AKIBA COMMERCIAL BANK PLC

benki kwa maendeleo yako

ANNUAL REPORT

2020

AKIBA COMMERCIAL BANK PLC

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ANNUAL REPORT 2020

THE BANK FOR YOUR DEVELOPMENT

Improved systematic banking experiences for the people of Tanzania.

BANK INFORMATION

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CONTENTS

Letter of Transmittal

Dear Shareholders,

It is my pleasure, on behalf of Board of Directors, to present to you the Bank's Annual Report for the year 2020. The report containes the Audited Financial Statements, major events that happened during the year, achievements and future business prospects for the Bank. It is my hope that this report will meet your approval.

Yours faithfully,
Mr. Ernest Massawe
Board Chairman

Our Vision & Mission

Vision

To be the preferred banking partner for micro, small and medium enterprises

Mission

To provide inclusive, innovative financial solutions in the most efficient and sustainable manner

COMPANY Profile

Akiba Commercial Bank Plc (ACB) commenced banking operations in August 1997 as an initiative of over 300 Tanzanian entrepreneurs who were inspired to move into micro-finance, by the moral and economical concern for the plight of millions of Tanzanians. These founding members were bound together by a strong conviction that in Akiba Commercial Bank they will have the vehicle through which they would reach and help transform the lives of previously unbanked and commercially ill-equipped people around the country.

The bank's essence was to support the emergence of start-up Tanzanian businesses through the provision of financial services at all levels by a Tanzanian-owned commercial bank which understood the people it aimed to serve and was committed to. This was the original, very firm and deep rooted mission of its founding members.

In order to strengthen the resource base of the bank, the founding members over time invited like-minded local and international investors to coalesce their resources, strengths, and expertise for the common vision of growing ACB's services and reach. These institutions were also invited because they were willing to participate actively without being driven by profits as their main objective, but rather they were committed to uplifting the economic status of Tanzanians irrespective of their socio-economic positions in life provided they had entrepreneurial skills that can be nurtured. ACB's target market is small and medium sized entrepreneurs, companies and community banks.

Today ACB has expanded its services beyond Dar es Salaam successfully establishing itself as a strong presence in the Tanzanian banking sector which has one of the highest numbers of banks in Africa. ACB has also broadened its reach enabling it to provide financial services to customers of all levels including college and university students, entire families, home owners, business owners, as well as private operations.

Our Core Values

- Team work
- Integrity
- Commitment
- Respect
- Socially Responsible

As a commited bank, we are guided by the above mentioned Core Values in all activities we undertake.

CHAIRMAN'S Statement

As the global economy was severally impacted by the Covid-19 pandemic which surged from early March 2020; Likewise, Akiba Commercial Bank did not survive the detrimental effects that were borne by the banking industry in Tanzania.

I would describe the year 2020 as the most challenging since the inception of the Bank, as not only did we see an unprecedented decline in the bank's performance, but we also had to navigate a global humanitarian crisis at a scale not seen before.

Global markets, businesses and individual livelihoods were severely impacted due to restrictions on economic activities and the movement of people, thus significantly impacting income growth opportunities for small and medium enterprises, which is our main market segment.

Despite all the challenges, our Bank still managed to improve its operational efficiency through automation and streamlined business processes that enabled us to bounce back during the last quarter of the year, when the global economy started showing signs of recovery.

Based on the foregoing, to allow for a holistic review, it is therefore important to reflect on Akiba's journey given the unique challenges that were posed by the year 2020.

First and foremost, it is important to note that since 2017 Akiba Commercial Bank has been implementing its turnaround strategy, aiming to transform the Bank back into a profit-making operation.

The turnaround strategy, as approved by the Board, made it an imperative for us to focus on improving operational efficiencies which in turn yielded performance improvements throughout the Bank. However, by the end of 2020, the effectiveness of the strategy was wholly undermined by the pandemic and did not deliver the envisaged benefits or changes.

Specifically, the outbreak of Covid-19 pandemic impacted both loans issuance and deposits mobilization, due to the fact that the business activities of our existing and prospective clients were affected, thus limiting their ability to service loans or make savings.

Therefore to ensure we maintain the ability of our loan customers to repay their loans without compromising their business operations, especially those who were hit hard by the first and second waves of pandemic, we opted for new arrangements with borrowers including repayments moratorium, extension of repayment tenures, waivers of penalty interests and interest rates reductions.

Furthermore, the Bank adopted both internal and external recommendations and mitigation measures, as stipulated by the World Health Organisation (WHO) and Ministry of Health, in order to safeguard our staff and clients while cushioning our business from the impact of the pandemic.

Similarly, we also managed to accelerate our digital transformation program for the delivery of banking services in order to ensure that our services are not compromised by the restrictions of movements and the required safety protocols.

The National Economic Trends

According to the Bank of Tanzania Quarterly Economic Bulletin for December 2020, the performance of the national economy was satisfactory, albeit experiencing adverse spill over effects of Covid-19 on the global economy and impacted supply chains.

Of note, it is observed that during the first three quarters of 2020, the Tanzanian economy recorded average growth rate of 4.7 percent, compared to 7.3 percent in the corresponding period in 2019 and 6.9 percent in 2018.

Business Highlights
During this challenging year, the Bank recorded a loss before tax of TZS 8,301 million compared with a loss before tax of TZS 1,226 million recorded in 2019.

The primary contributing factor for the deterioration of income generation was due to a significant decrease in interest income, as the pandemic environment made it difficult for the bank to grow the loan book and earn adequate income on issued loans. Additionally, gross loans and advances declined by 10% from 2019.

The net interest income (interest income less interest expense) during the year amounted to TZS 17,087 million, as compared to TZS 22,461 million in 2019, representing a decrease of 24% (TZS 5,375 million). This decrease was largely caused by the slowdown of business activities and high cost of funding.

Credit impairment losses amounted to TZS 4,405 million representing an increase of 141%, primarily due to the deterioration of the quality of our loan book. In addition, the bank also had to account for the uncertainty and scale of the pandemic when estimating loss provisions, which was material to our business.

Operating expenses amounted to TZS 24,538 million as compared to TZS 26,251 million in 2019, implying a decrease of 7% (TZS 1,713 million), which was due to cost containment and efficiency measures implemented.
Income tax expense amounted to TZS 1,617 million compared to TZS 1,662 million in 2019.

The bank managed to mobilize more deposits from customers which resulted in a net increase of TZS 9,874 million (9%) mainly due to bank efforts to mobilize more deposits to fund the loan book and for liquidity. However, the growth in deposits increased the bank's cost of funding due to an increase in expensive deposits emanating from the competition.

We also slowed our investment in government securities by TZS 2,679 million (11%) during the year in order to liquidate short term borrowings from other banks.

With limited marketing spend during the year, our dedicated teams throughout the branches and agencies used different initiatives to ensure that our visibility is sustained, and customers are served in accordance with their expectations and demands.

Throughout the year, we continued to improve our business models, through our physical infrastructure and application of digital channels with a motivated staff who were committed to ensuring that we attain our goals and continue to deliver the best service to our customers.

Capital Injection
Following the capital injection by the National Bank of Malawi (NBM) to the tune of US$7.31 million (equivalent to TZS 16.99 billion) in January 2021, the bank subsequently met all Bank of Tanzania regulatory capital requirements.

NBM's acquisition of a 75% stake in the bank will ensure compliance with all regulatory capital requirements as well as the provision of new funds for growth, primarily focusing on the expansion of financial solutions to other segments such as consumer loans and corporate finance facilitators on top of our MSME customers, which will continue to remain the primary focus of the bank.

The National Bank of Malawi is a strong player in the Malawian financial market and apart from the equity investment, they also bring along a wealth of experience and technology know-how acquired over many years, which will ultimately push Akiba to higher competitive position in the Tanzanian financial sector.

Corporate Social Responsibility
As a good corporate citizen, the Bank actively participates in deserving charitable and social activities. During the year, the Bank participated in several community activities focusing on environmental protection and conservation, health, education and special groups. Particularly, the Bank has continued to maintain the Independence Square Garden in Dodoma since 2013.

Gender parity
The Bank is an equal opportunity employer. As at 31st December 2020, the Bank had 418 employees and female employees accounted for 60.5% of the workforce whilst male employees were 39.5% of the total staff population (2019: 432 employees, out of whom 61% were female and 39% were male).

Career Development
During the year, our bank implemented various career

development programmes to expose staff on various technical and soft skills as a demonstration of the bank's commitment to improving staff skills in the provision of banking services.

The Bank turnaround strategy also had a key focus to address staff capacity gaps and develop appropriate skills capable of discharging exemplary operations across all levels in the organization.

Considerable training interventions both classroom and on-the-job were done to bridge the identified staff skills and performance gaps. As of end of 2020 a total of 8 in-house and 5 external training programs were attended by 586 and 36 staff members respectively.

Future Plans

After obtaining sufficient capital injection from our strategic partner, Akiba is looking forward to investing in technology as well as new products and services in order to rebuild our reputation in the market as the bank of choice in Tanzania.

We are targeting to effectively use IT platforms and systems to achieve a greater degree of automation and innovation of new products and services through technology. Through upgrade and modernization of IT systems, the bank will ensure increased compliance with legal and regulatory requirements as well as provide increased security so that the bank and its stakeholders can conduct business with a greater degree of flexibility.

The bank will resume provision of cross-border telegraphic transfers, corporate banking products (letters of credit, bonds, guarantees and overdrafts) and consumer lending. Further, the bank is working to enhance our mobile banking offering and introduce agency banking, internet banking, banc assurance and VISA debit cards. These will expand our footprint, customer product offering and diversify our non-interest revenue lines.

Acknowledgement

I am grateful to both the Board and management for ensuring that our vision has continued to deliver value and a steadfast commitment to our customers and stakeholders.

I would like to thank our customers, who are our main partners, for their loyalty and I promise that we will continue to serve them at the best of our ability, for the benefit of both parties and the national economy.
I want to take this opportunity to also thank the Bank of Tanzania for their valuable guidance to our bank and the whole banking industry, to ensure its soundness and continued stability.

The Board believes that our bank is now positioned to regain its confidence in the market, while carrying its stewardship as the foundation of micro, small and medium enterprises financial services providers in Tanzania.

We look forward to starting the year 2021 with new zeal and speed while we continue to operate within our transformation agenda.

I hereby, present to you the Bank Annual Report and Audited Financial Statements for the year 2020.

Ernest Massawe,
Board Chairman

Board of Director's

Mr. Ernest Massawe
Board Chairman

Mr. Brian Kuwik
Director

Mr. Joseph Rugumyamheto
Director

Mr. Jean-Marie Pre'vost
Director

John Fischer
Director

Rukia J. Adam
Independent Director

Dr. Josephat Lotto
Independent Director

Senior Management Team

Juliana Swai
A.g. Managing Director

Bertha Simon
General Manager Finance

Hamisi Malipula
General Manager ICT

Dora Saria
Head of Marketing & Communications

Robert Masala
Head of Human Resources

Tetwigis Charles
Head of Risk and Compliance

Chemo Mutani
Chief Internal Auditor

Niwaeli Mziray
Company Secretary

SHAREHOLDERS' PROFILE

The vision of establishing ACB can be traced back to the 1980s when Tanzania was transitioning from a socialist to a market economy when a few committed citizens engaged in business decided to pursue a common goal of establishing mechanisms for growing bigger and building a legacy of success.

This group, effectively the very first shareholders, identified itself by Swahili name "Mshikamano wa Kujiendeleza", which can translated as Solidarity for Development, and they convened on Fridays to deliberate and develop ideas that would ultimately help them establish an entity designed to accommodate their dream and consequently set them on a path to improved livelihoods. By the early 90s they had reached a unanimous agreement to establish a commercial bank that will focus on serving people in the low-income echelon.
With the primary initiative of raising a capital of TZS I billion which at the time was an astronomically huge sum, they took early steps by making personal contributions through which they raised TZS 200m, a fraction of the required mark. Their next option was to invest it in government stocks and after 2 years the amount had doubled to TZS 400m.

Government parastatals such as NIC and PPF were soon attracted by the idea and resolved to buy shares, however the initial capital target still remained distant. As a last resort this tireless group of entrepreneurs sought the involvement of foreign investors many of whom turned down their approach. This protracted struggle culminated in 1997 when Triodos and others finally joined hands with them and completed their vision.

Est. in
1978

Inter-Consult Ltd.

From its establishment in 1978 in a small Dar es Salaam office offering civil and structural engineering services to an ISO 9001-2008 certified multidisciplinary consultancy firm, Inter-Consult Ltd. has successfully delivered a full spectrum of services that bring infrastructure projects to life.

During more than three decades of consistent growth the company has worked with clients in virtually all industries in both the public and private sectors to identify, define, and deliver innovative solutions to complex problems with exceptional commitment, excellence, and results that inspire confidence. Having been involved in over 400 projects ranging from a few hundred thousand to multi-million US dollars in value, Inter-Consult has become a leading independent Tanzania-based multi-disciplinary consultancy that is fully owned and managed by Tanzanians.

At the core of its mission is a pledge to clients to provide the highest quality consulting services on time and at fair market value in all aspects of the construction industry including architecture and urban planning, quantity surveying, structural, mechanical, and electrical engineering. Inter-Consult also offers services in highway engineering, water supply and sanitation, geotechnical and materials engineering, ICT, and project management.

By positioning itself as a dynamic and growing business with a turnover of TZS 5 billion, focused on meeting clients' changing needs, the company has attained good performance standards. It effectively handles all stages of project management from feasibility studies, planning and design, to construction supervision extending to commissioning.

Inter-Consult has also invested in Inter Press Ltd. whose vision is towards poverty alleviation.

Est. in
2018

Public Service Social Security Fund (PSSF)

The Public Service Social Security Fund is a social security scheme established by Public Service Social Security Act of 2018. The main purpose is to collect contributions and payment of terminal benefits to employees of public service.The act shall apply in mainland Tanzania.

Members of PSSSF:

Employees in the public service employed after the commencement of PSSSF Act.

Employees who are members of the former schemes at the time of commencement of the PSSSF Act.

Employees employed after the commencement of the act in any specified corporation (company or corporation where the government or its agent owns more than 30% of the share)

FOUNDED IN
1961

ACCION International

ACCION International, a world pioneer in microfinance, is a private nonprofit organization with the mission of giving people the financial tools they need including microenterprise loans, business training and other financial services to help them work their way out of poverty. It was founded in 1961 and issued its first microloan in 1973 in Brazil. Over time, the organization has helped build 62 microfinance institutions in 31 countries on four continents. Those institutions are currently reaching millions of clients. In the United States, the U.S. ACCION Network is the largest microfinance lending network in the country and has served tens of thousands of clients with over $275 million in loans since the inception of its pilot program in 1991.

ACCION International is an innovator in financial access, pioneering many of the best practices and emerging standards in the industry providing a full range of management services, technical assistance and training, as well as investment and governance support to help financial institutions build institutional capacity and financial strength. In addition, ACCION International has created and continues to develop leading products andvservices that bridge the divide between commercial finance institutions andvthe working poor. Their business solutions focus on radically enhancingvefficiency and increasing versatility through product and delivery channel diversification.

ACCION International also provides support in the form of investment to micro finance institutions, helping them to build upon its other services and linking them with commercial banks and capital markets. Through equity and quasi-equity investments, as well as loan guarantees, it enables MFIs to strengthen core systems, access innovations, attract deposits, become independent of donor funds and establish financial leverage.

Est. in
1993

Erncon Holdings Limited

Erncon Holdings Limited is a family investment company established in 1993 by Ernest S. Massawe and his family for the sole purpose of managing the family's various investment activities as well as its assets.
The initial directors of the company are all members of the Massawe family. To-date the company has experienced strong growth and has a diversified portfolio covering a number of sectors including tourism, industrial gases, insurance, assurance, banking, real estate, stock brokering, fund management, leasing, mining, mining services and logistics, transportation, and telecoms.

200
SHAREHOLDERS

Incofin CVSO

After 20 years Belgium's Incofin CVSO strives more than ever to achieve a double (financial and social) return. This balanced vision on investing convinced almost 200 new shareholders to join during 2011. It invests in MFIs that make a real difference to the quality of life of their stakeholders, their staff and their customers. Through the monitoring of a number of key social parameters, including the level and quality of service and the treatment of the environment and contribution to society, it manages to quantify an MFI's social performance. For its investments, Incofin CVSO adopts a set of well-defined criteria, taking into account the impact of the microfinance institution on the local economy, the quality of its management, its financial situation, its track record, and the company's outlook. For each investment dossier a thorough due diligence is executed of the microfinance institution on site. After the investment, the investment file is carefully followed up. Incofin CVSO is a shareholder in Akiba Commercial Bank since 2003 and has, since the beginning, also taken up an active role in the board.

MFIs can find in Incofin a partner who actively works together with them to find a solution that suits them best. The fund is managed by Incofin Investment Management, a manager of 6 microfinance investment funds with EUR 300 million assets under management. Incofin Investment Management is taking care of this job with an international and multilingual team of 37 experts who are at the MFIs' disposal. Incofin CVSO currently cooperates with 30 partner institutions in 21 countries, reaching out to 1.8 million micro entrepreneurs.

FMO

Founded in 1970, FMO is a public-private development bank. The Dutch government is the major shareholder, holding a 51% stake. Other shareholders include large Dutch banks, employers' associations, trade unions and individual investors. Rated triple-A by Standard & Poor's, FMO complies with internationally-accepted banking standards and is supervised by the Dutch Central Bank. Its solid profile and high quality portfolio allows the bank to invest in higher risk markets, either with its own capital or on behalf of the Dutch government.

FMO believes a strong private sector leads to economic and social development, empowering people to employ their skills and improve their quality of life. It specializes in sectors where its contribution can have the highest long-term impact including financial institutions, energy, housing and agribusiness, food and water. When financing companies and projects in other sectors such as telecoms and infrastructure, the bank works with a worldwide network of partners with thorough expertise in that area. With an investment portfolio of EUR 5.9bn, it is one of the largest European bilateral private sector development banks.

FMO principally provides long-term finance as well as shorter-term project financing, working with clients to understand their specific needs, and tailoring financial packages to fit them. The bank's participation often acts as a catalyst – attracting interest from other suitable investors who would otherwise avoid what are still considered higher-risk projects.

SIDI

Est. in **1983**

SIDI was set up in 1983 in France as a private company limited by shares, on the initiative of the Catholic Committee against Hunger and for Development (CCFD). In the North SIDI mobilizes funds from institutions and individuals, through its shareholding and an ethical savings fund. These funds are used to finance microfinance and smallholder producer organizations in the South such as credit and savings unions, microfinance banks and companies, specialized NGOs, small-holder producer cooperatives and companies, and farmers' organizations.

SIDI gives priority to institutions that need financial and institutional strengthening and is active mainly in rural areas where institutions provide financial services to small farmers and micro-enterprises. SIDI's share capital, 13 million Euros, is used to provide various financial products to partner institutions such as equity investments, local and hard currencyloans, local bank guarantees. The revenue from the ethical fund enables SIDI to provide regular follow up and technical assistance to its partners in order to strengthen their financial and institutional viability and improve their services to their clients.

End of December 2010, SIDI's portfolio was 10,4 million euros, of which 43% invested in Africa, 32% in Latin America, 6% in Asia, 9% in the Mediterranean basin, 9% in Eastern Europe, and 1% in the Caribbean. Amongst its founding shareholders are the French Development Agency, the Caisse des Dépôts et Consignations and the Crédit Coopératif (two French banks). SIDI's financial and partnership relations are based on two main principles: long-term commitment and risk-sharing. SIDI has been a founding shareholder of various other funds such as Profund, La Cif 1, MAF (Asia) and more recently SEFEA (Eastern Europe), SMEAF (East Africa), FOPEPRO (Latin America). SIDI together with two European allies, ALTERFIN Belgium
and ETIMOS Italy, is about to launch FEFISOL fund, a 30 million EUR fund dedicated to financing rural microfinance institutions and producer organizations in Sub-Saharan Africa.

Triodos-Doen Foundation and Hivos-Triodos Fund Foundation Triodos-Doen and Hivos-Triodos Fund both started in 1994. Triodos-Doen is a joint initiative of Doen Foundation and Triodos Bank, and Hivos-Triodos Fund is a joint-initiative of the Dutch development organization Hivos and Triodos Bank. In 2011, both funds sharpened their strategy by including the sustainability themes foods & agriculture and energy & climate within the financial sector in developing countries as an additional focus.

The microfinance funds Triodos-Doen Foundation (Triodos-Doen) and Hivos-Triodos Fund Foundation (Hivos-Triodos Fund) are managed by Triodos Investment Management, a 100% subsidiary of Triodos Bank, one of the world's leading sustainable banks. Triodos Investment Management has been a pioneering provider of capital to the microfinance sector since 1994. As an investor it seeks to contribute to the development of a sustainable financial sector in developing countries based on fair pricing, transparency, access for all and care for the earth. Triodos Investment Management manages four funds that provide finance for around 95 MFIs in Latin America, Africa, Asia and Eastern Europe, and holds equity stakes in 19 leading and innovative microfinance institutions and vehicles worldwide.

Corporate Information

for the YEAR ENDED 31 December 2020

DIRECTORS	Mr. Ernest S. Massawe	Tanzanian	Chairperson
	Mr. Brian Kuwik	American	Director
	Mr. Joseph Rugumyamheto	Tanzanian	Director
	Mr. Jean-Marie Prevost	French	Director
	Mr. John Fischer	American	Director
	Ms. Rukia J. Adam	Tanzanian	Director
	Dr. Josephat Daniel Lotto	Tanzanian	Director

MANAGING DIRECTOR

Juliana Swai (Ag. Managing Director)

COMPANY SECRETARY

Niwaeli Mziray
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REGISTERED OFFICE

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KPMG
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Msasani Peninsula Area
PO Box 1160, Dar es Salaam Tanzania

LEGAL ADVISORS

Nyaruju Attorneys
PO Box 127, Mwanza, Tanzania

Goldmark Attorneys
PO Box 1605, Dodoma, Tanzania

Law Guide Attorneys
PO Box 13021, Arusha, Tanzania

Director's Report

1. INTRODUCTION

The Directors submit their report and the audited financial statements for the year ended 31 December 2020 which disclose the state of affairs of Akiba Commercial Bank Plc ("the Bank").

2. INCORPORATION

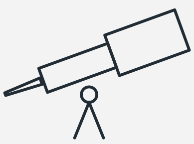
The Bank is incorporated in Tanzania under Companies Act, 2002, domiciled in Tanzania as a Public Company Limited by shares.

3. PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of banking and related services stipulated by the Banking and Financial Institutions Act, 2006. There has been no significant change in the principal activities of the Bank during the financial year ended 31 December 2020.

4. VISION AND MISSION

Vision



To be the preferred banking partner for micro, small and medium enterprises

Mission

To provide inclusive, innovative financial solutions in the most efficient and sustainable manner

5. REVIEW OF BUSINESS PERFORMANCE

Particulars	2020	2019	Variance	Change
Total Income	29,064,089	35,475,388	(6,411,299)	(18%)
Total Operating Expenses	**(36,746,640)**	**(34,878,550)**	**(1,868,090)**	**5%**
Loss before income tax	(8,300,836)	(1,225,880)	(7,074,956)	577%

Figures in Thousands of Tanzania Shilling

The Bank's results are set out on page 18 of these financial statements. During the year under review, the Bank recorded a loss before tax of TZS 8,301 million compared with a loss before tax of TZS 1,226 million recorded in 2019. This represents 577% decline over last year. The main contributing factors for the deterioration of performance were:

- An 15% decrease in interest income. Pandemic environment has made it difficult for the bank to earn adequate income on loans. Gross loans and advances declined by 10% from previous year.
- Credit impairment losses increased by 141% from the last year as a result of deteriorating of portfolio quality. This has mainly been caused by the adverse effect of Covid 19 on customers businesses. The bank also had to account for the uncertainty and scale of the pandemic when estimating loss provisions.
- Fees and commissions decreased by 36% due to low disbursement of loans and low volume of business during the first half of 2020 due to Covid-19.

Interest income

Interest income during the year amounted to TZS 24,890 million compared to TZS 29,264 million in the previous year, representing a decrease of 15% (TZS 4,374 million). The decrease is mainly due to low business growth especially on loan book caused by Covid 19 pandemic in the first half of the year 2020.

Interest expense

Interest expense during the year amounted to TZS 7,804 million, as compared to TZS 6,803 million in the prior year, representing an increase of 15% (TZS 1,000 million). The increase in interest expense is mainly attributed by increase in expensive negotiated fixed deposit and finance costs for lease liability as a result of IFRS 16 (Accounting Standard for Leases).

Net Interest income

Net interest income (interest income less interest expense) during the year amounted to TZS 17,087 million, as compared to TZS 22,461 million in prior year, representing a decrease of 24% (TZS 5,375 million). This decrease was largely caused by the slowdown of business activities and high cost of funding.

5. REVIEW OF BUSINESS PERFORMANCE CONT...

Non - Interest income

Non-interest income amounted to TZS 4,174 million compared to TZS 6,211 million in the previous year, showing an annual decrease of 33%. Non-interest income mainly includes fee and commission income, foreign exchange income and other operating income. Generally, the bank experienced a significant drop on volume of transactions in 2020.

Operating Expenses

Operating expenses includes employees' benefit, General and Administration expenses as well as depreciation and amortisation. Operating Expenses amounted to TZS 24,538 million as compared to TZS 26,251 million in prior year, implying a decrease of 7% (TZS 1,713 million) due to cost containment and efficiency measures implemented.

Income tax expense

Income tax expense amounted to TZS 1,617 million (2019: TZS 1,662 million).

Key performance ratios

The key performance ratios of the Bank are indicated as hereunder:

	2020	2019
Return on average assets	**(2.45%)**	(1.8%)
Return on average equity	**(16.65%)**	(13.3%)
Non-interest income to net interest income	**24.43%**	27.7%
Operating Expenses to average assets	**10.85%**	16.2%
Cost to Income Ratio	**120.37%**	96.74%

Deposits

There is a net increase in customer deposits by TZS 9,874 million (9%) mainly due to bank efforts to mobilize more deposit to fund loan book and for cash flow management. However, deposit growth increases the banks cost of funding due to growth of expensive deposits.

6. REVIEW OF FINANCIAL POSITION

Loans and advances

There has been a decrease in gross loans and advances by TZS 9,319 million (10%). The general decline of business activities due to COVID-19 has led to reduction in demand for loans. The first half of the year the business was very low.

Government securities

There has been a decrease in investment in government securities by TZS 2,679 million (11%) during the year due to drying up of buffer for investment resulting from liquidating of short term borrowings from other banks.

Key performance ratios

The key performance ratios of the Bank are indicated as hereunder:

	2020	2019
Shareholders' funds to total assets	**16.81%**	12.6%
Non-performing loans to total advances	**15.50%**	17.8%
Gross loans to total deposits	**69.44%**	83.9%
Loans to total assets	**45.89%**	55.5%
Liquidity ratio	**46.35%**	31.70%

7. GOING CONCERN AND SOLVENCY EVALUATION

The bank has met all the Bank of Tanzania regulatory Capital requirements. National Bank of Malawi has injected additional capital of US$7.31million (equivalent to TZS 16.99 billion). With this development nothing further has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement.

The Directors consider the Bank to be solvent within the meaning ascribed by the Tanzanian Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

8. ACCOUNTING POLICIES

The annual financial statements are prepared on the underlying assumption of a going concern. The Bank's accounting policies, which are laid out in Note 3 are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

9. FUTURE DEVELOPMENTS PLANS

The Bank received a capital injection of USD 7.31million (TZS16.99 billion) from the National Bank of Malawi, in December, 2020. With this capital injection, the Bank intends to implement the

9. FUTURE DEVELOPMENTS PLANS CONT...

following plan to turnaround the performance of the Bank:

i. Innovative and Effective Use of IT Platforms and Systems:

The bank will achieve greater degree of automation and innovation of new products and services through technology. In order to achieve these goals, the bank will build a strong computing foundation by upgrading the core banking system as the first step. Other systems will be introduced with the emphasis of supporting improved lending processes such as loan origination, credit scoring, third party integrations, money transfer services and other retail areas using digital technologies. Mobile applications will be at the centre of client facing activities. The bank will also form strategic partnerships with Mobile Network Operators (MNOs) in order to take advantage of the already existing MNOs infrastructure to deliver services to customers in a cost effective way as well as increased productivity for the bank's staff. Staff costs will be reduced significantly by automation of key business functions while at the same time improving efficiency.

The bank has determined that it is in the best interest of the customers and the bank to offer Agency banking services. Agency banking will allow customers to open an account, withdrawal cash, deposit cash, balance inquiry and customer account statement, account opening with biometrics (fingerprints), account opening with ID, bills payments, M-wallet, funds transfer between Akiba bank accounts in a safe and secure environment. The system will offer POS and smart phone apps which is one of the very modern technologies as at now. By offering Agency banking which is a new growing delivery channel for services and products will improve bank's accessibility to customers and customer service offering.

Through upgrade and modernization of the IT systems, the bank will ensure increased compliance with legal and regulatory requirements for IT systems as well as increased security so that the bank and its stakeholders can conduct business with greater degree of assurance. Supporting systems will be introduced to support risk based assessments of the systems

ii. Diversified Product Portfolio:

The Bank recognizes the diverse financial services needs of its targeted clientele. The Bank's ability to offer a suitable suite of products, including loans, savings, insurance and other payment transfer services, will be a key comparative advantage for the initiative.

Access to **savings** and investment services is critical for entrepreneurs and more generally low and middle income households. Savings products facilitate the building of capital over the long term, as well as offer customers a coping strategy when faced with income shocks in the short term.

9. FUTURE DEVELOPMENTS PLANS CONT...

In terms of **credit,** the bank will offer micro, small and medium entrepreneurs financing for working capital, business structure and home improvements. Finally, selected community banks and microfinance institutions will benefit from lines of credit. These relationships could blossom into strategic alliances to improve banking services in more remote areas where the Bank does not have branches.

Insurance reduces the vulnerability of entrepreneurs and households by replacing the uncertainty of large losses with the certainty of smaller payments. It is a critical component of any comprehensive risk management strategy for bank customers.

iii. Dedicated and Committed Human Resource

Dedicated human resources at both the management and branch levels of the Bank will continue to drive the success of the bank, providing a solid foundation to support business sustainability and growth in the medium and long term. Both the management and staff of the Bank exhibit and operate with appropriate levels of commitment to the mission of the Bank. A core management team will provide overall leadership. A strong recruitment strategy will be used to source the quality and numbers of staff needed at the head office and branch level

10. RISK MANAGEMENT AND INTERNAL CONTROLS

The Board accepts final responsibility for the risk management and internal control system of the Bank.

It is the task of management to ensure that adequate internal, financial and operational control systems are developed and maintained in an on-going basis in order to provide reasonable assurance regarding:

- Effectiveness and efficiency of operations;
- Safeguarding of the Bank's assets;
- Compliance with applicable laws and regulations;
- Reliability of accounting records;
- Business sustainability under normal as well as adverse conditions: and
- Responsible behaviours 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 to such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's systems are designed to provide the Board with a reasonable assurance that procedures in place are operating effectively.

The Board assessed the Bank's internal control systems throughout the financial year ended 31 December 2020 and is of the opinion that they met the generally accepted banking industry criteria. The Board carries out risk management and internal control assessment through Board Audit and Risk and Compliance Committees.

11. MANAGEMENT OF THE BANK

The Bank is under the supervision of the Board of Directors and the day to day management is entrusted to the Managing Director supported by the senior management team.

11. MANAGEMENT OF THE BANK CONT...

The organization structure of the Bank comprises the following Departments: -

- Finance and Treasury department;
- Operations department;
- Marketing and Communications department;
- Commerce department;
- Human Resources department;
- Information & Communication Technology department;
- Risk & Compliance department;
- Legal department;
- Credit department;
- Internal Audit department (Reporting directly to Board Audit Committee)

12. COMPOSITION OF THE BOARD OF DIRECTORS

The Bank has a broad-based Board of Directors comprising of Non-Executive Directors. The Chairman and all other members of the Board of Directors are appointed by the shareholders.

The Directors of the Bank, who held office throughout the year and to the date of this report, were as follows:

Name	Position	Nationality	Age	Date of appointment
Mr. Ernest S. Massawe	Chairperson	Tanzanian	76	25-Jun-2011
Mr. Brian Kuwik	Member	American	48	1-Jun-2008
Mr. Joseph Rugumyamheto	Member	Tanzanian	74	25-Jul-2014
Mr. John Fischer	Member	American	54	11-Apr-2008
Mr. Jean-Marie Prevost	Member	French	75	25-Jul-2015
Mrs. Rukia Adam Juma	Member	Tanzanian	64	7-Feb-2019
Dr. Josephat Daniel Lotto	Member	Tanzanian	45	7-Feb-2019

13. DIRECTORS' REMUNERATION

The remuneration for services rendered by the non-executive Directors of the Bank in 2020 was TZS 150.7 million (2019: TZS 217 million).

14. CAPITAL STRUCTURE AND SHAREHOLDING

As at 31 December 2020, the Bank had 276 shareholders (2019: 276 shareholders). Directors' holding shares at the Bank are listed below:

Name	Nationality	Ordinary shares of TZS 1,000 each	Nominal value TZS 000	Ordinary Shareholding %
Mr. Joseph Rugumyamheto	Tanzanian	110,786	110,786	1%
Mr. Ernest Saronga Massawe (Ercon Holdings Ltd)	Tanzanian	1,808,627	1,808,627	16%

The Capital structure and shareholding position of the Bank as at 31 December 2020 is as follows:

	2020		2019	
Shareholder	Number of ordinary shares	Percentage (%)	Number of ordinary shares	Percentage (%)
Accion International	**1,721,456**	16	1,721,456	16
PSSSF	**963,957**	9	963,957	9
StichtingHivos – Triodos Fonds	**683,335**	6	683,335	6
INCOFIN CVSO	**617,850**	6	617,850	6
FMO	**595,443**	5	595,443	5
Inter Consult Limited	**568,811**	5	568,811	5
FEFISOL	**434,022**	4	434,022	4
Sustainable Finance Foundation	**430,798**	4	430,798	4
Erncon Holdings Limited	**1,808,627**	16	1,808,627	16
Other Shareholders	**3,160,117**	29	3,160,117	29
Total	**10,984,416**	**100**	**10,984,416**	**100**

15. CORPORATE GOVERNANCE

All Directors and employees adhere to the principles of the Code of Conduct and Ethics in all their dealings on behalf of the Bank. The Code of Conduct and Ethics ensures that all actions are in the overall best interests of the Bank and reflects the commitment to maintain the highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

The Directors are committed to the principles of good corporate governance and recognize the need to conduct the business in accordance with generally accepted best practice. In so doing, the Directors therefore, confirm that:

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the Bank and monitor senior management;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance.

In addition, the Board constituted the following Board committees:

Board audit committee

This Committee assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Bank, its internal controls, ensuring compliance with applicable legislation and the requirements of regulatory authorities, reviewing reports and following up on matters raised by the external auditors, internal auditors and Bank of Tanzania.

The Committee meets at least four times in a year. The Board Audit Committee members who served the Committee during 2020 were:

Name	Position	Nationality
Dr. Josephat Daniel Lotto	Chairperson	Tanzanian
Mrs. Rukia Adam Juma	Member	Tanzanian
Mr. Jean Marie Prevost	Member	French

15. CORPORATE GOVERNANCE CONT..

Board credit committee

This Committee assists the Board in fulfilling its primary responsibilities in reviewing the Bank's overall lending policy, conducting independent loan reviews, delegation and review of lending limits and is overall responsible for the management of Credit Risk.

The Committee meets a minimum of four times in a year. The Board Credit Committee members who served the Committee during 2020 were:

Name	Position	Nationality
Mr. Brian Kuwik	Chairperson	American
Mr. Joseph Rugumyamheto	Member	Tanzanian

Board Risk Committee

This Committee assists the Board in fulfilling its primary responsibilities by establishing and implementing the Risk Management process of the Bank in line with the Bank of Tanzania Guidelines as well as risk identification, evaluation, measurement and monitoring of the Risk Management process.

The Committee meets a minimum of four times in a year. The members of the Committee are:

Name	Position	Nationality
Mr. John Fischer	Chairperson	American
Mr. Joseph Rugumyamheto	Member	Tanzanian

Board Governance and Human Resources Oversight Committee

This committee has been delegated with the responsibility from the Board to ensure implementation of good governance, review of the governance tools and policies. The committee also has responsibility to undertake structured assessment of candidates for Senior Management positions, consider and review the human resources management and remuneration policies.

The Committee meets a minimum of four times in a year. The members of the Committee are:

Name	Position	Nationality
Mr. Joseph Rugumyamheto	Chairperson	Tanzanian
Mr. Brian Kuwik	Member	American

16. RELATED PARTY TRANSACTIONS

Transactions during the year with related parties were conducted at terms and conditions similar to those offered to other clients and in the normal course of the business. Details of all related party transactions and balances are disclosed in note 31 to these financial statements.

17. EMPLOYEE WELFARE

Relationship between management and employees

The relationship between employees and management continued to be cordial. Complaints are resolved through meetings and discussions and the Bank has set up appropriate management committee forums for this purpose. Work morale is good and there were no unresolved complaints from employees.

Training

The Bank continued to expose staff on various technical and soft skills program as a demonstration of management's commitment to improving staff skills in the provision of core banking services. The Bank turnaround strategy also had a key focus to address staff capacity gaps and develop appropriate skills capable of discharging flawless operations across all levels in the organization.

Considerable training interventions both classroom and on the job were done to bridge the identified staff skills and performance gaps. As of end of 2020 a total of 8 in-house and 5 external training programs were attended by 586 and 36 staff members respectively.

Medical facilities

The Bank provides medical cover for both, Inpatient and Outpatient care for employees and their dependents.

Occupational Safety, Health and Environment

The Bank took reasonable steps to safeguard the health, safety and welfare of its employees. A safe and conducive working environment was availed to all employees by providing adequate working tools, proper personal protective equipment, hygiene, training and supervision. The Bank's workplaces were visited by labour inspectors and were found to comply with appropriate government regulations.

Financial Assistance to employees

The Bank provided different types of financial support to improve the welfare of its employees, including staff loans.

The Bank provided housing, personal and car loans to staff to enable them to meet their financial requirements

17. EMPLOYEE WELFARE CONT...

Financial Assistance to employees Cont..

and promote economic development. Staff loans are in line with industry best practice and based on specific terms and conditions approved by the Board of Directors.

Retirement benefits

The Bank makes contributions in respect of staff retirement benefits to the National Social Security Fund. The total number of employees, at the year end, was 418 (2019: 432).

Disabled persons

Applications for employment by disabled persons are always considered bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Bank continues and appropriate training is arranged, where necessary.

Gender parity

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.

As at December 2020, the Bank had 418 employees and female employees accounted for 60.5% of the workforce whilst male was 39.5% of the total staff population (2019: 432 employees, out of whom 61% were women and 39% were men).

18. POLITICAL DONATIONS

The Bank did not make any political donations during the year (2020: Nil).

19. CORPORATE SOCIAL RESPONSIBILITY

The Bank recognizes its role and position in the society by undertaking several Corporate Social Responsibility (CSR) initiatives. These initiatives are geared towards giving back to society as well as looking into people's welfare as a caring companion.

20. ENVIRONMENTAL CONTROL PROGRAMME

The Bank has a Corporate Social Responsibility Policy, part of which addresses environmental control programmes. The Bank acknowledges the seriousness of global environmental issues and therefore acts voluntarily and affirmatively to protect the environment by seeking to minimize any adverse environmental impact in the way the Bank operates. The Bank is committed to the prevention of environmental pollution and is in compliance with relevant environmental laws in the areas we operate as a minimum standard and seeks to implement best practices wherever possible.

21. AUDITOR

The auditor, KPMG was appointed as the bank's Auditor starting 2020 replacing previous auditor who was not eligible for re-appointment. The appointment was done through a competitive bidding as per BOT Guidelines. A resolution proposing their appointment will be put to Annual General Meeting.

BY ORDER OF THE BOARD

Mr. Ernest Massawe
Chairperson
Date: 09/04/2021

Dr. Josephat Lotto
Director
Date: 09/04/2021

Statement of Directors'
Responsibilities for the year ended 31 December 2020

The Bank's directors are responsible for the preparation and fair presentation of the financial statements of Akiba Commercial Bank Plc comprising the statement of financial position at 31 December 2020, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the period 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 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 Company to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

Approval of financial statements

The financial statements of the Bank, as identified in the first paragraph, were approved by the board of directors on **8th April 2021** and signed on its behalf by:

BY ORDER OF THE BOARD

Mr. Ernest Massawe
Chairperson
Date: 09/04/2021

Dr. Josephat Lotto
Director
Date: 09/04/2021

Declaration of
General Manager Finance for the year ended 31 December 2020

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) ACT No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with the statement of Declaration issued by the General Manager 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 the financial statements of the Company showing true and fair view position of the Company in accordance with International Financial Reporting Standards and the requirements of the Companies Act of Tanzania, 2002 and the Banking and Financial Institutions Act, 2006. Full legal responsibility for financial statements rests with the Board of Directors as indicated in the statement of Directors' responsibilities.

I **Bertha Simon** being the **General Manager Finance** of Akiba Commercial Bank Plc hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31st December 2020, have been prepared in compliance with the International Financial Reporting Standards , the Tanzania Companies Act, 2002 and the Banking and Financial Institutions Act, 2006.

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

BY ORDER OF THE BOARD

Signed by:	
Position:	General Manager Finance
NBAA Membership No:	NBAA Membership no: ACPA 3137
Date:	09/04/2021

KPMG
Certified Public Accountants
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AKIBA COMMERCIAL BANK PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Akiba Commercial bank Plc ("the Bank") set out on pages 37 to 125 which comprise the statement of financial position as at 31 December 2020, 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 the Akiba Commercial Bank Plc as at 31 December 2020, 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 Auditor's 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (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 comparative information

The financial statement of the Bank as at and for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 31 March 2020.
We were not engaged to audit, review, or apply any procedures to the comparative information. Accordingly, we do not express an opinion or any other form of assurance on comparative information.

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.

Report on the audit of the Financial Statements continued.

The Key Audit Matter Cont..

Impairment of loans and advances to customers

Refer to notes 3(f), (iii) and 18 to the financial statements

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2020, the gross loans and advances to customers amounted to TZS 84.6 billion and the allowance for impairment amounted to TZS 6.9 billion. Measurement of expected credit loss (ECL) on loans and advances is deemed a key audit matter as the determination is highly subjective since it involves a significant level of judgement applied by management and is a significant estimate. Particularly for the year then ended, the impact of Covid-19 continued to impact the economy equally contributing to increased credit losses. Macro-economic variables applied onto the estimates have also been impacted. The key areas where we identified significant levels of management judgement and therefore increased levels of audit focus are: ▪ Choosing appropriate models and assumptions for the determination of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and ultimately the measurement of Expected Credit Loss (ECL).	Our audit procedures in this area, included: ▪ Obtaining an understanding of the credit management processes and assessing the design and implementation as well as operating effectiveness of controls, over the compilation and review of the early warning list, credit file review processes, approval of external collateral valuation vendors and controls over the approval of significant individual impairments. ▪ Evaluating management model for establishing stage 3 impairments by challenging reasonability of management assumptions through previous year's estimate to actual outcome in the current year. ▪ For a sample of loan exposures, we assessed whether significant facilities are correctly staged/classified and valued based on IFRS 9 Financial Instruments requirements; ▪ Inspecting a sample of key data inputs and assumptions impacting ECL calculations by agreeing them to underlying supporting documents and comparing them to independent sources to assess the reasonableness of economic forecasts and PD assumptions applied;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

AKIBA COMMERCIAL BANK PLC Cont..

Report on the audit of the Financial Statements continued.

The Key Audit Matter Cont..

Impairment of loans and advances to customers refer to notes 3(f), (iii) and 18 to the financial statements Cont...

The Key Audit Matter	How the matter was addressed in our audit
	▪ Evaluating the appropriateness of the Bank's IFRS 9 methodologies including the significant increase in credit risk (SICR) criteria used by assessing the qualitative and quantitative factors used by management in their evaluation of the classification into stages 1, 2 and 3; ▪ Assessing the ECL calculations to verify if the correct parameters, namely PDs, LGD and EADs were appropriately determined by considering local economic/portfolio factors with assistance from our internal Financial Risk Management specialists; ▪ Evaluating the reasonableness of the management overlays applied to the IFRS 9 models by challenging the qualitative and quantitative assumptions applied. We also involved our internal Financial Risk Management specialists in assessing the reasonability of the modelled overlays; and ▪ Evaluating the adequacy of financial statements disclosures in accordance with the requirements of IFRS 7, Financial Instruments: Disclosures, including disclosures of key assumptions and judgements relating to ECL.

Impairment of loans and advances to customers refer to notes 3(f), (iii) and 18 to the financial statements Cont...

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the document titled Akiba Commercial Bank Plc Report and Financial Statements for the year ended 31 December 2020, but does not include the financial statements and our auditor's 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 the Directors for the financial statements

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006, and 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.
In preparing the financial statements, the Directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Impairment of loans and advances to customers refer to notes 3(f), (iii) and 18 to the financial statements Cont...

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the 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 the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not

Impairment of loans and advances to customers refer to notes 3(f), (iii) and 18 to the financial statements Cont…

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 accounting records have been kept by Akiba Commercial Bank Plc;
- the individual accounts are in agreement with the accounting records of the Bank;
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit; and
- information specified by the law regarding Directors' emoluments and other transactions with the Bank is disclosed.

As required by Banking and Financial Institutions Act, 2006 and its regulations, we report to you based on our audit, that:

Nothing has come to our attention that causes us to believe that the Bank has not complied with the Banking and Financial Institutions Act, 2006 and its regulations including computation of its capital position.

KPMG
Certified Public Accountants (T)

CPA Alexander Njombe (ACPA 2714)
Dar es Salaam
Date: 12/04/2021

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 TZS '000	2019 TZS '000
Interest and similar income	6	24,890,266	29,264,640
Interest and similar expense	7	(7,803,567)	(6,803,361)
Net interest income		17,086,699	22,461,279
Credit impairment losses	18	(4,405,197)	(1,824,229)
Net interest income after loan impairment charges		12,681,502	20,637,050
Fee and commission income	8	3,227,208	5,038,984
Foreign exchange income	9	286,005	348,827
Other operating income	10	660,610	822,937
Employee benefits expenses	11	(13,056,848)	(14,645,405)
General and administrative expenses	12	(8,806,678)	(8,174,612)
Depreciation and amortization	13	(2,674,350)	(3,430,943)
Other charges	14	(618,285)	(1,822,718)
Loss before income tax		(8,300,836)	(1,225,880)
Income tax expense	15	(1,617,042)	(1,662,756)
Loss for the year		(9,917,878)	(2,888,636)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		(9,917,878)	(2,888,636)

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	2020 TZS '000	2019 TZS '000
Assets			
Cash and balances with the Bank of Tanzania	16	**22,890,194**	25,244,076
Balances with other Banks	17	**17,320,437**	269,780
Loans and advances to customers	18	**77,703,439**	84,745,359
Government securities at amortized cost	19	**22,359,141**	25,038,871
Unquoted equity investment	20	**39,000**	20,000
Property and equipment	21	**14,813,475**	22 376 492
Intangible assets	22	**730,192**	892,282
Deferred income tax	23	**7,067,003**	7,307,207
Current Income tax asset		**2,468 221**	1,967,604
Other assets	24	**3,937,140**	1,539,493
TOTAL ASSETS		**169,328,242**	169,401,164
Liabilities			
Deposits from other banks		**713,380**	12,109,246
Deposits from customers	25	**121,869,315**	111,994,874
Lease liability	26	**14,335,565**	20,312,671
Other liabilities	27	**3,944,872**	3,593,457
Total liabilities		**140,863,132**	148,010,248
Shareholders' equity			
Share capital	29	**10,984,416**	10,984,416
Advance towards share capital		**16,992,072**	-
Share premium	29	**2,431,917**	2,431,917
Retained earnings		**(5,626,989)**	4,687,639
Regulatory reserve		**3,683,694**	3,286,944
Total equity		**28,465,110**	**21,390,916**
TOTAL LIABILITIES AND EQUITY		**169,328,242**	169,401,164

The financial statements on pages 18 to 86 were approved and authorised for issue by the Board of Directors on 9 April 2021 and signed by:

Mr. Ernest Massawe
Chairperson

Dr. Josephat Lotto
Director

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Share capital	Advance towards share capital	Share premium	Retained earnings	Regulatory reserve*	General provision	Total
	TZS '000		TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
At 1 January 2020	**10,984,416**	**-**	**2,431,917**	**4,687,639**	**3,286,944**	**-**	**21,390,916**
Transactions with owners of the Bank							
Advance towards share capital	-	**16,992,072**	-	-	-	-	**16,992,072**
Loss for the year	-	-	-	**(9,917,878)**	-	-	**(9,917,878)**
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	**(9,917,878)**	-	-	**(9,917,878)**
Transfer to/from retained earnings	-	-		**(396,750)**	**396,750**	-	-
	-	-		**(10,314,628)**	**396,750**	-	**(9,917,878)**
At 31 December 2020	**10,984,416**	**16,992,072**	**2,431,917**	**5,626,989)**	**3,683,694**	**-**	**28,465,110**
At 1 January 2019	8,607,135	-	2,431,917	7,546,745	2,537,257	779,217	21,902,271
Transactions with owners of the Bank							
Capital injected	2,377,281	-	-	-	-	-	2,377,281
Loss for the year	-	-	-	(2,888,636)	-		**(2,888,636)**
Other comprehensive income	-	-	-	-	-	-	**-**
Total comprehensive income	-	-	-	(2,888,636)	-	-	(2,888,636)
Transfer to/from retained earnings	-	-	-	(749,687)	749,687	-	-
Transfer to General Provision	-	-	-	779,217	-	(779,217)	-
	-	-	-	(2,859,106)	749,687	(779,217)	(2,888,636)
At 31 December 2019	**10 984 416**	**-**	**2,431,917**	**4,687,639**	**3,286,944**	**-**	**21,390,916**

*Regulatory reserve represents the surplus of provision for credit losses computed in accordance with Bank of Tanzania regulations over the provision for impairment of loans and advances computed in accordance with International Financial Reporting Standards. general risk reserve represents 1% provision on loans classified as current was abolished 1st July 2019.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 TZS 000	2019 TZS 000
Cash flows from operating activities			
Loss before taxation		(8,300,836)	(1,225,880)
Adjustments for:			
Depreciation and amortization	13	2,674,350	3,430,943
Impairment of loans and advances	18	4,955,485	2,172,593
Prior year tax assessment		-	825,480
Gain on disposal of property and equipment		-	(2,603)
Interest expense on lease liability	26	1,703,720	1,382,528
		1,032,719	6,583,061
Movement in working capital			
Statutory Minimum Reserve		720,911	1,483,062
Loans and advances to customers		2 086,435	(3,922,331)
Government securities		2 679,730	1,531,321
Other assets		(180,402)	793,237
Deposit from customers		9,874,441	(7,920,922)
Balances from other banks		(11,395,866)	1,588,476
Other liabilities		351,414	(599,148)
Cash flows generated from/(used in) operations		5,169,382	(463,244)
Interest on lease liability paid	26	(1,703,720)	(1,382,528)
Tax paid	15(c)	1,877,454)	-
Net cash flows generated from/(used in) operations		1,588,208	(1,845,772)
Cash flows from investing activities			
Purchase of property and equipment	21	(132,808)	(86,871)
Purchase of intangible assets	22	-	(339,954)
Proceeds from sale of property and equipment	-	-	2,603
Investment in equity shares	20	(19,000)	-
Net cash used in investing activities		(151,808)	(424,222)
Cash flows from financing activities			
Advance towards share capital	5.6	16,992,072	-
Proceeds from shares issued		-	2,377,281
Lease payments	26	(793,541)	(1,067,658)
Net cash generated from financing activities		16,198,531	1,309,623
Net increase/(decrease) in cash and cash equivalents		17,634,931	(960,371)
Cash and cash equivalent at the beginning of the year		18,624,236	19,584,607
Cash and cash equivalent at the end of the year	28	36,259,167	18,624,236

Notes to the Financial Statements

for the YEAR ENDED 31 December 2020

1. REPORTING ENTITY

Akiba Commercial Bank Plc ("The Bank") is a limited company incorporated in Tanzania under the Companies Act 2002 and is domiciled in Tanzania. The address of its registered office and principal place of business is:

3rd Floor, Amani Place
Ohio Street
PO Box 669
Dar es Salaam, Tanzania

The Bank provides micro finance, retail and corporate banking services.

The financial statements of Akiba Commercial Bank Plc for the year ended 31 December 2020 have been approved for issue by the board of Directors on 9 April 2021. Neither the entity owners nor others have the power to amend the financial statements after issue.

2. BASIS OF ACCOUNTING

a) Statement of compliance
The Bank's financial statements for the year 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006. Additional information required by the regulatory bodies is included where appropriate.

b) Basis of measurement
These financial statements have been prepared under the historical cost basis of accounting except for the financial assets classified as Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI).

c) Functional and presentation currency
These financial statements are presented in Tanzania Shillings (TZS), which is also the Bank's functional currency. All financial information presented in TZS have been rounded to the nearest thousand except where otherwise stated.

2. BASIS OF ACCOUNTING (CONTINUED)

d) Use of estimates and judgments

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 on-going basis. Revisions to estimates are recognised prospectively.

In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 4.

The classification of financial assets includes the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. See Note 3.

The impairment of financial instruments includes the assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL). See Note 3 (f) (iii) and 5(a).

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Adoption of New And Revised Accounting Standards

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRS-IC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2020. For details of the new and revised accounting standards and/or policies refer to note 36.

b) Foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of the bank at the exchange rates at the date of the transactions. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Foreign currencies (Continued)

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

c) Income recognition

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

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of FVOCI financial assets, other than foreign exchange gains or losses from monetary items, are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

i) Net interest income

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 credit-impaired assets, the bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses.

For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

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.

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, see Note 3(f) (iii).

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)
c) Income recognition
i) Net interest income (continued)

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.

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.

iii) Net trading income and net income on financial assets at fair value through profit or loss

Net trading income and net income on financial assets at fair value through profit or loss' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

c) Other operat ing income

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.

d) Leases

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.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

i) 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 standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

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 remeasurements 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 Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

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 Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank 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.

From 1 January 2020, where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Bank remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' 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, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

e) 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.

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.

f) 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.

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.

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.

Debt instruments measured at amortised cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income. Upon de-recognition, realized gains and losses are reclassified from OCI and recorded in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income on an average cost basis. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Statement of Profit or Loss and Other Comprehensive Income.

The accumulated allowance recognised in OCI is recycled to the Statement of Profit or Loss and Other Comprehensive Income upon de-recognition of the debt instrument.

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

i) Are held for trading purposes;
ii) Are held as part of a portfolio managed on a fair value basis; or
iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognized immediately in the Statement of Profit or Loss and Other Comprehensive Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Debt instruments designated at FVTPL

Financial assets classified in this category are those that have been designated by the Bank upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained.

Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets designated at FVTPL are recorded in the Statement of Financial Position at fair value.

Changes in fair value are recognized in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Equity instruments

The bank has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at FVOCI. The fair value changes, including any associated foreign exchange gains or losses, are recognized in OCI and are not subsequently reclassified in the Statement of Profit or Loss and Other Comprehensive Income, including upon disposal. Realized gains and losses are transferred directly to retained earnings upon disposal.

Consequently, there is no review required for impairment. Dividends will normally be recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Reclassifications

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 for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments (amortised cost and FVOCI) including loans and advances;
- lease receivables (rental income collected from Investment properties);
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognised on equity investments.

The bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date i.e. balances held with central banks, domestic government bills and bonds, and loans and advances to banks; and

- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition i.e. stage 1 (see Note 5(a)).

The bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

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 are the ECL that result 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'.

Significant Increase in Credit Risk

The bank's criteria for assessing significant increase in credit risk are defined at the appropriate product or portfolio level and vary based on the exposure's credit risk at origination. These are largely determined by the Prudential Guidelines Classification. The criteria include relative changes in PD and delinquency backstop when contractual payments are more than 30 days past due. Credit risk has increased significantly since initial recognition when one of the criteria is met.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date (stage 1 and 2): as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the bank expects to receive);
- financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flows that the bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the bank expects to recover. See also Note 5(a).

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 3(g)(iv)) and ECL are measured as follows.

- If the expected restructuring will not result in de-recognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in de-recognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its de-recognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of de-recognition to the reporting date using the original effective interest rate of the existing financial asset.

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.

Government securities

In making an assessment of whether an investment in sovereign debt (Government Bills and bonds, Balances due from central banks) is credit-impaired, the Bank considers the following factors;

- The country's ability to access own local capital markets for new debt issuance.

- The respective government ability to maintain sovereignty on its currency
- The intentions and capacity, reflected in public statements, of governments and agencies honor these commitments.

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;
- loan commitments and financial guarantee contracts: generally, as a provision; (See note 30)

- where a financial instrument includes both a drawn and an undrawn component, and the bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

- 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.

Any write-offs mandated by the laws and regulations are assessed by management for compliance with IFRS.

iii) 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.

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on de-recognition of such securities. Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the bank is recognised as a separate asset or liability.

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.

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.

The bank securitises various loans and advances to customers and investment securities, which generally result in the sale of these assets to unconsolidated securitisation vehicles and in the bank transferring substantially all of the risks and rewards of ownership. The securitisation vehicles in turn issue securities to investors. Interests in the securitised financial assets are generally retained in the form of senior or subordinated tranches, interest-only strips or other residual interests (retained interests). Retained interests are recognised as investment securities and carried at FVOCI. Gains or losses on securitisation are recorded in other revenue.

Financial liabilities

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

iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- other fees are included in profit or loss as part of the gain or loss on de-recognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the de-recognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in de-recognition of the financial asset, then the bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method

Financial liabilities

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 Bank of similar transactions such as in the Bank's trading activity.

g) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measure at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of net exposure to either market or credit risk are measure on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

h) Property and equipment

Property and equipment are initially recorded at historical cost and subsequently stated at historical cost or valuation less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life as follows:

Description of assets	Rate (%)
Leasehold improvement	10
Motor vehicles	25
Furniture, fittings and equipment	20
Computer equipment and software	20

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

The asset's residual values, useful lives and methods are reviewed at each financial year end, and adjusted prospectively, if appropriate.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. (Refer to accounting policy on impairments of non-financial assets).

(i) Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product including the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

(j) Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices and other available fair value indicators. Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The preparation of Bank's financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Measurement of the expected credit loss allowance

The Bank measurement of the expected credit loss allowance for financial assets measured at amortised 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). The Bank uses a number of significant judgements in applying the accounting requirements for measuring ECL, such as:

- Determination criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions to the measurement of ECL
- Establishing the number and relative weightings of forward looking information and scenarios for each segment and the associated ECL;
- Estimating Probability of default, Exposure at Default and Loss Given Default.

Detailed information about the judgement and estimates made by the Bank are explained under note 5.

(b) Property and equipment

Critical estimates are made by the directors in determining depreciation rates for equipment and their residual values. The rates used are set out in the accounting policies section of these financial statements under Note 3. There is no significant risk of these estimates changing in the next 12 months that may lead to a material change in the carrying value of property and equipment and intangible assets.

(c) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

COVID-19 considerations

Paragraph 125 of IAS 1 requires disclosure about the assumptions that a company makes about the future and other sources of estimation uncertainty at the reporting date that have a significant risk of resulting in a material adjustment within the next financial year. COVID-19 is likely to significantly impact such assumptions. For example, it may result in increased estimation uncertainty and changes to estimation techniques and assumptions for measuring ECL or measuring fair values of financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies.

5. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are inevitable consequences of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

Risk management is carried out by the Risk and Compliance department under policies approved by the Board of Directors.

The Board provides written principles for overall risk management, as well as written policies covering specific areas. In addition, the Internal Audit department is responsible for the independent review of risk management and the control environment. The most significant risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk and interest risk.

5.1.1 Credit risk measurement

5.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that the counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; Directors therefore carefully manage its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The credit risk management and controls are centralised in Commerce, Risk and Compliance departments of the Bank and reported to the Board of Directors and Heads of Departments regularly.

Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. The Loan book is split into Term Loans (Secured & unsecured) and off- balance sheet items (these include overdrafts, Letters of Credit and Guarantees)

The Bank considers a term loan to be in default if the repayments on the loan are more than 90 days past due for all product types, further considering a revolving facility in default if the facility is drawn above the loan limit for more than 90 consecutive days during the lifetime of the facility or if the drawn amount is still outstanding 90 days after maturity of the facility.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

The Bank estimates the Loss Given Default for both term loan (secured and unsecured) based on recoveries on loans that defaulted and were written off and collections from loans that defaulted but were not written off while for off balance sheet items the probability of default and loss given default component for revolving facilities has been combined to determine a loss rate.

Exposure at Default for term loans is estimated as contractual rundown on the loans and for the off-balance sheet items the exposure at default is estimated by determining a credit conversion factor (CCF).

For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all customers are segmented into five rating classes as shown below:

Bank's internal ratings scale			
	Description of the grade	Ageing	% used for Regulatory provisioning
1.	Current	0 - 30 days	NIL
2.	Especially mentioned	31 - 90 days	3%
3.	Sub-standard	91 - 180 days	20%
4.	Doubtful	181 – 360 days	50%
5.	Loss	360 days and above	100%
	Solidarity group loan provisioning		
1.	Current	0 - 5 days	NIL
2.	Especially mentioned	6 - 30 days	5%
3.	Sub-standard	31 - 60 days	25%
4.	Doubtful	61 - 90 days	50%
5.	Loss	91 days and above	100%

5.1.2: Expected credit loss measurement

IFRS 9 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. Refer to note 5.1.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.

If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 5.1.2.2 for a description of how the Bank defines credit-impaired and default.

- 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. Please refer to note 5.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 5.1.2.4 includes an explanation of how the Bank has incorporated this in its ECL models.

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).

5.1.2.1: Significant increase in credit risk (SICR)

The bank measures significant increase in credit risk using quantitative, qualitative or backstop criteria. If one or more of the following criteria are met the bank considers that a financial instrument to have experience a significant increase in credit risk.

Quantitative criteria:

A backstop is applied, and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Qualitative criteria

Loans and advances to customers

A loan facility is assessed to have significant increase in credit risk if the borrower meets one or more of the following criteria:

- Previous arrears within the last 12 months;
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default;
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans; and
- Identified fraudulent activities in issuing the loan

The assessment of SICR incorporates forward-looking information and is performed on an annual basis at a portfolio level.

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Loans and advances to banks

The following qualitative factors are considered as indicators of significant increase in credit risk

- Significant counterparty management restructuring or re-organization due to prolonged poor performance of the entity;
- Significant advance change in regulatory, economic, or technological environment of the borrower that results in a significant change in ability to meet its debt obligations; and
- Significant reductions in financial support from a parent entity that resulted to significant adverse change of operating results of the counterparty.

Government securities

Government securities are considered to have experienced a significant increase in credit risk when at least one of the following factors have occurred:

- The government has received a low credit rating ("C") by the International rating agencies; or
- The government has initiated debt restructuring process.

Low credit risk exemption

Government securities such as treasury bills measured at amortised cost are classified as low credit risk financial instruments and impairment will be recorded only if there is evidence of expected default on Government securities. It is important to note that there is no history of default on the Tanzania Government securities.

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative

The Bank considers a term loan to be in default if the repayments on the loan are more than 90 days past due for all product, further considering a revolving facility in default if the facility is drawn above the loan limit for more than 90 Consecutive days during the lifetime of the facility or if the drawn amount is still outstanding 90 days after maturity of the facility.

5.1.2.2: Definition of default and credit impaired assets

Qualitative

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where: -

- the borrower is in long-term forbearance;
- the borrower is deceased;
- the borrower is insolvent;
- the borrower is in breach of financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;

Concessions have been made by the lender relating to the borrower's financial difficulty;
Fraudulent activities were conducted in issuance of the loan;
It is becoming probable that the borrower will enter bankruptcy; and
Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

Loans and advances to customers

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the segments expected loss calculations.

Loans and advances to banks

For balances due from other banks below events are considered as default when they occur

- When repayments of interest and principal are not done on time as per contractual schedules to the extent of 30 days delay;
- When counterpart is taken under management by Statutory Manager;
- When counterpart licence has been revoked by Central Banks; and
- When counterpart has been declared bankrupt by responsible bodies like Registration, Insolvency and Trusteeship Agency (RITA) and Court.

Government securities

For government securities below events are considered as default when they occur: -

- When repayments of interest and principal are not done on time as per contractual schedules to the extent of 30 days delay;
- When the government is downgraded to below "C" Status by International Rating Agency such as Moody's. S&P or Fitch; and
- When the government is declared default/bankrupt by responsible agencies like World Bank or IMF.

5.1.2.3: Measuring ECL – Explanation of inputs, assumptions and estimation techniques

- The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows: The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving

commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

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

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.
The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

5.1.2.4: Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD and vary between secured and unsecured loans and off-balance sheet exposure. Expert judgment has also been applied in this process.

The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, management team also provides other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major segment type to ensure non-linearity are captured. The number of scenarios and their attributes are reassessed at each reporting date.

The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)
5.1 Credit risk (Continued)
5.1.2: Expected credit loss measurement (Continued)
5.1.2.4: Forward-looking information incorporated in the ECL models (Continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2019 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	2020	2021	2022	2023	2024
Gross National Income (GNI)					
Base	8%	7%	7%	7%	6%
Upside	10%	9%	9%	9%	8%
Downside	6%	5%	5%	5%	4%
Non-performing Loans					
Base	22.8%	26.0%	2.3%	28.5%	30.2%
Upside	16.3%	19.5%	21.8%	22.1%	23.7%
Downside	29.2%	32.5%	34.8%	34.9%	36.7%

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	2019	2020	2021	2022	2023
Gross National Income					
Base	11%	10%	9%	7%	6%
Upside	13%	12%	11%	9%	8%
Downside	9%	8%	7%	5%	4%
Non-performing Loans ratio					
Base	17.6%	22.8%	26.0%	2.3%	28.5%
Upside	17.6%	16.3%	19.5%	21.8%	22.1%
Downside	17.6%	29.2%	32.5%	34.8%	34.9%

The weightings assigned to each economic scenario at 31 December 2020 and 31 December 2019 was 80%, 10% and 10% for "base", "upside" and "downside" respectively.

If the forward-looking information change by 10% expected loss allowance would have been as follows:

Performing loans: Stage 1 and 2

31 December 2020 Sensitivity Analysis	Expected loss allowance	
	Upward change TZS 000	Downward change TZS 000
Secured term loans	**1,315,409**	984,577
Unsecured term loans	**1,038,080**	743,395
Total expected loss allowance	**2,353,489**	**1,727,972**
31 December 2019 Sensitivity Analysis	**Expected loss allowance**	
	Upward change TZS 000	**Downward change TZS 000**
Secured term loans	**883,300**	722,700
Unsecured term loans	**734,620**	601,053
Total expected loss allowance	**1,617,920**	**1,323,753**

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

5.1.3 Credit risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

The exposure to any one borrower including Banks is further restricted by sub-limits covering on and off-balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.
Some other specific control and mitigation measures are outlined below.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions - are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

5.1.4 Credit exposure

5.1.4.1 Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

a) Unsecured Term Loans-Gross loans

2020				
	Stage 1 12 - Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade	TZS'000	TZS'000	TZS'000	**TZS'000**
Current	38,942,856	810	-	**38,943,666**
Especially Mentioned	28,208	1,912,949	-	**1,941,157**
Doubtful	-	-	1 187 910	**1,187,910**
Sub Standard	-	3,651	754 352	**758,003**
Loss	-	-	3 610 921	**3,610,921**
Gross Carrying amount	38,971,064	1,917,410	5,553,183	**46,441,657**
Loss allowance	(841,198)	(49,015)	(1,407,959)	**(2,298,172)**
Carrying amount	38,129,866	1,868,395	4,145,224	**44,143,485**

2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade	TZS '000	TZS '000	TZS '000	**TZS '000**
Current	43,577,100	-	-	**43,577,100**
Especially mentioned	-	1,497,938	-	**1,497,938**
Doubtful	-	-	456,028	**456,028**
Substandard	-	-	298,987	**298,987**
Loss	-	-	3,251,282	**3,251,282**
Gross Carrying amount	43,577,100	1,497,938	4,006,297	**49,081,334**
Loss allowance	(791,468)	(24,142)	(2,520,421)	**(3,336,030)**
Carrying amount	42,785,632	1,473,796	1,485,877	**45,745,304**

5.1.4 Credit exposure

5.1.4.1 Maximum exposure to credit risk – Financial instruments subject to impairment

b) Secured Term Loans- Gross loans

	2020			
	Stage 1 12 - Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade	TZS'000	TZS'000	TZS'000	TZS'000
Current	30,433,317	-	-	30,433,317
Especially Mentioned	-	2,418,530	-	2,418,530
Doubtful	-	-	802,435	802,435
Sub Standard	-	-	1,030,435	1,030,435
Loss	-	-	1,915,626	1,915,626
Gross Carrying amount	30,433,317	2,418,530	3,748,496	36,600,343
Loss allowance	(986,765)	(162,121)	(2,277,738)	(3,426,624)
Carrying amount	29,446,552	2,256,409	1,470,758	33,173,719

	2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade	TZS'000	TZS'000	TZS'000	TZS'000
Current	33,693,463	-	-	33,693,463
Especially mentioned	-	3,074,029	-	3,074,029
Doubtful	-	-	1,232,574	1,232,574
Substandard	-	-	721,291	721,291
Loss	-	-	2,581,669	2,581,669
Gross Carrying amount	33,693,463	3,074,029	4,535,534	41,303,026
Loss allowance	(649,363)	(74,104)	(3,124,611)	(3,848,078)
Carrying amount	33,044,100	2,999,925	1,410,923	37,454,948

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.4 Credit exposure (Continued)

5.1.4.1 Maximum exposure to credit risk – Financial instruments subject to impairment

c) Overdraft- Gross loans

2020				
	Stage 1 12 - Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade	TZS'000	TZS'000	TZS'000	TZS'000
Current	244,932	-	-	244,932
Doubtful	-	-	-	-
Sub Standard	-	-	-	-
Loss	-	-	1,343,493	1,343,493
Gross Carrying amount	244,932	-	1,343,493	1,588,425
Loss allowance	(59,575)	-	(1,142,614)	(1,202,189)
Carrying amount	185,357	-	200,879	386,236

2019				
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Credit grade				
Current	425,994	-	-	425,994
Doubtful	-	-	1,301,392	1,301,392
Substandard	-	-	14,709	14,709
Loss	-	-	1,823,174	1,823,174
Gross Carrying amount	425,994	-	3,139,275	3,565,269
Loss allowance	(12,019)	-	(2,008,142)	(2,0200,161)
Carrying amount	413,975	-	1,131,133	16,634,892

5.1.5 Loss allowance

The loss allowance recognised in the period 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 period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis; Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets de recognized during the period and write-offs of allowances related to assets that were written off during the period).

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Changes in the loss allowance

(a) Unsecured term Loans

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (Continued)

5.1.5.1 Changes in the loss allowance

(a) Unsecured term Loans

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Loss allowance as at 1 January 2020	**791,468**	**24,143**	**2,520,420**	**3,336,031**
Transfers:				-
Transfer from stage 1 to stage 2	(129,993)	29,375	100,619	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	6,516	(6,516)	-	-
Transfer from stage 2 to stage 3		(16,561)	16,561	-
Transfer from stage 3 to stage 1	6,341	-	(6,341)	-
Transfer from stage 3 to stage 2	-	14 039	(14,039)	-
Financial assets derecognised during the period other than write offs	(14,397)	-	-	**(14,397)**
New financial assets originated	181,263	4,535	1,596,989	**1,782,787**
Total net P&L release during the period	**49,730**	**24,872**	**1,693,788**	**1,768,390**
Other movements with no P&L impact				
Write-offs	-	-	(2,806,249)	**(2,806,249)**
Loss allowance as at 31 December 2020	841,198	49,015	1,407,959	**2,298,172**

	Stage 1	Stage 2	Stage 3	**Total**
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	**TZS'000**
Loss allowance as at 1 January 2019	**992,814**	**40,649**	**6,990,748**	**8,024,211**
Transfers:				
Transfer from stage 1 to stage 2	(12,515)	32,697	-	**20,182**
Transfer from stage 1 to stage 3	(76,521)	-	1,599,213	**1,522,692**
Transfer from stage 2 to stage 1	2,273	(5,293)		**(3,020)**
Transfer from stage 2 to stage 3	-	(23,616)	364,211	**340,596**
Transfer from stage 3 to stage 1	758	-	(110,007)	**(109,249)**
Transfer from stage 3 to stage 2	-	536	(43,971)	**(43,435)**
Changes in model assumptions	(264,237)	(536)	(1,277,142)	**(1,541,915)**
Financial assets derecognised during the period other than write offs	(319,389)	(30,576)	(959,910)	**(1,309,874)**
New financial assets originated	468,616	10,280	596,991	**1,075,887**
Total net P&L release during the period	**(201,014)**	**(16,507)**	**169,385**	**(48,136)**
Other movements with no P&L impact				
Write-offs	(332)	-	(4,639,713)	**(4,640,045)**
Loss allowance as at 31 December 2019	791,468	24,142	2,520,420	**3,336,030**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (Continued)

5.1.5.1 Changes in the loss allowance (Continued)

a) Secured term Loans

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Loss allowance as at 1 January 2020	**649,363**	**74,104**	**3,124,611**	**3,848,078**
Transfers:				
Transfer from stage 1 to stage 2	(156,080)	156,080	-	-
Transfer from stage 1 to stage 3	(531,527)	-	531,527	-
Transfer from stage 2 to stage 1	36,274	(36,274)	-	-
Transfer from stage 2 to stage 3	-	(69,888)	69,888	-
Transfer from stage 3 to stage 1	44,242	-	(44,242)	-
Transfer from stage 3 to stage 2	-	-	-	-
Financial assets derecognised during the period other than write offs				
New financial assets originated	944,494	38,099	3,421,393	**4,403,986**
Total net P&L release during the period	**337,403**	**88,017**	**3,978,566**	**4,403,986**
Other movements with no P&L impact				
Write-offs	-	-	(4,825,440)	**(4,825,440)**
Loss allowance as at 31 December 2020	986,766	162,121	2,277,737	**3,426,624**

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Loss allowance as at 1 January 2019	**711,894**	**72,504**	**4,302,690**	**5,087,088**
Transfers:				
Transfer from stage 1 to stage 2	(28,131)	38,940	-	**10,810**
Transfer from stage 1 to stage 3	(13,180)	-	92,868	**79,688**
Transfer from stage 2 to stage 1	2,751	(12,483)	-	**(9,732)**
Transfer from stage 2 to stage 3	-	(9,889)	83,103	**73,213**
Transfer from stage 3 to stage 1	13,818	-	(69,242)	**(55,424)**
Transfer from stage 3 to stage 2	-	-	-	-
Changes in model assumptions	(239,168)	(3,169)	(9,637)	**(251,974)**
Financial assets derecognised during the period other than write offs	(341,893)	(62,303)	(846,899)	**(1,251,095)**
New financial assets originated	543,272	50,504	405,651	**999,426**
Total net P&L release during the period	**(62,531)**	**1,600**	**(344,156)**	**(405,088)**
Other movements with no P&L impact				
Write-offs	-	-	(833,922)	**(833,922)**
Loss allowance as at 31 December 2019	**649,363**	**74,104**	**3,124,612**	**3,848,078**

5.1.5.1 Changes in the loss allowance (Continued)

a) Overdraft

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Loss allowance as at 1 January 2020	**12,019**	**-**	**2,008,142**	**2,020,161**
Transfers:				
-Transfer from stage 1 to stage 3	-	-	-	-
Changes in model assumptions	-	-	(1,943,370)	(1,943,370)
New financial assets originated	47,556	-	1,142,614	1,190,170
Total net P&L charge during the period	**47,556**	**-**	**(800,756)**	**(753,200)**
Other movements with no P&L impact				
Write-offs	-	-	(64,772)	(64,772)
Loss allowance as at 31 December 2020	**59,575**	**-**	**1,142,614**	**1,202,189**

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Loss allowance as at 1 January 2019	**83,626**	**-**	**4,085,159**	**4,168,785**
Transfers:				
-Transfer from stage 1 to stage 3	(272)	-	7,322	**7,051**
Changes in model assumptions	(73,527)	-	49,459	**(24,068)**
New financial assets originated	2,192	-	-	**2,192**
Total net P&L charge during the period	**(71,607)**	**-**	**56,781**	**(14,826)**
Other movements with no P&L impact				
Write-offs	-	-	(2,133,798)	(2,133,798)
Loss allowance as at 31 December 2019	**12,019**	**-**	**2,008,142**	**2,020,161**

5.1.5.2 Changes on the gross carrying amount

The following tables explain changes in the gross carrying amount of the portfolio to help explain their significance to the changes in the loss allowance for the same portfolio:

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (Continued)

5.1.5.1 Changes in the loss allowance

(a) Unsecured term loans-Gross Loans

The following tables explain changes in the gross carrying amount of the portfolio to help explain their significance to the changes in the loss allowance for the same portfolio:

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Gross carrying amount as at 1 January 2020	**43,577,100**	**1,497,938**	**4,006,297**	**49,081,335**
Transfers:				**-**
Transfer from stage 1 to stage 2	(1,327,821)	1,327,821	-	**-**
Transfer from stage 1 to stage 3	(1,589,154)	-	1,589,154	**-**
Transfer from stage 2 to stage 1	265,827	(265,827)	-	**-**
Transfer from stage 2 to stage 3	-	-	-	**-**
Transfer from stage 3 to stage 1	263,476	-	(263,476)	**-**
Transfer from stage 3 to stage 2	-	174,575	(174 575)	**-**
Financial assets derecognised during the period other than write offs	(12,335,906)	(1,068,769)	2 794 413	**(10,610,262)**
New financial assets originated	10,117,542	251,672	223,747	**10,592,960**
Write-offs	-	-	(2,622,377)	**(2,622,377)**
Gross carrying amount as at 31 December 2020	**38,971,064**	**1,917,410**	**5,553,183**	**46,441,656**

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Gross carrying amount as at 1 January 2019	**49,632,293**	**1,349,279**	**8,039,832**	**59,021,404**
Transfers:				
Transfer from stage 1 to stage 2	(1,827,576)	1,827,576	-	-
Transfer from stage 1 to stage 3	(3,704,221)	-	3,704,221	-
Transfer from stage 2 to stage 1	168,058	(168,058)	-	-
Transfer from stage 2 to stage 3	-	(841,430)	841,430	-
Transfer from stage 3 to stage 1	117,210	-	(117,210)	-
Transfer from stage 3 to stage 2	-	49,518	(49,518)	-
Financial assets derecognised during the period other than write offs	(36,370,939)	(1,672,422)	(3,523,450)	**(41,566,811)**
New financial assets originated	35,579,627	953,475	863,230	**37,396,332**
Write-offs	(17,351)	-	(5,752,239)	**(5,769,590)**
Gross carrying amount as at 31 December 2019	**43,577,101**	**1,497,938**	**4,006,296**	**49,081,335**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (continued)

5.1.5.2 Changes on the gross carrying amount (Continued)

(a) secured term loans-Gross Loans

	Stage 1 12 - Month ECL TZS'000	Stage 2 Lifetime ECL TZS'000	Stage 3 Lifetime ECL TZS'000	Total TZS'000
Gross carrying amount as at 1 January 2020	**33,693,463**	**3,074,029**	**4,535,534**	**41,303,026**
Transfers:				**-**
Transfer from stage 1 to stage 2	(2,250,361)	2,250,361	-	-
Transfer from stage 1 to stage 3	(1,510,245)	-	1,510,245	-
Transfer from stage 2 to stage 1	995,854	(995,854)	-	-
Transfer from stage 2 to stage 3	-	(297,640)	297,640	-
Transfer from stage 3 to stage 1	1,345,161	-	(1,345,161)	-
Transfer from stage 3 to stage 2	-	-	-	-
Financial assets derecognised during the period other than write offs	(6,813,137)	(1,612,366)	(1 249 763)	(9,675,266)
New financial assets originated or purchased	4,972,581	-	-	4,972,581
Write-offs	-	-	-	-
Gross carrying amount as at 31 December 2020	**30 433 317**	**2 418 530**	**3,748,495**	**36,600,341**

	Stage 1 12 - Month ECL TZS'000	Stage 2 Lifetime ECL TZS'000	Stage 3 Lifetime ECL TZS'000	Total TZS'000
Gross carrying amount as at 1 January 2019	**26,052,837**	**1,090,766**	**7,061,855**	**34,205,458**
Transfers:				
Transfer from stage 1 to stage 2	(1,196,477)	1,196,477	-	-
Transfer from stage 1 to stage 3	(581,604)	-	581,604	-
Transfer from stage 2 to stage 1	183,293	(183,293)	-	-
Transfer from stage 2 to stage 3	-	(211,656)	211,656	-
Transfer from stage 3 to stage 1	1,250,984	-	(1,250,984)	-
Transfer from stage 3 to stage 2	-	-	-	-
Financial assets derecognised during the period other than write offs	(15,485,165)	(1,054,811)	(3,652,327)	**(20,192,302)**
New financial assets originated or purchased	23,469,595	2,236,545	2,495,657	28,201,797
Write-offs	-	-	(911,928)	**(911,928)**
Gross carrying amount as at 31 December 2019	**33,693,463**	**3,074,029**	**4,535,534**	**41,303,025**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (continued)

(b) Overdraft

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Gross carrying amount as at 31 December 2020	**425,994**	**-**	**3,139,275**	**3,565,269**
Transfers:				
Transfer from stage 1 to stage 3	-	-	-	-
Financial assets derecognised during the period other than write offs	(181,062)	-	(3,139 275)	(3,320,337)
New financial assets originated	-	-	1,343,493	1,343,493
Write-offs	-	-	-	-
Gross carrying amount as at 31 December 2020	**244,932**	**-**	**1,343,493**	**1,588,425**

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Gross carrying amount as at 31 December 2019	**546,241**	**-**	**6,502,602**	**7,048,843**
Transfers:				
Transfer from stage 1 to stage 3	(114,356)	-	114,356	-
Financial assets derecognised during the period other than write offs	(83,376)	-	(420,439)	(503,815)
New financial assets originated	77,484	-	-	77,484
Write-offs	-	-	(3,057,244)	(3,057,244)
Gross carrying amount as at 31 December 2019	**425,994**	**-**	**3,139,275**	**3,565,268**

5.1.6 Amounts due from banks

Balances due from other banks are categorized as stage 1. The Loss Given Default (LGD) for these assets is zero hence no impairment was recognized as at 31 December 2020 (2019: Nil). The expected credit Loss is expected to be insignificant. No collateral is held by the Bank in respect to these balances.

5.1.7 Debt securities, treasury bills and other eligible bills

The Bank hold investments in Treasury Bills issued by the Government. At the end of reporting period, these investments were categorized as stage 1. There are no credit ratings for these investments. The Loss Given Default (LGD) for these assets is zero hence no impairment was recognized as at 31 December 2020 (2019: Nil).

5.1.8 Balances with bank of Tanzania and other assets

Other assets and balances with Bank of Tanzania are categorized as stage 1. The Bank has used simplified model for estimation of ECL. The impact has been determined to be insignificant.

5.1.9 Repossessed collateral

During the year, the Bank did not obtain assets by taking possession of collateral held as security. Repossessed properties are usually sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

5.1.10 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2020. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

(a) Geographical sectors (Continued)

	Tanzania	Europe	America	Others	Total
Credit risk exposures relating to on-balance sheet assets are as follows	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
31 December 2020					
Balances with the Bank of Tanzania	13,899,986	-	-	-	13,899,986
Placement and balances with other banks	17,134,492	185,943	-	-	17,320,437
Investment in Government securities					
- Amortised cost	22,359,141	-	-	-	22,359,141
Loans and advances to customers:	77,703,439	-	-	-	77,703,439
Unquoted equity investment	39,000	-	-	-	39,000
Other financial assets (Excluding Prepayments)	3,297,467	-	-	-	3,297,467
As at 31 December 2020	134,433,525	185,943	-	-	134,619,470
Credit risk exposures relating to off-balance sheet assets are as follows:					
Undrawn commitments	102,328	-	-	-	102,328
As at 31 December 2020	102,328	-	-	-	102,328

	Tanzania	Europe	America	Others	Total
Credit risk exposures relating to on-balance sheet assets are as follows	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
31 December 2019					
Balances with the Bank of Tanzania	15,678,629	-	-	-	15,678,629
Placement and balances with other banks	60,146	209,634	-	-	269,780
Investment in Government securities		-	-	-	-
- Amortised cost	25,038,871	-	-	-	25,038,871
Loans and advances to customers:	84,745,359	-	-	-	84,745,359
Unquoted equity investment	20,000				20,000
Other financial assets (Excluding Prepayments)	817,949	-	-	-	817,949
As at 31 December 2019	126,360,954	209,634	-	-	126,570,588
Credit risk exposures relating to off-balance sheet assets are as follows:					
Undrawn commitments	949,344	-	-	-	949,344
As at 31 December 2019	949,344	-	-	-	949,344

(a0 Credit risk (continued)

5.1.10 Concentration of risks of financial assets with credit risk exposure (continued)

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of its counterparties. (Amounts are in TZS' million):

31 December 2020	Financial institutions TZS '000	Manu-facturing TZS '000	Trading and commercial TZS '000	Transport and communication TZS '000	Wholesale and retail TZS '000	Agriculture TZS '000	Individuals TZS '000	Others TZS '000	Total TZS '000
Balances with the Bank of Tanzania	13,899,986	-	-	-	-	-	-	-	13,899,986
Placement and balances with other banks	17,320,437	-	-	-	-	-	-	-	17,320,437
Investment in Government securities									
Amortized cost	22,359,141	-	-	-	-	-	-	-	22,359,141
Loans and advances to customers:-	-	208,563	-	387,311	60,173,607	452,347	4,376,982	12,104,629	77,703,439
Other assets (excluding prepayments	-	-	-	-	-	-	-	3,297,467	3,297,467
As at 31 December 2020	53,579,564	208,563	-	387,311	60,173,607	452,347	4,376,982	15,402,096	134,580,470

Credit risk exposures relating to off-balance sheet assets are as follows:

Undrawn commitments	-	-	-	102,328	-	-	-	-	102,328
As at 31 December 2020	-	-	-	102,328	-	-	-	-	102,328

Credit risk (continued)

5.1.10 Concentration of risks of financial assets with credit risk exposure (continued)

(b) Industry sectors (continued)

31 December 2019	Financial institutions TZS '000	Manu-facturing TZS '000	Trading and commercial TZS '000	Transport and communication TZS '000	Wholesale and retail TZS '000	Agriculture TZS '000	Individuals TZS '000	Others TZS '000	Total TZS '000
Balances with the Bank of Tanzania	15,678,629	-	-	-	-	-	-	-	15,678,629
Placement and balances with other banks	269,780	-	-	-	-	-	-	-	269,780
Investment in Government securities									
Amortised cost	25,038,871	-	-	-	-	-	-	-	25,038,871
Loans and advances to customers:	-	208,563	-	387,311	60,173,607	452,347	4,376,982	19,146,549	84,745,359
Other assets (excluding prepayments)	-	-	-	-	-	-	-	817,949	817,949
As at 31 December 2019	40,987,280	208,563	-	387,311	60,173,607	452,347	4,376,982	19,964,498	126,550,588

Credit risk exposures relating to off-balance sheet assets are as follows:

Undrawn commitments	-	-	949,344	-	-	-	-	-	949,344
As at 31 December 2019	-	-	949,344	-	-	-	-	-	949,344

5.2 Market risk

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

The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Banks Assets and Liability Committee (ALCO) and heads of department.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and corporate banking assets and liabilities.

5.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.1 Foreign exchange risk (continued)

Concentrations of currency risk - on - and off - balance sheet financial instruments:

As at 31 December 2020	USD	EURO	GBP	Others	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets					
Cash and balances with Bank of Tanzania	174,225	-	-	-	174,225
Placement and balances with other banks	16,992,072	185,944	-	-	17,178,016
Loans and advances to customers	-	-	-	-	-
Other assets (excluding prepayments)	-	-	-	-	-
Total financial assets	17,166,297	185,944	-	-	17,352,241
Liabilities					
Deposits from customers	2,881,849	35,892	1,388		2,919,129
Deposits from other banks	-	713,380	-	-	713,380
Lease liability	11,070,102	-	-	-	11,070,102
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	-
Total financial liabilities	13,951,950	749,272	1,388	-	14,702,610
Net on-balance sheet financial position	3,214,347	(563,328)	(1,388)	-	2,649,631
Off balance sheet position	-	-	-	-	-
Undrawn commitments	-	-	-	-	-

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.1 Foreign exchange risk (continued)

Concentrations of currency risk - on - and off - balance sheet financial instruments:

As at 31 December 2019	USD	EURO	GBP	Others	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets					
Cash and balances with Bank of Tanzania	574,566	-	-	-	574,566
Placement and balances with other banks	-	209,634	-	-	209,6324
Loans and advances to customers	-	-	-	-	-
Other assets (excluding prepayments)	-	-	-	-	-
Total financial assets	**574,566**	**209,634**	**-**	**-**	**784,200**
Liabilities					
Deposits from customers	3,843,896	88,132	2,828	-	3,934,856
Deposits from other banks	-	-	-	-	-
Lease liability	18,948,741	-	-	-	18,948,741
Other liabilities (excluding non-financial other liabilities)	29	41,174	-	-	41,203
Total financial liabilities	**22,792,666**	**129,306**	**2,828**	**-**	**22,924,800**
Net on-balance sheet financial position	**(22,218,100)**	**80,328**	**(2,828)**	**-**	**(22,140,600)**
Off balance sheet position	**-**	**-**	**-**	**-**	**-**
Undrawn commitments	-	-	-	-	-

Foreign exchange sensitivity analysis

The impact of fluctuation of Bank's post tax profit for the year resulting from foreign exchange movements, keeping all other variables held constant on translation of foreign currency dominated cash and balances with the Bank of Tanzania, placements and balances with other banks, loans and deposits from customers and other banks is analysed in the table below

	% change in exchange rate	2020 TZS'000	2019 TZS'000
USD	10%	321,435	(1,603,905)
EURO	10%	(56,333)	12,930
GBP	10%	(139)	(282)

The effect of translation of placements and balances with other banks in Kenyan shillings is not considered to be significant.

5.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a 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 its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Bank. The table below summarises the Bank's exposure to interest rate risks. It includes the

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.2 Interest rate risk (continued)

Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

As at 31 December 2020	Up to1	1 - 3 months	3 - 12 months	1-5 years	Non-interest bearing	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets						
Cash and balances with Bank of Tanzania	-	-	-	-	22,890,194	22,890,194
Investment in Government securities						
- Amortized cost	-	-	22,359,141	-	-	22,359,141
Placement and balances with other banks	17,320,437	-	-	-	17,320,437	17,320,437
Loans and advances to customers	1,129,800	2,813,564	35,744,043"	38 016 032	-	77,703,439
Unquoted Equity Investments	-	-	-	-	39,000	39,000
Other assets (excluding prepayments)	-	-	-	-	3,297,467	3,297,467
Total financial assets	**18,450,237**	**2,813,564**	**58,103,184**	**38,016,032**	**43,547,098**	**143,609,678**
Liabilities						
Deposits from other banks	713,380	-	-	-	-	713,380
Lease liability	-	-	4,975,953	9,879,130	-	14,855,083
Deposits from customers	42,080,345	25,936,276	19,874,926	2,323,344	31,592,237	121,869,315
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	1,890,011	1,890,011
Total financial liabilities	**42,793,725**	**25,936,276**	**24,850,879**	**12,202,474**	**33,544,435**	**139,327,789**
Total interest repricing gap	**(24,343,488)**	**(23,122,712)**	**33,252,305**	**25,813,558**	**10,002,663**	**4,281,889**

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.2 Interest rate risk (continued)

As at 31 December 2019	Up to1	1 - 3 months	3 - 12 months	1-5 years	Non-interest bearing	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets						
Cash and balances with Bank of Tanzania	-	-	-	-	25,244,076	25,244,076
Investment in Government securities						
- Amortised cost	-	-	25,038,871	-	-	25,038,871
Placement and balances with other banks	269,780	-	-	-	-	269,780
Loans and advances to customers	2,705,470	3,649,406	35,919,756	42,470,727	-	84,745,359
Unquoted Equity Investments					20,000	20,000
Other assets (excluding prepayments)	-	-	-	-	817,949	817,949
Total financial assets	**2,975,250**	**3,649,406**	**60,958,627**	**42,470,727**	**26,082,025**	**136,136,035**
Liabilities						
Deposits from other banks	12,109,246	-	-	-	-	**12,109,246**
Lease liability		-	4,975,953	15,336,718	-	**20,312,671**
Deposits from customers	7,304,715	15,492,265	14,759,238	92,638	74,346,018	**111,994,874**
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	1,625,272	**1,625,272**
Total financial liabilities	**19,413,961**	**15,492,265**	**19,735,191**	**15,429,356**	**75,971,290**	**146,042,063**
Total interest repricing gap	**(16,438,711)**	**(11,842,859)**	**41,223,436**	**27,041,371**	**(49,889,265)**	**(9,906,028)**

Interest rate risk sensitivity

The interest rate risk sensitivity of the net mismatch between interest bearing assets and liabilities up to 12 months is summarised below. This assumes a 1% adverse movement in interest rates over the period (amounts in TZS Thousand).

Sensitivity period	Interest-bearing assets	Interest-bearing liabilities	Net Impact
2020			
Less than 30 days			
1 year	**1,173,830**	**1,159,966**	**13,864**
2019			
Less than 30 days			
1 year	1,100,540	700,708	399,832

5.3 Liquidity risk

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

5.3.1 Liquidity risk management process

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

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and

- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 5.3.3).

5.3.2 Funding approach

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

5.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of reporting period. The amounts disclosed in the table below are the undiscounted cash flows of liabilities and assets held for managing liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the YEAR ENDED 31 December 2020

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk (continued)

5.3.3 Non-derivative cash flows (continued)

As at 31 December 2020	Up to	1 - 3	3 - 12	Over	
	1 month	months	months	1 year	Total
Liabilities	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Deposits from customers	42,080,345	25,936,276	19,874,926	33,977,768	121,869,315
Deposits from other Banks	713,380	-	-	-	713,380
Lease liability	-	-	4,975,953	9,359,612	14,335,565
Other liabilities (excluding non-financial liabilities)	-	-	2,417,300	-	2,417,300
Total liabilities	**42,793,725**	**25,936,276**	**27,268,179**	**43,337,380**	**139,335,560**
Assets held for managing liquidity	**41,010,878**	**2,602,682**	**34,457,762**	**39,732,185**	**117,803,507**
As at 31 December 2019					
Deposits from customers	81,650,733	15,492,265	14,759,238	92,638	111,994,874
Deposits from other Banks	12,109,246	-	-	-	12,109,246
Lease liability	-	-	4,975,953	15,336,718	20,312,671
Other liabilities (excluding non-financial liabilities)	-	-	1,625,272	-	1,625,272
Total liabilities	**93,759,979**	**15,492,265**	**21,360,463**	**15,429,356**	**146,042,063**
Assets held for managing liquidity	28,219,326	3,649,406	60,958,627	42,470,727	135,298,086

5.3.4 Assets held for managing liquidity risk

The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with the Bank of Tanzania (excluding SMR);
- Loans and advances to customers;
- Investment in government securities; and
- Placements and balances with other banks:

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

5.4 Off-balance sheet items

(a) Undrawn commitments, outstanding letters of credit, guarantee and indemnities

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 30) are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 30) are also included below based on the earliest contractual maturity date.

	"No later than 1 year TZS'000	1 - 5 years TZS'000	Total TZS'000
As at 31 December 2020			
Undrawn commitments	102,328	-	**102,328**
Total	**102,328**	-	**102,328**
As at 31 December 2019			
Undrawn commitments	949,344	-	949,344
Total	**949,344**	-	**949,344**

5.5.1 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.

There were no transfers between the levels during the year.

ii) Fair value of financial assets and liabilities that are not measured at fair value

Cash and balances with Bank of Tanzania

The carrying amount of cash and balances with Bank of Tanzania is a reasonable approximation of fair value.

Investment in government securities

Investment in government securities includes treasury bonds and treasury bills. The fair value of government securities has been determined by discounting the estimated future cash flows expected cash flows at current market yields as observed from rates of similar bills and bonds traded by Bank of Tanzania.

Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight advances is a reasonable approximation of fair value. The estimated fair value of fixed interest-bearing advances is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers

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

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

for the YEAR ENDED 31 December 2020

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Fair value of financial assets and liabilities (Continued)

ii) Fair value of financial assets and liabilities that are not measured at fair value (Continued)

	Carrying amount		Fair value	
	2020 Hierarchy level TZS'000	2019 TZS'000	2020 TZS'000	2019 TZS'000
Financial assets				
Cash and balances with Bank of Tanzania	**22,890,194**	25,244,076	**22,890,194**	25,244,076
Government securities – Loans and receivable (Treasury bills)	**22,359,141**	25,038,871	**22,359,141**	25,038,871
Placement and balances with other banks	**17,320,437**	269,780	**17,320,437**	269,780
Loans and advances to customers	**77,703,439**	84,745,359	**77,703,439**	84,745,359
Unquoted equity investment	**39,000**	20,000	**39,000**	20,000
Other assets (excluding prepayment)	**3,297,467**	817,949	**3,297,467**	817,949
	143,609,678	**136,136,035**	**143,609,678**	**136,136,035**
Financial liabilities				
Deposits from customers	**121,807,128**	111,994,874	**121,807,128**	111,994,874
Deposits from banks	**713,380**	12,109,246	**713,380**	12,109,246
Lease liability	**14,855,083**	20,312,671	**14,855,083**	20,312,671
Other liabilities (Excluding non-financial other liabilities)	**2,417,300**	1,625,272	**2,417,300**	1,625,272
	139,792,891	**146,042,063**	**139,792,891**	**146,042,063**

There was no transfer of assets between the fair value hierarchy levels

5.6 Capital management

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

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

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania (BoT), for supervisory purposes. The required information is filed with the BoT on a monthly basis.

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

(a) Hold a minimum level of core capital of TZS 15 billion;
(b) Maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets or above the required minimum of 12.5%; and
(c) Maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.
(d) Maintain a capital conservation buffer of 2.5% of risk-weighted assets and off-balance sheet exposures. The capital conservation buffer is be made up of items that qualify as tier 1 capital.

When a bank is holding capital conservation buffer of less than 2.5% of risk-weighted assets and off-balance sheet exposures but is meeting its minimum capital requirements that bank:

Shall not be distribute dividends to shareholders or bonuses to senior management and other staff members until the buffer is restored to at least 2.5%;

- Shall not be distribute dividends to shareholders or bonuses to senior management and other staff members until the buffer is restored to at least 2.5%;

- Shall submit a capital restoration plan to Bank of Tanzania within a period specified by BoT, indicating how the bank is going to raise capital to meet its minimum requirement including capital conservation buffer within a specified period of time; and

- In the event that BoT does not approve the capital restoration plan, it may direct the bank to raise additional capital within a specified time period in order to restore its capital conservation buffer.

The Bank's regulatory capital is divided into two tiers:

- Tier 1 capital: means permanent shareholders' equity in the form of issued and fully paid ordinary shares, and perpetual non-cumulative preference shares, capital grants and disclosed reserves less year to date losses, goodwill organization, pre-operating expenses, prepaid expenses, deferred charges, leasehold rights and any other intangible assets.

- Tier 2 capital: means general provisions which are held against future, presently unidentified losses and are freely available to meet losses which subsequently materialize, subordinated debts, cumulative redeemable preferred stocks and any other form of capital as may be determined and announced from time to time by the Bank.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2020 and year ended 31 December 2019. During those two periods, the Bank has not complied with all of the externally imposed capital requirements to which they are subject.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Capital management (Continued)

	Note	2020 TZS'000	2019 TZS'000
Tier 1 capital			
Share capital	29	**10,984,416**	10,984,416
Share premium	29	**2,431,917**	2,431,917
Retained earnings		**(5,626,989)**	4,687,639
Less: Prepaid expenses	24	**(639,673)**	(721,544)
Less: Deferred tax assets	23	**(7,067,003)**	(7,307,207)
Others (Advance Towards Capital)		**16,992,072**	-
Total qualifying Tier 1 capital		**17,074,740**	**10,075,221**
Tier 2 capital			
Allowed Supplementary capital		**2,289,248**	-
General risk reserve		**-**	-
Total qualifying Tier 2 capital		**19,363,988**	-
Total regulatory capital		**19,363,988**	**10,075, 221**
Risk-weighted assets			
On-balance sheet		**101,719,479**	108,203,973
Off-balance sheet		**72,328**	350,268
Operational risk		**16,696,985**	17,810,835
Market risk		**78,724**	104,807
Total risk-weighted assets and operational and market risk		**118,567,517**	**126,469,843**
		Bank's ratio 2020	**Bank's ratio** 2019
Tier 1 capital (BOT minimum 12.5%)		**14.40%**	7.97%
Tier 1 + Tier 2 capital (BOT minimum 14.5%)		**16.33%**	7.97%

Capital injection and growth plans

National Bank of Malawi Plc (NBM) has acquired a 51% stake in the bank. The injection of capital into the bank amounting to TZS 16,992,072,000 as part of the investment has resulted in strong capital position, above the required regulatory minimum capital, supporting expansion and further growth of the Bank.

NBM is a strong player in the Malawi financial market. Beyond capital investment, they also bring along wealth of experience acquired over many years, to push Akiba to higher competitive position in the Tanzanian financial market.

The following changes are expected as the new investor come on board:

(i) Capitalization of the Bank to support growth and expansion.

The acquisition of 75% stake in the bank will ensure compliance with regulatory capital and an injection of new funds for growth, primarily expansion of financial solutions for MSME customers, in line with the focus of the bank.

(ii) Introduce Digital Banking products

Immediately introduce bouquet of products under mobile banking, internet banking, Electronic funds transfers and related products to the market to enhance product offering and customer experience. Other solutions like Visa, Cordless, Companion card, Agency banking will be introduced within a shortest possible time.

(iii) Digitalization transformation

Implement digitalization transformation in the bank to ensure all processes are digitalized for efficiency.

(iv) Introduce Leasing, International Trade and Corporate Lending

Introduce leasing which is not currently offered in the bank and which has a very low penetration in Tanzania. Introduce international trade products by extending the relationships the investor has with providers of lines of credit available to the bank's future.

	2020 TZS 000	2019 TZS 000
6. INTEREST INCOME		
Interest on loans and advances to customers	**23,647,075**	27,508,276
Income from government securities	**1,243,191**	1,754,158
Interest from placement with other banks	-	2,206
	24,890,266	**29,264,640**
7. INTEREST EXPENSE		
Saving deposits	**1,018,008**	1,029,234
Time deposits	**4,967,013**	3,692,762
Lease liability	**1,703,720**	1,382,528
Other borrowings	**114,826**	698,837
	7,803,567	**6,803,361**

	2020 TZS 000	2019 TZS 000
8. FEES AND COMMISSION INCOME		
Commission income	**852,866**	1,281,054
ATM card	**81,020**	83,873
ATM fees	**44,750**	110,479
Loans commitment fees	**742,675**	1,666,596
Premature loans	**20,043**	5,052
Withdrawal charges	169,767	197,749
Ledger fees	1,147,265	1,539,588
Telegraphic transfer	60,740	49,736
Salary processing	42,309	43,102
Other fees	65,773	61,755
	3,227,208	**5,038,984**

	2020	2019
	TZS 000	TZS 000
9. FOREIGN EXCHANGE INCOME		
Foreign currency trading	286,005	348,827
10. OTHER OPERATING INCOME		
Insurance income	621,621	709,834
Profit on disposal of property and equipment	80	2,603
Other income	38,908	110,500
	660,610	822,937
11. EMPLOYEE BENEFIT EXPENSE		
Salaries and allowances	9,738,083	11,002,570
Social security costs	913,994	1,022,311
Medical insurance	1,005,585	984,838
Leave allowance	(30,029)	98,223
Staff welfare	274,720	291,027
Staff incentives provision	125,091	151,503
Skill and development levy	421,375	460,258
Workers Compensation Fund	91,327	94,546
Field Transport Expenses	254,030	269,731
Newspapers and magazines	4,190	5,527
Other staff cost	258,483	365,456
	13,056,848	14,645,405
12. GENERAL AND ADMINISTRATION EXPENSES		
Umoja Switch Expenses	69,927	419,227
Advertising and Marketing	239,151	300,019
Software license fees	809,556	807,799

12. GENERAL AND ADMINISTRATION EXPENSES Cont..	2020	2019
	TZS 000	TZS 000
Internet and Other IT Consumables	**552,327**	128,227
Internet and Other IT Consumables	**552,327**	128,227
Technical assistance fees	**1,250,252**	898,730
Auditor's remuneration	**180,098**	258,324
Director's fees	**10,521**	108,100
Directors Expenses	**140,838**	108,900
Training	**39,800**	65,832
Travel and lodging	**184,267**	263,218
Maintenance Equipment	**259,442**	315,449
Akiba Mobile expenses	**346,521**	308,945
Fuel Motor vehicle & Generator	**360,563**	386,706
Telephones	**91,533**	80,017
Stationery expense	**243,432**	290,122
Insurance	**402,934**	422,064
Subscription & Professional fees	**425,177**	240,548
Legal expense	**767,755**	517,472
Security	**936,267**	939,333
Premises expenses	**1,064,699**	795,684
Provision other assets	**-**	143,016
Postage and courier expense	**31,163**	33,993
Auctioneers Expenses	**308,143**	255,489
Bank Charges	**130,714**	27,067
Miscellaneous expenses	**(37,402)**	60,331
	8,806,678	8,174,612

13. DEPRECIATION AND AMORTISATION	2020	2019
	TZS 000	TZS 000
Depreciation-Property and equipment (note 21)	**2,512,260**	3,270,951
Amortisation-Intangible assets (note 22)	**162,090**	159,992
	2,674,350	3,430,943

14. OTHER CHARGES

Assessed and paid	**-**	997,238
Assessed and provided for	**618,285**	825,480
	618,285	**1,822,718**

15. INCOME TAX EXPENSE/ (CREDIT)

(a) Tax expense for the year is arrived at as follows:

Current income tax - current year	**145,320**	-
Current income tax -prior year	**1,231,518**	1,144,278
Deferred income tax - current year charge	**240,204**	42,062
Deferred income tax - prior periods	**-**	476,416
	1,617,042	**1,662,756**

(b) Reconciliation of tax expense to the expected tax based on accounting profit.

	2020	2019
	TZS 000	TZS 000
Accounting loss before tax	**(8,300,836)**	(1,225,880)
Tax calculated at the statutory income tax rate of 30%	**(2,490,251)**	(367,764)
Tax effect of:		
Expenditure permanently disallowed	**318,431**	567,518
Bad debt recovery	**-**	(104,509)
Rights of use	**-**	(53,183)
Unrecognised deferred tax	**3,890,491**	-
Prior years corporate tax	**1,231,518**	1,144,278

15. INCOME TAX EXPENSE/ (CREDIT) Cont..	2020	2019
	TZS 000	TZS 000
Alternative minimum tax	145,320	-
Prior year deferred tax (over)/under-provision	(1,478,700)	476,416
Other	233	-
Income tax expense	1,617,042	1,662,756
(c) Current income tax		
At 1 January	(1,967,603)	(3,111,881)
Charge to profit or loss	1,376,838	1,144,278
Payment made during year	(1,877,455)	-
	(2,468,220)	(1,967,603)

16 CASH AND BALANCES WITH THE BANK OF TANZANIA

	2020	2019
Cash balances	8,990,208	9,565,447
Balances with Bank of Tanzania:		
Clearing account - local currency	6,805,995	7,640,677
Clearing account - foreign currency	174,225	574,566
Statutory minimum reserve (SMR)	6,919,766	7,463,386
	22,890,194	25,244,076

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

17. BALANCES WITH OTHER BANK	2020	2019
	TZS 000	TZS 000
Balance with foreign banks	185,944	209,633
Cheques and items in the course of clearing	142,073	58,843
Balances with local banks	16,992,420	1,303
	17,320,437	269,780

18. LOANS AND ADVANCES TO CUSTOMERS	2020	2019
	TZS 000	TZS 000
Loans and advances to customers	79,947,062	88,674,638
Staff loans	4,683,362	5,274,990
Gross loans and advances	84,630,424	93,949,628
Less: allowance for impairment	(6,926,985)	(9,204,269)
	77,703,439	84,745,359
Gross loans and advances to customers by class are as follows:		
Micro and Small Enterprises (MSEs)	57,378,694	62,273,377
Consumer loans	642,410	1,122,725
Term loans	25,019,046	26,988,257
Overdrafts	1,590,274	3,565,269
	84,630,424	93,949,628
Analysis of loans and advances to customers by maturity		
maturity		
Maturing:		
Within 1 year	39,687,407	42,274,632
Between 1 year and 5 years	38,016,032	42,470,727
	77,703,439	84,745,359
Reconciliation of allowance account for losses on loans and advances is as follows:		
Balance at 1 January	9 204 270	17,280,084
Impairment losses for the year	4 955 485	2,172,593
Loans and advances written off during the year	(7 232 770)	(10,248,408)
	6 926 985	9,204,270
Credit Impairment Charge in Profit or Loss is broken down as follows		
Impairment Charge for credit loss	4 955 485	2,172,593
Amount Recovered from written off loans	(550,288)	(348,364)
	4,405,197	1,824,229

19. GOVERNMENT SECURITIES	2020	2019
	TZS 000	TZS 000
Treasury Bills and Bonds		
Maturing within 91 days or less	-	-
Maturing after 91 days	22,359,141	25,038,871
	22,359,141	25,038,871

Treasury bills are debt securities issue by the Government of the United Republic of Tanzania and are classified as held to maturity.

20. UNQUOTED EQUITY INVESTMENT	2020	2019
	TZS 000	TZS 000
Investment in shares	20,000	20,000
Investment made during year	19,000	-
	39, 000	20,000

Investment in shares represent 20 ordinary shares in Umoja Switch Company Limited. The Investment represent 9.1% of the Company's total issued and paid up ordinary share capital. The shares are accounted for at cost which is deemed by directors to be a reasonable approximation of its fair value.

Umoja Switch Company Limited is a jointly controlled operation whereby 11 banks have pulled together resources to invest in a nationwide ATM network. Each bank has equal voting right in respect of decision making.

21. PROPERTY AND EQUIPMENT	Motor Vehicles TZS '000	Fixtures, fittings and equipment TZS '000	Leasehold improvem ents TZS '000	Sub-total TZS '000	Right of use asset TZS '000	Total TZS '000
Cost						
At 31 January 2020	1,141,610	9,679,466	6,429,055	17 250 130	21,859,425	39 109 555
Additions	-	132,808	-	132,808	-	132,808
Asset written off/re-measurement	-	-	-	-	(5,183,565)	(5,183,565)
At 31 December 2020	1,141,610	9,812,274	6,429,055	17,382,938	16,675,860	34,058,798
Depreciation						
At 31 January 2020	1,049,238	8,572,382	5,177,663	14,799,283	1,933,780	16,733,063
Charge for the year	77,017	601,449	368,729	1,047,195	1,465,065	2,512,260
At 31 December 2020	1,126,255	9,173,831	5,546,391	15,846,478	3,398,845	19,245,323
At 1 January 2019	1,141,610	9,627,572	6,429,055	17,198,236	18,303,792	35,502,028
Additions	-	86,871	-	86,871	3,555,633	3,642,504
Disposals	-	(34,977)	-	(34,977)	-	(34,977)
At 31 December 2019	1,141,610	9,679,466	6,429,055	17,250,130	21,859,425	39,109,555
Depreciation						
At 1 January 2019	926,971	7,877,368	4,692,751	13,497,090	-	13,497,090
Charge for the year	122,267	729,991	484,912	1,337,170	1,933,780	3,270,950
Disposals	-	(34,977)	-	(34,977)	-	(34,977)
At 31 December 2019	1,049,238	8,572,382	5,177,663	14,799,283	1,933,780	16,733,063
NET BOOK VALUE						
As at 31 December 2020	15,355	638,443	882,663	1,536,460	13,277,014	14,813,475
As at 31st December 2019	92,372	1,107,084	1,251,392	2,450,847	19,925,644	22,376,492

22. INTANGIBLE ASSETS - COMPUTER SOFTWARE	Dec,2020	Dec,2019
Cost	TZS '000	TZS '000
At start of year	3,912,384	3,572,430
Additions	-	339,954
At end of year	3,912,384	3,912,384
Amortisation		
At start of year	3,020,102	2,860,110
Current year charge	162,090	159,992
At end of year	3,182,192	3,020,102
NET BOOK VALUE	730,192	892,282

23. DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred income tax account is as follows:

	2020	2019
	TZS 000	TZS 000
At start of year	7,307,207	7,825,685
Prior years (charge)/credit to profit or loss	1,478,700	(476,416)
Current year (charge)/credit to profit or loss	2,171,587	(42,062)
Total deferred tax asset	10 957 494	7 307 207
Unrecognised deferred tax asset	(3,890,491)	-
At the end of year	7,067,003	7,307,207

23. DEFERRED INCOME TAX (CONT..)

CDeferred income tax liabilities and deferred income tax charge to the profit and loss account are attributed to the following items:

	1 January TZS '000	Prior years overprovision TZS '000	(Debit)/Credit to profit or loss TZS '000	31 December TZS' 000
2020				
Tax losses	3 551 281	1 265 589	3 337 151	8 154 021
Property and equipment	481 491	213 112	36 557	731 160
Other timing differences	3 274 435	-	(1 202 122)	2 072 313
	7 307 207	1 478 701	2 171 586	10 957 494
2019				
IFRS 9 day 1 impairment	477,966	-	(477,966)	-
Tax losses	1,767,661	-	1,783,620	3,551,281
Property and equipment	373,410	-	108,081	481,491
Other timing differences	5,206,648	-	(1,932,213)	3,274,435
	7,825,685	-	(518,478)	7,307,207

24. OTHER ASSETS	2020 TZS 000	2019 TZS 000
Other receivables	190,995	1,657,397
Less: Provision for losses	(73,158)	(1,590,505)
Net other receivables	117,837	66,892
Float balance	3,179,630	751,057
Prepayments	639,673	721,544
	3,937,140	1,539,493

25. DEPOSITS FROM CUSTOMERS	2020	2019
	TZS 000	TZS 000
Current accounts	14,707,940	15,542,184
Biashara accounts	16,884,297	17,060,439
Savings accounts	41,794,927	41,405,917
Time deposit accounts	48,196,733	37,648,857
Special deposits	285,417	337,477
	121,869,315	111,994,874
MATURITY ANALYSIS:		
Payable within three months	99,608,858	97,142,998
Payable within three to twelve months	19,937,113	14,759,238
Payable over one year	2,323,344	92,638
	121,869,315	111,994,874

26. LEASE LIABILITY		
At start of the year	20,312,671	17,824,695
Re-Measurement	(5,183,565)	3,555,633
Finance Cost	1,703,720	1,382,528
Interest paid	(1,703,720)	(1,382,528)
Principal lease paid	(793,541)	(1,067,657)
	14,335,565	20,312,671

27. OTHER LIABILITIES	2020	2019
	TZS 000	TZS 000
Statutory deductions	229,594	413,971
Withholding Tax and VAT Payable	1,297,978	1,554,214
Bills payable	49,753	50,998
Deferred facility fees	714 142	191,293
Accrued leave	215,556	249,955
Other accrued expenses	187,314	327,266
Trade creditors	388,682	265,801
Auditors fees payable	177,196	191,283
Directors fees payable	126 759	192,050
Dividend payable	41,772	43,615
Other accounts payable	516,126	113,011
	3,944,872	3,593,457

28. CASH AND CASH EQUIVALENTS	2020	2019
	TZS 000	TZS 000
Cash and balances with Bank of Tanzania (Note 16)	22,890,194	25,244,076
Less: Statutory Minimum Reserves (Note 16)	(6,919,766)	(7,640,677)
Mobile float balance	2,968,302	751,057
Loans and Advances to Banks (Note17)	17,320,437	269,780
	36,259,167	18,624,236

For purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 3 months' maturity from the date of acquisition including: cash and balances with Bank of Tanzania, Government securities, and deposits and balances due from Banking instructions. Cash and cash equivalents exclude the Statutory Reserve requirement held with the Bank of Tanzania.

29. SHARE CAPITAL	2020	2019
	TZS 000	TZS 000
Authorised		
100,000,000 ordinary shares of TZS 1,000 each	100,000,000	100,000,000
Issued and fully paid		
10,984,416 (2019: 10,984,416) ordinary shares of TZS 1,000 each	10,984,416	10,984,416
Share premium	2,431,917	2,431,917

30. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

In common with other Banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Acceptances are a draft or bill of exchange drawn upon and accepted by a Bank.

Guarantees are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

At the end of the reporting period the Bank had no outstanding Acceptances, guarantees and letters of credit (2019: NIL).

Commitments to extend credit

At the end of the reporting period the Bank had outstanding commitments to extend credit amounting to TZS 102 million (2019: TZS 949 million).

Legal claims

The Bank is currently involved in legal proceedings and has in consultation with its legal counsel assessed the outcome of these proceedings. Following this assessment, the Bank's management has determined that a provision of TZS 100 million (2019: TZS 532 million). Litigations, current or pending, are not likely to have a material adverse effect to the Bank.

Various employees have sued the Bank for unfair dismissal. Furthermore, some loan customers have also sued the Bank. In the opinion of the Directors, in combination with the Bank's legal advisors, the ultimate liability to the Bank in respect of the amounts claimed in these two situations is not expected to be material.

Tax disputes

The Bank has one pending tax objection in relation to capital gain arising from sale of its shares to National Bank of Malawi amounting to TZS 544 million in which the bank has already paid TZS 181 million required by the Tax Administration Act prior to filing the objection. The directors believe that the bank has a high chance of winning the objection relating to capital gain tax assessment. Should the Bank lose the objection, there is a potential tax liability of TZS 362 million (2019: TZS 2 billion).

Capital commitments

There were no capital commitments authorized as at year end.

31. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of Banking transactions are entered into with related parties in the normal course of business and on the Bank's normal commercial terms. The values of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

i). Loans and advances to related parties

Advances to shareholders and their related companies were a follows:

	2020	2019
	TZS 000	TZS 000
At start of year	402,870	938,193
Net movement during the year	(71,934)	(535,323)
At end of year	330,936	402,870
Interest income earned	77,326	-
Advances to key management personnel were as follows:		
At start of year	381,828	287,045
Net movement during the year	(23,264)	94,783
At end of year	358,564	381,828
Interest income earned	-	25,429

Loans and advances to related parties were fully performing as at 31 December 2020 and 31 December 2019.

ii). Deposits from related parties

Deposits received from shareholders.	2020	2019
	TZS 000	TZS 000
Inter Consult Limited	34,022	24,893
ERNCON Holdings Limited	1,673	5,468
	5,695	30,361
At start of year	30,361	8,363
Net movement during the year	5,334	21,998
At end of year	35,695	30,361
Interest expense incurred	-	-
Deposits by Directors and key management personnel		
At start of year	264,788	183,496
Net movement during the year	(89,775)	81,292
Balance as at 31 December	175,013	264,788
Interest expense incurred	3,161	2,342
(iii) Key management compensation		
Salaries	1,173,391	2,083,854
Other short-term benefits	27,345	48,335
	1,200,736	2,132,189

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

(iv). Directors' remuneration

Fees and other emoluments paid to Directors of the Bank during the period are as follows:

	2020 Directors fees TZS 000	2020 Other emoluments TZS 000	2019 Directors fees TZS 000	2019 Other emoluments TZS 000
Name				
Ernest Massawe	16,100	4,250	16,100	7,000
Joseph Rugumyamheto	11,500	7,000	11,500	11,500
Jean Marie Prevost	11,500	5,250	11,500	14,000
Brian Kuwik	11,500	6,250	11,500	12,000
John Fischer	11,500	4,500	11,500	6,500
Dr. Richard Kasungu	-	-	11,500	11,500
Rukia Adam	11,500	4,000	11500	11000
Dr. Josephat Lotto	11,500	3,750	11500	10500
Travelling/Lodging/Others	-	30,659	-	23,400
	85,100	65,659	96,600	107,400

32. COUNTRY OF INCORPORATION

The Banks incorporated under the Companies Act, 2002 and domiciled in Tanzania.

33. ASSETS PLEDGED AS SECURITY

As at 31 December 2020, no treasury bills had been pledged by the Bank to secure borrowings (2019: TZS 13,189 million).

34. FAIR VALUE

The Directors consider that there is no material difference between the fair value and the carrying value of the Bank's financial assets and financial liabilities where fair value details have not been presented.

35. SUBSEQUENT EVENTS DISCLOSURE

New Circular on Cost to income and Non-performing loans ratios

The Bank of Tanzania issued a circular on 22 January 2021 in a bid to ensure that the banking sector continues to operate in a safe, sound and stable manner. Through this, all Banks and Financial institutions are required to;-

i). To maintain a cost to income ratio of not more than 55 percent;

ii). To continue implementing their strategies to contain non-performing loans and reduce the ratio to acceptable level of not more than 5 percent; and

iii). Report the ratios to Bank of Tanzania on monthly basis.

This circular has restricted the banks from paying dividends and bonuses, effective from the date of the circular, whenever cost to income and non-performing loan ratios are not within the acceptable limits for a prescribed period. Based on the assessment performed on cost to income and Non-performing loans for 2020 in alignment with circular, the bank's cost to income and Non-performing loans ratios for the year ended 2020 stood at 118.3% and 15.5% respectively, which are higher than acceptable limit per circular quoted above.

The bank has employed various measures and prepared comprehensive plans to regularize the ratios into required limits, and submitted the plans to the Bank of Tanzania as required. Furthermore, the bank is full aware that failure to comply with these two acceptable limit of ratios for two consecutive years will attract sanctions as may be determined by the Bank of Tanzania.

The Directors are not aware of any other events (as defined per IAS 10 Events after the reporting period) after the reporting date of 31 December 2020, and the date of authorization of these audited Financial statements.

36. NEW ACCOUNTING PRONOUNCEMENTS

Adoption of new and revised Standards

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRS-IC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2020. Apart from the detail included in note 5 the adoption of these new and revised standards and interpretations has not resulted in material changes to the Bank's accounting policies.

The Bank adopted the following standards, interpretations and amended standards during the year:

The Conceptual Framework	The Conceptual Framework for Financial Reporting sets out a comprehensive set of concepts for financial reporting, standard setting, and guidance for preparers in developing consistent accounting policies, and assistance to others in their efforts to understand and interpret the standards.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

New and revised International Financial Reporting Standards issued not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

	Standard	Annual periods beginning on or after
IAS 16	Property, Plant and Equipment - Amendment prohibiting entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.	**1 January 2022**
IAS 1	Classification of liabilities as current or non-current - Amendments which aim to help companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.	**1 January 2023**

Apart from the instances detailed above the Bank is in the process of assessing the potential impact that the adoption of these standards and interpretations may have on its future financial performance or disclosures in the annual financial statements.

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