**	**3,699,683**	**(1,896,462)**	**2,388,044**
At 31 December 2018						
Total assets	47,058,255	7,293,933	22,525,471	8,257,546	-	85,135,205
Total liabilities	42,938,453	4,089,125	16,497,390	6,913,149	-	70,438,117
Net liquidity gap	**4,119,802**	**3,204,808**	**6,028,081**	**1,344,397**	**-**	**14,697,088**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Overall authority for market risk is vested in the Asset and Liability Committee (ALCO).

Interest rate risk

The Bank interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The fair value interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both the value and cash flow risks of its financial instruments.

Interest rate risk - stress tests

The Bank monitors the impact of risks associated with the effects of fluctuations in prevailing interest rates. The following table summarizes the estimated impact of an immediate hypothetical increase or decrease in interest rates of 100 basis points on profit before income tax expense, and current interest rate risk profile as at 31 December 2019.

	2019 TZS'000	2018 TZS'000
100 basis points increases or decrease in interest rates	53,849	17,925

The Bank's interest rate risk have reduced significantly, as most of the loans outstanding have fixed interest rates.

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (Continued)

Interest rate risk (Continued)

The table below summarises the exposure to interest rate risk. Assets and liabilities are categorised by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items except to the extent that interest rates affect foreign exchange rates.

2019	Up to 3 Months TZS'000	4 - 12 Months TZS'000	1 - 5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
ASSETS					
Cash and cash equivalents	-	-	-	5,326,299	5,326,299
Investment in fixed deposits	-	11,589,424	-	-	11,589,424
Loans and advances to customers	12,191,250	36,613,959	8,389,876	-	57,195,085
Due from related parties	-	-	-	14,482	14,482
Other assets (excluding non-financial assets)	-	-	-	1,199,414	1,199,414
Total assets	**12,191,250**	**48,203,383**	**8,389,876**	**6,540,195**	**75,324,704**
LIABILITIES					
Deposit from customers	9,449,722	3,192,965	15,744,116	-	28,386,803
Deposits from banks	-	4,603,282	3,767,605		8,370,887
Borrowings and interest payable	16,128,497	7,473,823	2,293,267	-	25,895,587
Due to related parties	-	-	-	109,944	109,944
Lease liability	211,465	530,469	3,315,674	-	4,057,608
Other payables (excluding non-financial liabilities)	-	-	-	4,789,345	4,789,345
Total liabilities	**25,789,684**	**15,800,539**	**25,120,662**	**4,899,289**	**71,610,174**
Interest rate sensitivity gap	**(13,598,434)**	**32,402,844**	**(16,730,786)**	**(1,640,906)**	**3,714,530**
At 31 December 2018					
Total assets	30,148,043	29,819,404	8,257,546	16,910,212	85,135,205
Total liabilities	42,517,851	20,586,515	6,913,149	420,602	70,438,117
Interest rate sensitivity gap	**(12,369,808)**	**9,232,889**	**1,344,397**	**16,489,610**	**14,697,088**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Market risks (Continued)

Currency risk

The Bank had no significant unhedged currency position at the end of the year. The Bank has an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarizes the exposure to foreign currency exchange rate risk at 31 December 2019.

31 December 2019	**TZS '000**
Cash and cash equivalents	1,947,710
Placements	11,589,424
Borrowings	(23,629,978)
Hedging Value	11,221,110
Lease liabilities	(3,313,863)
Net amount due to related parties	(109,948)
Net balance sheet exposure	**(2,295,545)**
A sensitivity analysis in relation to the net exposure for a 10% strengthening/weakening of the TZS against USD:	
Increase in loss before tax	(229,555)
31 December 2018	
Cash and cash equivalents	12,304,883
Placements	11,433,077
Borrowings	(11,336,719)
Net amount due to related parties	(13,921)
Net balance sheet exposure	**12,387,320**
A sensitivity analysis in relation to the net exposure for a 10% strengthening/weakening of the TZS against USD:	
Increase in profit before tax	1,238,732

(e) Fair value estimation

IFRS 13 requires the Bank to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The Bank specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on recurring basis

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Fair value estimation (Continued)

Financial instruments not measured at fair value:

The following table analyses within the fair value hierarchy the Bank's assets and liabilities (by class) measured at fair value at 31 December 2019.

31 December 2019	Financial assets at amortised cost	Financial liabilities	Total	Level 2	Total Carrying Amount
ASSETS	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
Cash and bank balances	5,326,299	-	5,326,299	5,326,289	5,326,299
Investment in fixed deposit	11,589,424	-	11,589,424	11,589,424	11,589,424
Loans and advances to customers	57,195,085	-	57,195,085	57,195,085	57,195,085
Other assets	1,199,414		1,199,414	1,199,414	1,199,414
Due from related parties	14,482	-	14,482	14,482	14,482
	75,324,704	**-**	**75,324,704**	**75,324,704**	**75,324,704**
LIABILITIES					
Deposits from other banks	-	8,370,887	8,370,887	8,370,887	8,370,887
Deposits from customers	-	28,386,803	28,386,803	28,386,803	28,386,803
Borrowings	-	25,895,587	25,895,587	25,895,587	25,895,587
Amounts due to related parties	-	109,944	109,944	109,944	109,944
Lease liabilities	-	4,057,608	4,057,608	4,057,608	4,057,608
Other payables	-	4,789,345	4,789,345	4,789,345	4,789,345
	-	**71,610,174**	**71,610,174**	**71,610,174**	**71,610,174**

31 December 2018	Financial assets at amortised cost	Financial liabilities	Total	Level 2	Total carrying amount
ASSETS	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
Cash and balances	16,024,34 2	-	16,024,342	16,024,342	16,024,342
Investment in fixed deposit	11,433,077	-	11,433,077	11,433,077	11,433,077
Loans and advances to customers	56,791,916	-	56,791,916	56,791,916	56,791,916
Due from related parties	128,233	-	128,233	128,233	128,233
Other assets	626,362	-	626,362	626,362	626,362
	85,003,930	**-**	**85,003,930**	**85,003,930**	**85,003,930**
LIABILITIES					
Deposits from other banks	-	6,719,759	6,719,759	6,719,759	6,719,759
Deposits from customers	-	28,359,996	28,359,996	28,359,996	28,359,996
Borrowings	-	34,937,760	34,937,760	34,937,760	34,937,760
Amounts due to related parties	-	114,311	114,311	114,311	114,311
Other payables	-	6,022,537	6,022,537	6,022,537	6,022,537
	-	**76,154,363**	**76,154,363**	**76,154,363**	**76,154,363**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital Management

Bank of Tanzania (the Central Bank) sets and monitors capital requirements for all banks and financial institutions in Tanzania.

The objective of the Bank of Tanzania is to ensure that a Bank maintains a level of capital which:

- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile; and
- promote public confidence in the Bank.

In implementing current capital requirements, the Bank of Tanzania requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets.

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania for supervisory purposes.

In accordance with the revised 2014 regulations, the Bank of Tanzania requires a bank to maintain at all times:

- a Core Capital of not less than 12.5% of its total risk-weighted assets and off balance sheet exposure; and
- a Total Capital of not less than 14.5% of its total risk-weighted assets and off balance sheet exposure.

In addition, the Banking and Financial Institutions (Microfinance Activities) Regulation, 2014 requires a microfinance bank to maintain at all times a minimum core capital of not less than five billion shillings or such higher amount as the Bank may prescribe.

Capital is segregated into core capital (Tier 1) and supplementary capital (Tier 2).

Core capital includes ordinary share capital, irredeemable preference share capital, capital contribution reserve, share premium and retained earnings after deductions of goodwill, intangible assets, and prepayments and deferred charges.

Supplementary Capital on the other hand includes subordinated debt, general and other reserves.

Risk weighted assets are arrived at using a framework of five weights applied to both on-balance sheet and off-balance sheet items to reflect the relative risk of each asset and counterparty.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2019 and year ended 31 December 2018. During those two periods, the Bank complied with all the Bank of Tanzania imposed capital requirements to which it was subjected to.

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f)Capital management (continued)

The Bank's regulatory capital position as at 31 December 2019 was as follows:

	2019 TSZ '000	2018 TSZ '000
Core capital (Tier 1)		
Share capital	31,574,605	31,574,605
Retained earnings (excluding loss for the year)	(11,699,391)	(2,712,977)
Qualifying year to date (loss)	(7,123,881)	(9,495,114)
	12,751,333	19,366,514
Less deductions from capital		
Regulatory adjustments:		
Prepayments	768,942	2,440,476
Deferred charges	-	4,957,545
Intangible assets	-	1,565,339
Total deductions from capital	768,942	8,963,360
Core capital	11,982,391	10,403,154
Supplementary capital (Tier 2)		
General Banking Risk reserve	-	522,010
Total capital	11,982,391	10,925,164
Risk weighted assets		
On-balance sheet	73,175,432	74,687,491
Total risk weighted assets	73,175,432	74,687,491

Capital ratios	**2019** **%**	**2018** **%**
Core capital /total risk weighted assets (BoT minimum 12.5%)	**16.37%**	**13.93%**
Total capital /total risk weighted assets (BoT minimum 14.5%)	**16.37%**	**14.63%**

7. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Capital Management (Continued)

Capital allocation

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times.

Strategic business and capital plans are drawn up annually. The plan ensures that adequate levels of capital and optimum mix of the different components of capital are maintained by the Bank to support the strategy. This is integrated with the Bank's annual planning process that takes into consideration business growth assumptions across products and the related impact on capital resources.

The capital plan takes the following into account:

- regulatory capital requirements;
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- Internal controls and governance for managing the Bank's risk, performance and capital.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Asset and Liabilities Committee (ALCO).

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Board of Directors reviews the Bank's policies in respect of capital management and allocation regularly.

	2019 TZS '000	2018 TZS '000
8. INTEREST AND SIMILAR INCOME		
Interest from loans and advances	25,671,935	25,071,464
Interest income from investments	222,990	598,636
	25,894,925	**25,670,100**
9. INTEREST AND SIMILAR EXPENSE		
Interest expense on term loans	3,249,177	3,337,724
Interest expense on lease liabilities	468,611	-
Fees expense on term loan	74,814	177,831
Interest expense on deposits from customers	2,815,211	4,120,590
	6,607,813	**7,636,145**

10. FEES AND COMMISSION INCOME

	2019 TZS '000	2018 TZS '000
Application fees	3,123,303	2,705,482
Account maintenance fees	1,052,655	1,150,345
Recovery income	1,171,180	771,822
Ledger fees	827,763	1,141,171
	6,174,901	**5,768,820**

11. FEES AND COMMISSION EXPENSE

M-pesa charges	41,576	83,175
Commission expenses on agent banking	520,695	529,175
	562,271	**612,350**

12. GRANT INCOME

Master Card grant	164,283	230,400
Engine	5,000	-
Financial Sector Deepening Trust	5,253	5,253
	174,536	**235,653**

Grants received are mainly to support various strategic projects including credit scoring, Digital Fields Automation (DFA), mobile savings (Haloyako) and channels expansions (agent banking) amounting to USD 3,274,796 Million from 2013 to enhance financial inclusion.

Grants to support strategic initiatives were recorded in the statement of income as grant income. Grants to finance lending operations or the purchase of fixed assets are shown as direct additions to equity and the corresponding asset account. Grants for future project implementation are deferred until the project implementation is effected, upon which they will be recognized in the income statement.

13. OTHER INCOME/(LOSSES)

	2019 TZS '000	2018 TZS '000
Income from insurance claim	10,677	6,047
Net foreign exchange gain/(loss)	152,741	(41,654)
Gain on disposal of Property and Equipment	21,654	6,769
	185,072	**(28,838)**

14. PERSONNEL EXPENSES

Salaries and wages	9,197,421	10,122,038
NSSF/PPF contributions	908,583	1,005,464
Training expenses	38,801	211,965
Medical insurance expenses	635,390	665,908
Skills and development levy	431,887	464,482
Other staff benefits	372,708	286,850
Workers Compensation Fund contribution	113,724	103,149
Directors' emoluments	139,158	174,391
Bonuses	51,000	116,800
	11,888,672	**13,151,047**

15. OPERATING EXPENSES

Operating expenses include the following:

	2019 TZS '000	2018 TZS '000
Transport and travel	1,273,150	1,910,472
Affiliation fees	664,996	722,997
Low value leases/Operating lease rentals	279,797	2,311,812
Professional and legal fees	793,536	1,759,268
Auditors' remuneration	335,572	346,530
Security and Insurance	1,073,681	1,530,812
Marketing and communication	725,571	1,790,661
Stationery, supplies and utilities	647,531	777,961
IT support	493,901	292,448
Recruitment	136,196	424,443
Repair and maintenance	297,306	182,481
Other expenses	1,712,086	3,687,770
	8,433,323	**15,737,655**

16. INCOME TAX

a) Tax expense

	2019	2018
Current tax at effective tax rate of 31.2% (2018:26.4%)	-	-
Deferred tax (credit) (note 12 (d))	-	(2,089,130)
Corporate tax charged for prior	-	-
Alternative minimum tax	152,849	382,446
De-recognition of Deferred tax asset	4,957,545	-
	5,110,394	**(1,706,684)**

b) Reconciliation of accounting profit to tax expense

	2019	2018
Loss before tax	(2,013,487)	(11,201,798)
Tax expense at applicable rate of 30%	(604,046)	(3,360,540)
Tax effect on items disallowed for tax purposes	212,570	1,653,856
Unrecognised deferred tax for 2019	697,174	-
De-recognised deferred tax	4,957,545	-
Alternative minimum tax	(152,849)	-
	5,110,394	**(1,706,684)**

c) Deferred tax asset

Deferred taxes are calculated on all temporary differences under the liability method using enacted tax rate of 30% .The net deferred tax asset is attributable to the following:

	2019	2018
Accelerated capital allowances	82,238	47,386
Provisions	1,009,400	742,161
Tax losses carried forward	4,563,081	4,514,688
Impact on IFRS 9	-	(346,690)
De-recognition of deferred tax asset	(5,654,719)	-
	-	**4,957,545**

The Bank is in an assessed tax loss position. Consequently, deferred tax asset has not been recognised due to uncertainty regarding the timing of future taxable profits against which the deferred tax asset can be utilised.

16. INCOME TAX (Continued)

	2019 TZS '000	2018 TZS '000
d) Movement in the deferred tax asset		
At beginning of year	4,957,545	3,215,105
Deferred tax credit	697,174	2,089,130
Prior year's deferred tax over provision	-	-
Release of asset (IFRS 9 impact)	-	(346,690)
Derecognition of Deferred tax asset	(5,654,719)	-
	-	**4,957,545**
e) Tax payable		
At beginning of year	(368,089)	14,357
Tax paid during the year	382,446	-
Current taxation charge for the year	(152,849)	(382,446)
At end of the year	**(138,492)**	**(368,089)**

17. INVESTMENTS IN FIXED DEPOSITS

Fixed deposits	11,636,225	11,433,077
impairment on investment	(46,801)	-
	11,589,424	**11,433,077**

18. CASH AND BANK BALANCES

	2019 TZS '000	2018 TZS '000
Balance with Bank of Tanzania	2,329,574	12,834,798
Bank balances	2,996,725	3,189,544
	5,326,299	**16,024,342**

19. LOANS AND ADVANCES TO CUSTOMERS

	2019 TZS '000	2018 TZS '000
Village Bank loans	129,466	149,340
Business loans	40,382,305	39,134,792
Small group loans	25,201	30,361
Salary loans	1,528,717	1,277,515
Shule loans	1,380,551	1,214,150
Parent Education Loan	129,254	283,112
Pamoja Loans	8,295,404	10,008,134
Pamoja Loans Plus	4,933,059	5,109,690
Insurance Claim	436,508	737,017
Micro Individual Lending Loan	923,551	238,460
Halo Credit overdraft account	45,841	33,197
Social Financial Group loan	2,138,506	1,050,017
Gross loans balances	60,348,363	59,265,785
Less: Provision for loan losses (Note 19(b)(i))	(3,153,278)	(2,473,869)
Net loans to customers	**57,195,085**	**56,791,916**

19. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	2019 TZS '000	2018 TZS '000
a) Analysis of net loans to customers by maturity		
Up to 3 months	12,191,250	18,714,966
Between 4 months and 6 months	14,144,748	7,293,933
Between 7 months and 12 months	22,469,211	22,525,471
Between 1 year and 3 years	8,389,876	8,257,546
More than 3 years	-	-
	57,195,085	**56,791,916**
b) (i) Movement of provision for loan losses		
Balance brought forward	2,473,869	5,207,918
Provision charge for the year	4,241,120	3,633,766
Bad debts written off during the year	(3,561,711)	(5,212,181)
IFRS 9 initial Impact	-	(1,155,634)
Balance carried forward	**3,153,278**	**2,473,869**
b) (ii) Impairment charge reported in the SOCI		
Impairment on loans and advances	4,241,120	3,633,766
Impairment on other financial instruments	46,801	-
Impairment (reversal) on stage 3 loans	(113,457)	-
Total impairment charge	**4,174,464**	**3,633,766**

The total write off during the year was TZS 3,561,711,000 (2018: TZS 5,212,181,000) and recovery of previous written off loan was TZS 1,020,197,402 (2018: TZS 771,822,000).

20. OTHER ASSETS

	2019 TZS '000	2018 TZS '000
Prepaid expenses	768,942	2,240,477
Staff advances	81,383	131,275
Tax advance	-	200,000
Stationary and office supplies	79,413	54,272
Other receivables	1,086,290	148,809
Mobile Banking - Nostro Accounts	113,124	477,552
	2,129,152	**3,252,385**

21. WORK IN PROGRESS

COST	TZS'000	TZS'000
At the beginning of the year	2,681,890	4,417,588
Additions	554,028	1,319,778
Total	**3,235,918**	**5,737,366**
Transfer to intangible assets	(3,111,775)	(1,106,558)
Transfer to Property and equipment	(68,098)	(1,061,180)
Write off to income statement	(41,329)	(887,739)
At 31 December	**14,716**	**2,681,890**

21. WORK IN PROGRESS (CONTINUED)

These are payments towards Digital Field Automation (DFA), Credit scoring, Haloyako Project and Branch refurbishment. In the effort to make the business efficient and cost effective, the Bank introduced DFA project to enable transform current paper process into digital from client on-boarding, loan underwriting process to performance management. Each field staff will be provided with a tablet loaded with the DFA system. The project is expected to reduce turnaround time in serving the Banks clients by ensuring instant processing of loan application at field in which DFA system is integrated with core banking system. In the effort of reaching and including financial services unreached population, the Bank introduced Haloyako project (Haloyako Savings and Loans) which is designed to mobilise savings and loans through mobile platform. The costs have been capitalized in 2019.

22. PROPERTY AND EQUIPMENT

	Leasehold Improvements TZS '000	Motor Vehicles TZS '000	Office Equipment TZS '000	Office Furniture and Fittings TZS '000	Total TZS '000
Cost					
At 1 January 2018	3,379,910	171,566	5,844,260	972,153	10,367,889
Additions	375,036	-	997,813	94,689	1,467,538
Disposals	-	-	(3,855)	(52,983)	(56,838)
At 31 December 2018	**3,754,946**	**171,566**	**6,838,218**	**1,013,859**	**11,778,589**
At 1 January 2019	3,754,946	171,566	6,838,218	1,013,859	11,778,589
Additions*	272,438	-	150,233	17,351	440,022
Disposals	-	(65,880)	(15,855)	(7,729)	(89,464)
At 31 December 2019	**4,027,384**	**105,686**	**6,972,596**	**1,023,481**	**12,129,147**
Accumulated depreciation					
At 1 January 2018	2,155,075	171,566	4,252,615	752,321	7,331,577
Charge for the year	375,483	-	777,952	81,344	1,234,779
Eliminated on disposal	-	-	(3,855)	(52,983)	(56,838)
At 31 December 2018	**2,530,558**	**171,566**	**5,026,712**	**780,682**	**8,509,518**
At 1 January 2019	2,530,558	171,566	5,026,712	780,682	8,509,518
Charge for the year	395,011	-	712,232	75,295	1,182,538
Eliminated on disposal	-	(65,880)	(14,583)	(7,728)	(88,191)
At 31 December 2019	**2,925,569**	**105,686**	**5,724,361**	**848,249**	**9,603,865**
Net book value					
At 31 December 2019	**1,101,815**	**-**	**1,248,235**	**175,232**	**2,525,282**
At 31 December 2018	**1,224,388**	**-**	**1,811,506**	**233,177**	**3,269,071**

*Additions include TZS 68,098,000 capitalised from WIP – note 21 (2018:1,061,180,000)

23. IFRS 16 - Leases

The Bank leases a number of branch and office premises. The leases term are different depending on the strategic decision to operate in some of the branches, however on average the leases are for a period of 5 years with an option to renew the lease after that date. Some leases provide for additional rent payments that are based on changes in local price indices.

Previously, these leases were classified as operating leases under IAS 17 and the information about leases for which the Company is a lessee is presented below.

a) Right of use assets

	2019
Cost	TZS '000
At the beginning of year	5,455,665
Additions	381,051
At end of the year	**5,836,716**
Depreciation	
At beginning of the year	-
Amortization for the year	1,056,177
At end of the year	**1,056,177**
Net book value	**4,780,539**

b) Lease liability

At 1 January	-
Impact on initial application of IFRS 16 as at 1 January 2019	4,820,514
Addition during the year	381,051
Interest expense accruals	468,611
Foreign exchange loss	3,105
Lease payments-principal	(1,187,014)
Lease payments-Interest	(428,659)
31 December	**4,057,608**

See note 7 (c) for maturity analysis of lease liability as at 31 December 2019.

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows.

Maturity analysis – Contractual undiscounted cash flows	
Less than one year	1,321,890
Between one and five years	3,414,925
More than five years	240,000
Total undiscounted lease liabilities at 31 December	**4,976,815**

2019 – Leases under IFRS 16	
Interest on lease liabilities	468,611
Expenses relating to short-term leases	279,797

	2018
2018-Operating leases under IAS 17	
Lease expense	2,311,812

23. IFRS 16 Leases (Continued)

c) Amounts recognised in the statement of cash flows.

	2019
	TZS '000
Principal payments	1,187,014
Interest payments	428,659
Total cash outflow for leases	**1,615,673**

d) Extension options

Some leases of office premises contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

24. INTANGIBLE ASSETS

Computer software

	2019	2018
Cost	TZS '000	TZS '000
At the beginning of year	3,793,563	2,487,600
Additions	3,194,510	1,305,964
At end of the year	**6,988,073**	**3,793,564**
Amortization		
At beginning of the year	2,228,225	1,386,433
Amortization for the year	537,663	841,792
At end of the year	**2,765,888**	**2,228,225**
Net book value	**4,222,185**	**1,565,339**

*Additions include TZS 3,111,775,000 capitalised from WIP - note 21 (2018: 1,106,558)

25. DEPOSITS FROM CUSTOMERS AND BANKS

Deposits from customers	28,386,803	28,359,996
Deposits from banks	8,370,887	6,719,759
	36,757,690	**35,079,755**
Payable within 3 months or less	9,449,721	19,882,366
Payable within 4 to 6 months	7,796,248	3,306,896
Payable after 6 months	19,511,721	11,890,493
	36,757,690	**35,079,755**
Current and demand accounts		
Savings deposits	36,434,987	34,715,855
Collateral deposits	111,493	112,049
Others	211,210	251,851
	36,757,690	**35,079,755**

26. BORROWINGS

	2019 TZS '000	2018 TZS '000
Borrowings-Principal amounts	25,716,871	34,633,050
Interest payable	178,716	304,710
	25,895,587	**34,937,760**
Maturities of borrowings are as follows:		
Current - due within 12 months	**23,601,660**	**28,024,611**
Long term - due after 12 months	**2,293,927**	**6,913,149**

Analysis of principal amounts

	Balance as at 1 January 2019 TZS '000	Receipt TZS '000	Payment TZS '000	Balance as at 31 December 2019 TZS '000
Symbiotics Sicav (Lux.)	4,531,217	-	2,265,610	2,265,607
Blue Orchard Microfinance Fund	2,281,229	-	2,281,229	-
Financial Sector Deepening Trust	456,246	-	456,246	-
Global Partnerships Social Investment Fund 6.0 LLC	1,520,820	2,289,171	1,492,829	2,317,162
MCE Social Capital	2,281,231	-	1,132,092	1,149,139
INCOFIN	4,562,461	-	4,562,461	-
FMH 26 JUNE 2018	2,281,231	-	-	2,281,231
FMH 28 JUNE 2018	3,421,846	-	-	3,421,846
FMH 17 JULY 2018	4,562,461	-	-	4,562,461
FMH 25 OCTOBER 2018	2,281,231	-	-	2,281,231
FMH 05 DECEMBER 2018	2,281,231	-	2,281,231	-
FMH 05 DECEMBER 2018	3,421,846	-	3,421,846	-
FMH 21 FEBRUARY 2019	-	3,432,100	-	3,432,100
FMH 14 MARCH 2019	-	1,716,565	-	1,716,565
FMH 22 MARCH 2019	-	2,289,529	-	2,289,529
FMH 05 APRIL 2019	-	2,289,549	2,289,549	-
SELF MF	750,000	-	750,000	-
	34,633,050	**12,016,914**	**20,933,093**	**25,716,871**

SYMBIOTICS SICAV (Lux.)

The loan from Symbiotics - SEB III MF is a shilling denominated loan amounting to TZS 4,531,216,600.00 equivalent to USD 2,000,000. A promissory note secures the loan and interest is fixed at 10.75%. The loan is repayable in two equal instalments of which 50% was paid on 30th November 2019 and another 50% will be paid on 17th May 2020. Interest on the loan is payable semi-annually where the final interest payment will be made on 17 May 2020.

Blue Orchard Microfinance Fund

The **original** loan is a dollar denominated loan amounting to USD 4,000,000 and the loan has been repaid full by 31 December 2019. Interest was fixed at a rate of 6.35% per annum on the principal loan amount and was payable every six months. The last instalment was paid on 30th March 2019.

26. BORROWINGS (CONTINUED)

GLOBAL PARTNERSHIPS SOCIAL INVESTMENT FUND 6.0 LLC

The original **loan** is a dollar denominated loan amounting to USD 2,000,000. Interest is fixed at a rate of 6.5% per annum on the principal loan amount and is payable quarterly starting from 20 June 2017. The loan is payable in three equal instalments where the final instalment was made on 20 March 2019. FINCA received another loan from Global Partnership amounting to USD 1,000,000 on August 2019 with interest rate of 7.78% per annum and the loan is payable in two equal instalments on 20 December 2020 and 20th June 2021.

Financial Sector Deepening Trust (FSDT)

This was a funding agreement between the registered trustee of Financial Sectors Deepening Trust Tanzania (FSDT) and FINCA Microfinance Bank which was executed on August 2016. FSDT availed the sum of $250,000 to FINCA for the purpose of assisting on automating client registration and accounts openings using instant credit scoring technology where by $50,000 was a pure grants and $200,000 was a soft loan, zero interest, repayable after two years. The loan $ 200,000 was paid in full on 10th April 2019.

MCE Social Capital

This is a dollar denominated loan amounting to USD 1,000,000. Interest is fixed at a rate of 6.5% per annum on the principal loan amount and is payable semi-annually starting from 31 January 2018. The loan is payable in four equal instalments on 29 January 2019, 29 July 2019, 29 January 2020 and 29 July 2020. Only one instalment of USD 250,000 will be paid in July 2020.

AGRIF Cooperatief U.A. (INCOFIN)

This is a dollar denominated loan amounting to USD 2,000,000. Interest rate is fixed at 6.5% per annum on the principal loan amount and is payable semi-annually starting from 7 May 2018. The loan is payable in two equal instalments where the final instalment was paid on 07th November 2019.

FMH FUNDING.

This is the loans received from FINCA Microfinance Holdings (FMH) on short term basis where a total of USD 4.25m were received during the year and a total of USD 3.5m was repaid. All these loans were priced at 6% and is expected to keep on roll over at short term until the liquidity stabilizes.

SELF-MICROFINANCE FUND.

This is a local currency denominated loan amounting to TZS 1,500,000,000. Interest rate is fixed at 11% per annum on the principal loan amount and is payable quarterly where the final instalment was made on 15th April 2019.

BORROWING COVENANTS

As at 31st December 2019, the Bank was in breach of profitability and gross loan portfolio quality covenants with two lenders, MCE and Global Partnership where the total exposure was less than 15% of total borrowings. MCE outstanding balance is maturing in less than one year while 50% of the exposure to Global Partnership borrowings will mature in less than a year and the remaining will mature thereafter. The Bank obtained the waiver from both lenders.

27. RELATED PARTY TRANSACTIONS AND BALANCES

In the ordinary course of business, transactions are entered into with FINCA International, the ultimate holding Bank and other companies related to the Bank through common shareholding or common directorships. The relevant balances are shown below:

	2019 TZS '000	2018 TZS '000
Amount due from related parties		
FINCA International	7,531	121,281
FINCA Nigeria	5,021	5,021
Finca Africa IT Services Centre	1,930	1,931
	14,482	**128,233**
Amount due to related parties - FINCA International	**109,944**	**114,311**

	2019 TZS '000	2018 TZS '000
Transactions with related parties		
FINCA Microfinance Holding:		
Capital injection	-	8,544,455
Royalty fees	664,996	722,997
	664,996	**9,267,452**
Loans and advances to employees		
At 1 January	1,277,515	1,171,512
Net movement during the year	251,202	106,003
At 31 December, 2018	1,528,717	1,277,515
Interest earned	**177,866**	**187,038**
Loans and advances to employees have been included under Note 17 - Loan and Advances to customers		
Deposits from employees		
Opening balance	252,027	263,497
Net movement during the year	(40,817)	(11,470)
Closing balance	211,210	252,027
Key management personnel compensation		
Salaries and other benefits	1,245,890	1,171,069
Directors' emoluments		
Fees and allowances for services as Directors	139,158	174,391

Key management compensation is included in the personnel expenses for the year.

28. DEFERRED GRANT

	Balance as at 1 January 2019 TZS '000	Receipts TZS '000	Credited to profit or loss TZS '000	Refunded to Donors TZS'000	as at 31 December 2019 TZS '000
Engine	81,807	-	(5,000)	(35,209	41,598
Financial Sector Deepening Trust	99,817	-	(5,253)	-	94,564
Master Card	779,494	-	(164,283)	-	615,211
	961,118	**-**	**(174,536)**	**(35,209)**	**751,373**

During the year no grant was received. As at year end, the deferred grant balance was TZS 751,373,000 (2018: TZS 961,118,000). The grants are credited to profit or loss to the extent that the agreed milestones in the memorandum of understanding have been achieved. The balance has been deferred pending implementation of the additional agreed milestones.

29. OTHER PAYABLES

	2019 TZS '000	2018 TZS '000
Accrued expenses	4,063,718	5,471,893
Provisions	320,746	434,776
Other payables	725,627	306,291
Employee bonus and leave days accrual	155,832	244,353
Deferred income on loans	469,663	710,687
	5,735,586	**7,168,000**

30. CONTINGENT LIABILITIES

Litigations

Litigations against the Bank relate to civil suits lodged against the Bank by customers and former employees in the normal course of business. The likely outcome of these suits cannot be determined as at the date of signing these financial statements. The Directors, however do not anticipate that significant liabilities will accrue from the pending suits and for those with likelihood of loss have been provided for.

31. COMMITMENTS

As at 31 December 2019 there were no capital commitments made.

32. CURRENCY

These financial statements are presented in Tanzania Shillings, rounded to the nearest thousand (TZS'000), which is also the functional currency unless explained otherwise.

33. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic due to its rapid spread across the globe. Many governments including the Tanzanian government, are taking stringent measures to help contain the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders. This has led to a relatively weaker economic outlook and uncertainties across the globe.

The Bank takes measures to strengthen its balance sheet and protect its business for the period of the crisis. Areas that may get impacted by the crisis include portfolio quality and income generation. Management assumes that the impact of the crisis will be temporary, and most of its clients will resume normal operations afterwards. The Bank also sees an opportunity to use the crisis situation to streamline its structure and accelerate its digital transformation, and thus emerge from the crisis with stronger, more efficient operations.

As at the date of this report, there is no sufficient data to quantify the effects of the pandemic however, based on preliminary assessment the directors and management believe that the effect of the pandemic does not have a material impact on the financial statements as at 31 December 2019 based on the current information and does not amount to a material uncertainty over the Bank's ability to continue as a going concern.

Apart from the above issue, The Directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in these financial statements, which significantly affect the financial position of the Bank and results of its operations as at 31 December 2019.