I&M BANK ANNUAL REPORT & CONSOLIDATED FINANCIAL STATEMENTS 2020

Rebuilding and moving forward

WE EXIST BECAUSE OF YOU

Our mission is to be partners of growth for all stakeholders. We seek to support you in your life's journey, by providing innovative, market driven and customised financial solutions. We believe that this forms the foundation for long-term shareholder value and sustainable societal development.

Rebuilding and moving forward

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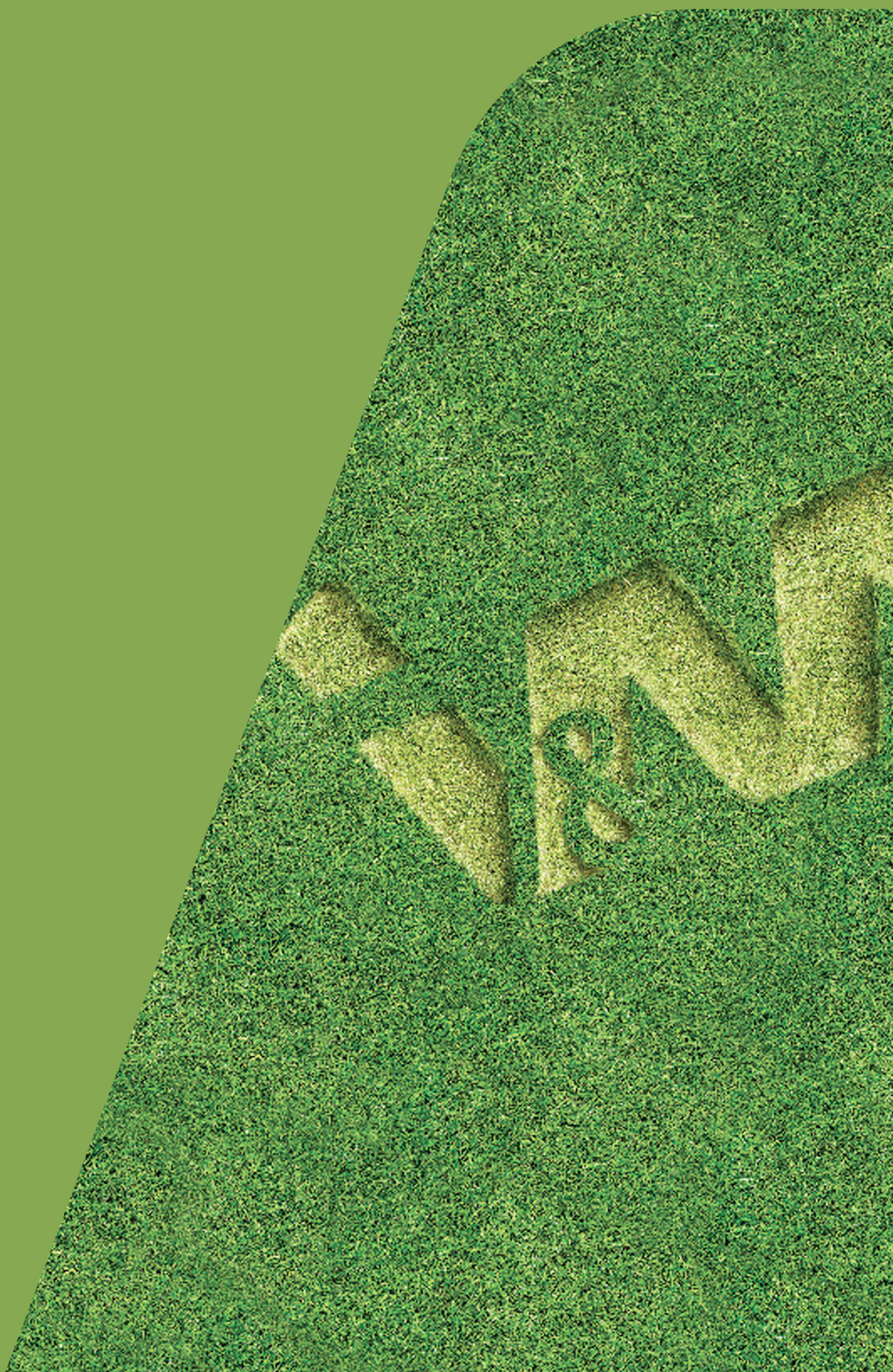


CORPORATE INFORMATION

Sarit Raja-Shah
Chairman

CHAIRMAN'S STATEMENT

Nevertheless, there remains a key risk arising from the impact of the COVID-19 pandemic and its resultant effect on Tanzania.

It gives me a great pleasure to present you the Bank's Annual Report and Financial Statements for the year ending 31st December, 2020.

Economy Overview

The Tanzania economic growth had slowed down in 2020 compared to 2019, primarily on the back of Pandemic which impacted certain specific sectors like Tourism, Hotels, Aviation etc. The overall GDP growth slowed to 4.5% by Q3-2020 compared to 5.7% registered in Q1-2020 and 7.3% registered in the corresponding period in 2019. The economic outlook remains positive in 2021 as the recovery continue to gather momentum, albeit at a marginal pace. The GDP growth is projected at 5.5% and 6% in 2020 and 2021, respectively. The key macro-economic indicators (Inflation, Money Supply, Interest Rates, and Exchange Rate) had depicted a stable and positive outlook towards the last quarter of the year, largely contributed by the support on accommodative monetary policies instituted by Bank of Tanzania to provide stimulus to the economy.

Banking Industry

The Tanzania's banking sector faced the challenges in view of the general slowdown in the economy and the cash flow constraints faced by certain sectors of the economy. However, with the timely interventions and the accommodative policy and enhanced liquidity easing measures by Bank of Tanzania, provided a significant support to the Industry.

The total assets in the Banking industry grew by 0.6% from TZS 33.5 trillion in the year 2019 to TZS 33.6 trillion in the year 2020. The overall deposits reported an increase of 5.49% from TZS 23.5 trillion to TZS 24.8 trillion. Credit growth registered a net increase of 7% from TZS 17.0 trillion in 2019 to TZS 18.2 trillion in 2020.

I&M Bank (T) Ltd Performance in 2020

Despite the challenges, the Bank has demonstrated a strong resilience and reported a stable performance with a total revenues of TZS 37.4 billion (2019: TZS 37.9 billion) and Profit before tax of TZS 8.4 billion albeit marginally lower compared to TZS 8.8 billion reported in 2019. The Bank sustained its Balance Sheet size growth, closing with TZS 513 billion as at December 2020 compared to TZS 510 billion as at December 2019. The growth was mainly brought by the significant increase on customer deposits by 17.91% to TZS 364 billion from TZS 308 billion as the Bank continued to create a stable and cost-effective deposit base. There was however, a net decrease in loans and advances by 7% to TZS 320 billion in 2020 from TZS 345 billion mainly on account of cautious growth in the loan book due to general slowdown in lending during the year.

Medium Term Strategy - Progress

The Bank has developed a comprehensive Medium Term Strategy - iMARA 2.0 with an aspiration to be "Tanzania's leading Financial Partner for Growth" and progressed well on various initiatives towards enhancing the market share, brand positioning and driving the growth in corporate and retail banking by enhancing the capabilities and improving the customer value proposition and introduction of innovative products and services to the customers. The key focus areas would be towards digital orchestration, simplifying the customer journey through optimization of systems and processes.

CHAIRMAN'S STATEMENT

Organizational restructuring & Key Management Changes

In line with the bank's medium term strategy, and with the expanded scope of business and operations, the bank reviewed its structure to align with the future demands of the organization. The Bank had successfully implemented the segmentation of Retail and Corporate Banking with a strategic focus aligning the teams to drive these business. With the increasing scope of technological and operational needs, the bank has introduced the role of Chief Operating Officer, who will drive the various strategic initiatives in this direction. The finance department has also been overhauled with the induction of the best talents from the industry.

Other Key HR Initiatives

In order to drive the performance culture, nurture talent and build capacities, various initiatives were implemented during the year. The Balance Score Card framework was refined to drive performance management in alignment to the refreshed iMara 2.0 strategy. The Bank continued with the capability building measures through intensive onsite and online training programs covering technical and non-technical areas.

Product Development

During the year the Bank continued to introduce new products to cater to the specific needs of the banking community including the introduction of Tunaweza Women's Account which focusses on encouraging women entrepreneurs. The bank also revamped some of the existing products such as Dunduliza Savings Account, Msomi Students Account, Ndoto Yako Recurring Deposit Account and Jamii Noble Account by with Swahili names and realigning the benefits and features to appeal to the Tanzanian Market. In its endeavor to enhance the digital presence, the bank introduced Rafiki Chat WhatsApp Banking, which received wide appreciation from the market. The Bank also has developed a unique Prepaid Card product with 5 multicurrency (TZS, US$, £, €,) options in two variants of Visa Classic and Visa Gold Prepaid Card and scheduled for the commercial launch during the next year.

The Bank is in the process of introducing Select Banking for the premium segment of High Net Worth individuals which will provide an exceptional value proposition including special offerings like Platinum and Infinite Cards.

The banking partnership with Selcom successfully received the approval from Bank of Tanzania to introduce Agency Banking services which will be rolled out into the market in the year 2021. This alliance would enhance the Bank's distribution network in a cost effective manner.

Technology

In order to enhance the efficiencies in funds transfers, the bank invested in directly connecting SWIFT, that comes with several enhanced add-on services; SWIFT GPI (Global Payment Initiatives, SWIFT PCS (Payment Control System) & SWIFT Alliance Warehouse.

The bank was also shortlisted through the procurement process for connecting to GePG (Government electronic Payment Gateway) (GePG), being the few banks that are GePG compliance and licensed by the Government to collect their taxes and other revenues.

Customer Engagements

The Bank continues to drive towards customer engagement and satisfaction through leveraging several initiatives and implementing new ones. This included special customer events and celebrations culminating to the International customer service week in the month of October 2020, quarterly customer meets at all branches, large-scale breakfast event and customer appreciation visits. In order to identify weaknesses in the services, and address customer concerns, the bank introduced the Customer Complaint Monitoring mechanism through the formation of the Customer service committee that reviews all the complaints and implements various solutions.

Marketing & Brand Building

To promote the Select Banking the bank co-sponsored one of the popular fashion events for affluent customers which was held at Serena Hotel in November 2020. The Bank also participated on the 44th Dar es Salaam International annual Trade Fair (DITF) also known as Saba Saba International Trade Fair to enhance the visibility into the market.

The Bank commenced the process of rebranding during the year with a two phase implementation viz., Digital Refresh and Physical refresh, thus completed the registration of the new logo with BRELA. The bank commenced the Digital Refresh including the changes at social media handles, online

CHAIRMAN'S STATEMENT

internal and external communications, statements, Internet Banking, ATM screens and all the digital platforms with a new look and feel that created more excitement to the customers. The physical refresh would be done in the year 2021.

Network Expansion / Renovations

The bank relocated the Main branch to a more spacious, location with a modern design which is a reflection of the bank's dedication to customers' satisfaction and to enhance their banking experience. The event was graced by Dr. Bernard Kibesse Deputy Governor, Bank of Tanzania who applauded the bank performance and services to the community. The bank also relocated an offsite ATM to KIBO Complex in view of the strategic importance of the location.

Corporate Social Responsibility

With the outbreak of the pandemic, the bank supported the government initiative of social hygiene by donating hand-washing tanks to be placed in the large hospitals and schools to the Ministry of Health Community Development, Gender, Elderly and Children. Further, to encourage small entrepreneurs and youth who are unemployed, the bank did an initiative dubbed 'IM FOR YOU' that provides knowledge transfer to the needy communities. The Bank also donated TZS 5 million to support the activities of Cornel Ngaleku Children Centre for the Orphanage.

Outlook -2021

The macroeconomic indicators of the country continue to show positive direction with the continued focus of the government on the investments towards large infrastructure projects. It is our belief that these projects will stimulate further economic activities across the country and hence contribute to the growth of banking industry. Nevertheless, there remains a key risk arising from the impact of the COVID-19 pandemic and its resultant effect on Tanzania. The Bank has put in place adequate measures to mitigate the impact from an operational and business continuity perspective and will continue to keep a close monitoring of the situation.

The Bank will strive to maintain the momentum of growth by leveraging on digital solutions, enhance transaction banking business and refreshing of the customer value propositions.

Acknowledgements

On behalf of the Board, I would like to take this opportunity to thank each and every Customer for their valuable support and contribution towards the growth of the Bank.

I wish to thank the Management and all the employees of the Bank for their commitment and dedicated efforts in meeting the objectives of building a resilient institution in the country.

I remain grateful to all our business partners and the regulators especially Bank of Tanzania who continue to provide their guidance and invaluable support to the Bank.

Last but not the least I would like to express my gratitude to my fellow directors on the Board for their unwavering support and involvement in providing timely guidance and wisdom during the year.

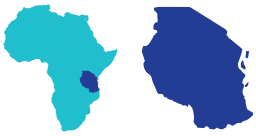
Thank You!

Sarit Raja-Shah
Chairman

OUR
LEADERSHIP TEAM

OUR LEADERSHIP TEAM

BOARD OF DIRECTORS

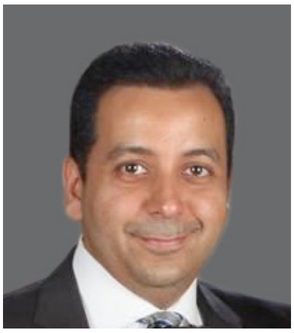


I&M Bank Limited | Tanzania

Board of Directors

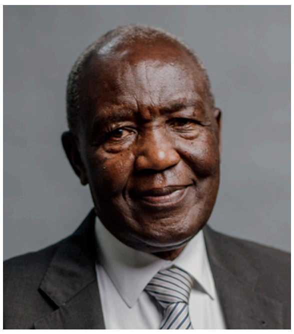
Mr. Sarit S Raja Shah
Board Chairman

Mr. Baseer Mohammed
CEO



Mr. Riyaz Mohamed Akber Takim
Director

Ambassador Bertha E. Semu
Director



Mr. Michael N. Shirima
Director

Mr. Pratul H.D. Shah
Director

Mr. Alan Mchaki
Director

Mr. Shameer Patel
Director

Mr. Thiery Hugnin
Director

SENIOR MANAGEMENT

Baseer Mohammed
CEO

Lilian Kidee Mtali
Head of Retail Banking

Krishnan Ramachandran
Head of Corporate Banking

Patrick Richard Kapella
Head of Tresuary

Donald Mate
Head of Operations

Clement John Kagoye
Acting Head of Credit

Emmanuel Wilson
Head of Risk and Compliance

Aimtonga Adolph
Head of Internal Audit

Alan Mbangula
Head of ICT

Veronica Magongo
Head of Finance

Erica Mboya
Head of Human Resource

I&M NEWS

CORPORATE SOCIAL RESPONSIBILITY

Supporting Government Initiative Against COVID-19

With the outbreak of the pandemic, the bank supported the government initiative to ensure the community is taking precautions against COVID-19 by maintaining social hygiene. The bank donated hand-washing tanks and sanitizers to be placed in the large hospitals and schools supporting the Ministry of Health, Community Development, Gender, Elderly and Children initiative to avoid and prevent transmission of COVID-19, especially in densely populated areas. The tanks with hand sanitizers were located at the concentrated areas in Dar-es-Salaam region to ensure hygiene was given the highest priority.

Bank CEO, Baseer Mohammed speaking in front of media when handing over hand washing tanks and sanitizers to Prof. Abel Makubi from the Ministry of Health Community Development, Gender, Elderly and Children office, on the right is Head of Retail Banking, Lilian Mtali.

I&M NEWS

IM FOR YOU

To encourage small entrepreneurs and youth who are unemployed, the bank did an initiative dubbed 'IM FOR YOU' to provide knowledge transfer to the needy communities.

This was a free training on entrepreneurship and financial management in support of overcoming shortcomings of small entrepreneurs and youth in Tanzania. The aim was to utilize the Bank's internal resources to offer free knowledge and skillset transfer to the community. The Bank staff from various departments visited the Yombo Vituka group of women engaging in small entrepreneurship and offered them free training on financial management, personal savings, and entrepreneurship skills though modern cooking techniques. In addition to the skills offered, the team handed over various items donated by the entire I&M staff, such as clothes, shoes, food and soap, in support of the women who are caring for orphans and handicapped children.

I&M Bank employees (in blue t-shirts) collaborating with some of the women from Yombo Vituka engaging in modern cooking techniques for making honey buns (buns mixed with honey and milk) to support their entrepreneurship skills and creating opportunities for self-employment.

Donation to Cornel Ngaleku Children Centre

In appreciating cornel's love for children through providing a caring home for Tanzanian orphans affected by poverty or HIV/AIDS, the Bank donated TZS 5,000,000/= to support activities of as part of Corporate Social Responsibility initiatives and our commitment in improving the quality of life of the society in which we operate, whereby over years the Bank has been supporting needy deserving projects, institutions and individuals around the country.

The services provided by Cornel Ngaleku Centre are valuable and necessary to ensure the communities vulnerable to excessive poverty and HIV are getting reasonable support. The bank decided to support this center through customers' donation in all branch halls to cater for some center's expenses.

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I&M NEWS

Marketing News & Initiatives

a) Pioneering Agility and Digital Capabilities

In its endeavor to enhance the digital presence, the bank introduced Rafiki Chat WhatsApp Banking, which received wide appreciation from the market. This new digital capability has enabled and allowed banking clients to get access to several banking services just at their finger-tips.

The Bank also has developed a unique Prepaid Card product with 5 multicurrency (TZS, US$, £, €,) options in two variants of Visa Classic and Visa Gold Prepaid Card and scheduled for the commercial launch during the next year.

CEO Mr. Baseer Mohammed 1L, together with HRB Ms. Lilian Mtali, with some few customers pressing the button to officiate the launch of the Rafiki ChatBanking held on December 2020 at Hyatt Regency in Dar es Salaam.

I&M NEWS

b) Technology & Digital Capabilities

In order to enhance the efficiencies in funds transfers, the bank invested in directly connecting SWIFT, that comes with several enhanced add-on services; SWIFT GPI (Global Payment Initiatives, SWIFT PCS (Payment Control System) & SWIFT Alliance Warehouse. The bank was also been shortlisted through the procurement process for connecting to GePG (Government electronic Payment Gateway) (GePG), being the few banks that are GePG compliance and licensed by the Government to collect their taxes and other revenues.

c) Customer Engagements & Relationship Building Platforms

The Bank continues to drive towards customer engagement and satisfaction through leveraging several initiatives and implementing new ones. This included special customer events and celebrations culminating to the International customer service week in the month of October 2020, quarterly customer meets at all branches, large-scale breakfast event and customer appreciation visits.

In order to identify weaknesses in the services, and address customer concerns, the bank introduced the Customer Complaint Monitoring mechanism through the formation of the Customer service committee that reviews all the complaints and implements various solutions.

d) Marketing & Brand Building

To promote the Select Banking the bank co-sponsored one of the popular fashion events for affluent customers which was held at Serena Hotel in November 2020.

e) Participation in Dar es Salaam International Trade Fair

The Bank also participated on the 44th Dar es Salaam International annual Trade Fair (DITF) also known as Saba Saba International Trade Fair to enhance the visibility into the market.

f) Robust Rebranding Implementation

The Bank commenced the process of rebranding during the year with a two-phase implementation i.e, Digital Refresh and Physical refresh, thus completed the registration of the new logo with BRELA. The bank commenced the Digital Refresh including the changes at social media handles, online CHAIRMAN'S STATEMENT I&M Bank Annual Integrated Report & Financial Statements 2020 | 8 internal and external communications, statements, Internet Banking, ATM screens and all the digital platforms with a new look and feel that created more excitement to the customers. The physical refresh would be done in the year 2021.

OUR FINANCIALS

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

HEAD OFFICE
Maktaba Square,
Maktaba Street,
PO Box 1509,
Dar es Salaam, Tanzania.

CORRESPONDENT BANKS
I&M Bank Limited,
PO Box 30238,
00100 Nairobi,
Kenya.

Standard Chartered Bank New York,
SCB New York – IBF,
One Madson Avenue,
3rd Floor,
New York, NY 10010 – 3603, USA.

ICICI Bank Limited,
ICICI Bank Towers,
Bandra – Kurla Complex,
Mumbai 400 051, India.

I&M Bank (Rwanda) Ltd,
PO Box 354,
Kigali, Rwanda.

Citibank N.A,
Upper Hill Road,
PO Box 30711-00100, Nairobi.

BHF Bank Aktiengesellschaft,
60323 frankfurt am main,
Frankfurt Germany.

REGISTERED OFFICE
Maktaba Square,
Maktaba Street,
PO Box 1509,
Dar es Salaam, Tanzania.

BANK'S SECRETARY
Ms. Hamida Sheikh,
M/s Sheikh's Chambers of Advocates,
Advocates, Notaries Public & Commissioners for Oath,
PO Box 6225,
Dar es Salaam, Tanzania.

LEGAL ADVISORS
Kesaria and Company Advocates,
PO Box 729,
Dar es Salaam, Tanzania.

Locus Attorney,
Peugeot House,
36 Ali Hassan Mwinyi Road,
PO Box 4110,
Dar es Salaam, Tanzania.

M/s K&M Advocates,
PO Box 71394,
Dar es Salaam, Tanzania.

AUDITOR
KPMG,
The Luminary,
Plot No.574, Haile Selassie Road,
Msasani Peninsula Area,
PO Box 1160,
Dar es Salaam, Tanzania.

ABBREVIATIONS

In this document we have used the following abbreviations;

EAD	Exposure at default
ECL	Expected credit losses
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
IAS	International Accounting Standards
IFRSs	International Financial Reporting Standards
LGD	Loss given default
PBT	Profit before tax
PD	Probability of default
SPPI	Solely payments of principal and interest
SICR	Significant increase in credit risk
IFC	International Finance corporation
ILO	International Labour organization

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020

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 I&M Bank (T) Limited ("the Bank").

2. Incorporation

The Bank is incorporated in Tanzania under Companies Act, 2002, domiciled in Tanzania as a private limited company whose shares are not publicly traded.

3. Mission and vision

Vision Statement:

To become a company where the best people want to work, the first choice where customers want to do business, and where shareholders are satisfied with their investment.

Mission Statement:

To be partners of growth for all our stakeholders through:

- Meeting our Customers' expectations.
- Motivating and developing every employee.
- Enhancing shareholder value.

4. Principal activities

The principal activity of the Bank is provision of banking and related services as stipulated by the Banking and Financial Institutions Act, 2006. There has not been a significant change in the principal activities of the Bank during the financial year ended 31 December 2020.

5. Review of business performance

The Bank's results are set out on page 22 of these financial statements. During the year under review, the Bank recorded a profit before tax of TZS 8,466 million compared to TZS 8,843 million in the previous year, representing a marginal drop of 4.3%.

Interest Income

Interest income during the year amounted to TZS 48,242 million compared to TZS 49,157 million in the previous year, representing a decrease of 1.9%.

Interest expense

Interest expense during the year amounted to TZS 19,935 million, as compared to TZS 19,863 million in the prior year, representing an increase of 0.4%.

5. Review of business performance (Continued)

Net interest income

Net interest income (interest income less interest expense) during the year amounted to TZS 28,307 million, as compared to TZS 29,294 million in prior year, representing a decrease of 3.4%.

Non - interest Income

Non-interest income amounted to TZS 9,367 million compared to TZS 8,819 million in the previous year, showing annual increase by 6.2%. Non-interest income includes fee and commission income, foreign exchange income and other operating income.

Non-interest expenses

Non- interest expenses amounted to TZS 23,674 million as compared to TZS 22,942 million in prior year, implying an increase of 3.2%.

Income tax expense

Income tax expense amounted to TZS 2,436 million (2019: TZS 2,841 million).

Key performance ratios

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

	2020	2019
Return on average assets	1.18%	1.18%
Return on average equity	7.37%	7.70%
Non-interest income to net interest income	33.09%	30.10%
Operating expenses to average assets	4.59%	2.97%
Cost to income ratio	77.53%	76.80%

6. Review of financial position (Extracts)

The Bank's financial position is set out on page 23 of these financial statements. Major movements are as explained in the table below:

Item	2020 TZS' 000	2019 TZS ' 000	Increase / (Decrease) TZS ' 000	 %
Cash and balances with Bank of Tanzania	49,105,678	30,774,304	18,331,374	60%
Loans and advances to banks	13,094,184	-	13,094,184	100%
Cheques and items for clearance	67,131	135,006	(67,875)	(50%)
Financial assets measured at fair value through other comprehensive income (FVOCI)	1,013,750	1,013,750	-	0%
Investment securities	103,231,522	105,440,405	(2,208,883)	(2%)
Loans and advances to customers	320,708,838	345,355,129	(24,646,291)	(7%)
Deferred tax asset	7,211,018	5,620,807	1,590,210	28%
Property and equipment	7,779,268	7,991,456	(212,187)	(3%)
Intangible assets	5,576,892	6,510,857	(933,965)	(14%)
Other assets	3,353,073	5,213,826	(1,860,753)	(36%)
Deposits	374,556,317	362,672,889	11,883,428	3%
Other liabilities	9,196,232	11,105,834	(1,909,602)	(17%)
Long term loans	44,129,025	56,015,767	(11,886,742)	(21%)

Deposits

There is a net increase in total deposits by TZS11,883 million (3%). The net increase is mainly due to increase in the Bank's customer base.

Loans and advances to customers

There has been net decrease in loans and advances by TZS 24,646 million (7%) mainly on account of general slowdown in lending due to COVID-19 impact during the year.

Government securities

There has been a decrease in investment in government securities by TZS 2,209 million (2%) during the year.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

6. Review of financial position (Continued)

Long-term borrowing

Long term borrowing decreased by TZS 11,887 million (21%) which was attributed by principal and interest repayments.

Key efficiency ratios

The key efficiency ratios of the Bank as at year-end are as indicated hereunder:

	2020	**2019**
Shareholders fund to total assets	16.31%	15.68%
Non-performing loans to total advances	16.03%	11.66%
Gross loans to total deposits	92.23%	100.62%
Loans to total assets	67.37%	71.51%
Liquidity ratio	28.71%	27.40%

7. Going concern and solvency evaluation

The Bank has complied with the Bank of Tanzania liquidity and capital adequacy ratios. Nothing has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least twelve months from the date of this statement. The Directors consider the Bank to be solvent within the meaning ascribed by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

8. Accounting policies

The annual financial statements are prepared on the underlying assumption of going concern. The Bank's accounting policies, which are laid out on pages 27 to 103 are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

9. Future developments

The Bank endeavours to be the most innovative player in the industry by providing customized banking products and solutions. The focus areas would be: -

- Introduction of new products and services to meet the unique demands of the industry
- Digitisation of the Bank focusing on solutions to enhance customer service delivery
- Introduction of custodial services and banc assurance

10. Dividend

Ordinary B Class Shares
The directors do not recommend payment of dividend for the current year to Ordinary B Class shareholders (2019: 16.88%).

Ordinary A Class Shares
The directors do not recommend payment of dividend for the current year to Ordinary A Class shareholders (2019: TZS 49,200 per share).

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 Chief Executive Officer supported by the Executive management team.

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 organization structure of the Bank comprises the following departments: -

- Corporate Banking
- Retail Banking
- Operations
- Treasury
- Finance
- Human Resource
- Information Technology
- Credit
- Risk Management (Reporting directly to Board Risk Committee)
- Internal Audit (Reporting directly to Board Audit Committee)

The Chief Executive Officer reports to the Board and is supported by Chief Operating Officer, Head of Corporate Banking, Head of Retail Banking for business and other Heads of Departments for various functions.

12. Composition of the Board of Directors

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

Name	Position	Nationality	Qualifications	Date of appointment
Mr. Sarit S Raja Shah	Chairman	Kenyan	BSc Economics, MSc (Internal Audit & Management)	14th January 2010
Mr. Michael N Shirima	Member	Tanzanian	Businessman	14th January 2010
Mr. Thierry Hugnin	Member	Mauritian	Chartered Accountant, (ACA England & Wales)	14th January 2010
Mr. Pratul H Shah	Member	Kenyan	Fellow of the Association of Chartered Certified Accountants, CPA (K), CPS (K)	10th February 2010
Mr. Shameer Patel	Member	Kenyan	Bachelor of Arts – Joint Honours – in Economics & Geography	11th September 2013
Ambassador Bertha Ernestine Semu-Somi	Member	Tanzanian	Post graduate studies in Diplomacy, BA(Hons) International relations & French	6th September 2016
Mr. Alan Mchaki	Member	Tanzanian	Fellow of the Association of Chartered Certified Accountants, CPA (T), Associated member, Swaziland Institute of Accountant	26th September 2016
Mr. Arun S Mathur *	Alternate Director to Mr. Shameer Patel	Kenyan	B. Tech (Hons.) Diploma in Statistical Methods	14th January 2010
Mr.Riyaz Mohamed Akber Takim	Member	Tanzanian	Master of Science, B.Sc. Economics (Honours)	22nd June 2020

* Alternate Member to Mr Shameer Patel

Mr. Riyaz Akber Takim has joined the Bank as Independent Non-Executive Director effective 22 June 2020

Mr. Bharat K Ruparelia (a Tanzanian businessman) who was an Independent Non-Executive Director resigned on 30 September 2020.

The Directors of the Bank are all Non-Executive. The Company secretary as at the date of this report is Ms. Hamida Sheikh of M/S Sheikh Chambers Advocates, who has served in this capacity since 1 January 2020.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

13. Directors' interest

Mr. Michael N. Shirima has direct interest in the share capital of the Bank as disclosed in page 10. He holds 4.98% of the Ordinary A Class share capital, as well as 4.98% of the Ordinary B Class share capital reported as at 31 December 2020.

14. Directors' remuneration

The remuneration for services rendered by the non-executive Directors of the Bank in 2020 was TZS 154 million (2019: TZS 107 million).

15. Capital structure and shareholding

	2020			
	Ordinary A Class Shares		**Ordinary B Class Shares**	
	Number of shares	**TZS '000**	**Number of shares**	**TZS '000**
Authorized (TZS 1,000,000/- each)	50,000	50,000,000	50,000	50,000,000
Issued, Subscribed & Fully Paid (TZS 1,000,000/- each)	2,792	2,792,000	13,410	13,410,000

	2019			
	Ordinary A Class Shares		Ordinary B Class Shares	
	Number of shares	TZS '000	Number of shares	TZS '000
Authorized (TZS 1,000,000/- each)	50,000	50,000,000	50,000	50,000,000
Issued, Subscribed & Fully Paid (TZS 1,000,000/- each)	2,792	2,792,000	13,410	13,410,000

16. Shareholding

As at 31 December 2020, the following shareholders held shares in I&M Bank (T) Limited:

Name of shareholders	**2020**			
	Ordinary A Class Shares		**Ordinary B Class Shares**	
	Number of shares held	**%**	**Number of shares held**	**%**
I&M Bank Limited	1,965	70.38	9,437	70.38
Microfinance East Africa Limited	559	20.02	2,685	20.02
Proparco	129	4.62	620	4.62
Mr. Michael N. Shirima	139	4.98	668	4.98
	2,792	100.00	13,410	100.00

There are two classes of shares, i.e Ordinary A Class shares and Ordinary B Class shares (2019: Ordinary A Class shares and Ordinary B Class shares).

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

16. Shareholding (Continued)

Name of shareholders	2019			
	Ordinary A Class Shares		Ordinary B Class Shares	
	Number of shares held	%	Number of shares held	%
I&M Bank Limited	1,965	70.38	9,437	70.38
Microfinance East Africa Limited	559	20.02	2,685	20.02
Proparco	129	4.62	620	4.62
Mr. Michael N. Shirima	139	4.98	668	4.98
	2,792	100.00	13,410	100.00

17. Capital adequacy

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania as described in Note 4(d) to the financial statements.

18. Corporate governance

All Directors and employees adhere to the principles of the Code of Conduct in all their dealings on behalf of the Bank. The Code of Conduct 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 recognise 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 executive management;
- The positions of Chairman and Chief Executive Officer are held by different individuals;
- The Chairman of the Board of Directors is non-executive; and
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance.

In addition, the following Board committees were in place in 2020. The Board will review the structure and composition of the committees in 2021.

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
Mr. Pratul H. Shah	Chairman
Mr. Shameer Patel	Member
Mr. Alan Mchaki	Member
Mr Michael Shirima	Member (Retired in July 2020)

18. Corporate governance (Continued)

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
Mr. Shameer Patel	Chairman
Mr. Riyaz Mohamed Akber Takim	Member
Mr Bharat Ruparelia	Member (Retired on 30 September 2020)

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
Mr. Alan Mchaki	Chairman
Mr. Shameer Patel	Member
Mr. Pratul H Shah	Member
Mr. Riyaz Mohamed Akber Takim	Member

Board of Remuneration Committee

This committee has been delegated with the responsibility from the Board to undertake structured assessment of candidates for membership of the Executive Management, consider and review the human resources management and remuneration policies. The Committee meets at least twice in a year. The members of the Committee are:

Name	Position
Mr. Michael N Shirima	Chairman
Mr. Shameer Patel	Member
Mr. Pratul H Shah	Member
Ambassador Bertha Ernestine Semu-Somi	Member

19. 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. The Bank provides training, medical assistance and concessional loans to its employees.

19. Employee welfare (Continued)

Training

The Bank offers sponsorship to its employees in both short and long term courses within and outside the country in various disciplines depending on the corporate needs and financial resources available as well as in – house training and development focusing on technical banking areas.

Staff loans and advances

The Bank provides housing, personal and car loans to staff as well as salary advances to enable them to meet their financial requirements and promote economic development. Staff loans and advances are based on specific terms and conditions approved by the Board of Directors.

Medical facilities

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

Financial assistance

The Bank operates a scheme to assist in the event of death of an employee or immediate family dependant.

Retirement benefits

The Bank makes contributions in respect of staff retirement benefits to National Social Security Fund. The total number of employees as at year-end was 185 (2019:183).

20. 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. It is the policy of the Bank that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

21. 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 31 December 2020, the Bank had 97 male and 88 female employees (2019: 93 male and 90 female employees).

22. Related party transactions

All related party transactions and balances are disclosed in Note 33 to these financial statements.

23. Political and charitable donations

The Bank did not make any political donations during the year. Donations made to charitable organizations during the year amounted to TZS 28.27 million (2019: TZS 31.5 million).

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

24. Corporate social responsibility

The Bank participates actively in community activities and development programmes throughout the country. The areas being given priority are health, education, and support to orphaned children, victims of natural disasters, disabled persons, and security.

25. Environmental & social management system

The Bank is aware that Environmental and Social risks are critical and require systems to monitor and control in line with regulatory requirements of International Finance Corporation (IFC) performance standards and International Labour Organization (ILO) standards; thus its commitment to the use of an Environmental and Social Management System (ESMS). The ESMS ensures that these risks are sufficiently managed as stipulated in the Bank's Environmental and Social Management policy. The ESMS is integrated within the overall credit risk management framework and is reviewed periodically to ensure it remains compliant with the regulatory and the internal risk management framework.

26. Auditor

The auditor, KPMG, have expressed their willingness to continue in office and are eligible for re-appointment. Their appointment for the year 2021 will be approved in the next Annual General Meeting.

Name: Mr. Pratul H Shah **Title: Director** **Signature:** **Date:** 30 March 2021

Name: Mr. Shameer Patel **Title: Director** **Signature:** **Date:** 30 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation of the financial statements that give a true and fair view of I&M Bank (T) Limited comprising 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 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 and the Banking and Financial Institutions Act, 2006.

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

The Auditors are responsible for reporting on whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework.

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

Approval of financial statements

The financial statements of I&M Bank (T) Limited, as identified above, were approved and authorised for issue by the board of Directors on 30 March 2021.

Name: Mr. Pratul H Shah **Title: Director** **Signature:**

Name: Mr. Shameer Patel **Title: Director** **Signature:**

DECLARATION OF THE HEAD OF FINANCE

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

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view position of the entity in accordance with international accounting standards and statutory reporting requirements. Full legal responsibility for financial statements rests with the Board of Directors as under Directors Responsibility statement on an earlier page.

I, ACPA Veronica Pascal Magongo, being the Head of Finance of I&M Bank (T) Limited, hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2020 have been prepared in compliance with applicable accounting standards and statutory requirements.

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

Signed by: ....

Veronica P. Magongo

Position: Head of Finance

NBAA Membership No.: ACPA 2026

Date: 30 March **2021**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of I&M Bank (T) Limited ("the Bank") set out on pages 22 to 103, 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 Bank 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 (IFRS) 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.

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)

Key audit matters (continued)

Expected credit loss (ECL) on loans and advances to customers (Note 3(f) (iii), Note 4(a)) and Note 19.	
Description of the key audit matter	**How the matter was addressed in our audit**
Loans and advances for the Bank amounted to TZS 345,445,340,000 as at 31 December 2020 and the total impairment allowance for the Bank amounted to TZS 24,736,502,000. 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 effects of Covid-19 pandemic 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 probabilities of default (PD), exposures at default (EAD) and loss given default (LGD) and ultimately measurement of Expected Credit Loss (ECL).	*Our audit procedures in this area, included, among others:* - Testing of design and implementation of controls as well as operating effectiveness of those controls, over the compilation and review of the credit watch 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 impairment amounts by challenging reasonability of management assumptions through among others performing a retrospective review of prior year assumptions. - For a sample of loan exposures, we assessed whether significant facilities are correctly staged/ classified and valued based on IFRS as well as regulatory considerations; - Testing of 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; - Evaluating the appropriateness of the Bank's IFRS 9 methodologies including the significant increase in credit risk (SICR) criteria used; - Testing the ECL calculations to check if the correct parameters – Probability of Default (PDs, Loss Given Default (LGDs), and Exposure at Default (EADs) were determined by considering local economic/ portfolio factors with assistance from the Financial Risk Management specialists;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF I&M BANK (T) LIMITED (CONTINUED)

Report on the Audit of the Financial Statements (Continued)

Expected credit loss (ECL) on loans and advances to customers (Note 3(f) (iii), Note 4(a) and Note 19) (Continued)	
Description of the key audit matter (Continued)	**How the matter was addressed in our audit (Continued)**
	- Evaluating management method of determining groups of similar financial assets for purposes of measuring ECL to confirm that assets are properly stratified based on existing economic trends; and - Evaluating the adequacy of financial statements disclosures in accordance with the requirements of IFRS 9, Financial Instruments, including disclosures of key assumptions and judgements relating to ECL. Evaluating management method of determining groups of similar financial assets for purposes of measuring ECL to confirm that assets are properly stratified based on shared credit risk.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the document titled I&M Bank (T) Limited annual 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 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.

Report on the Audit of the Financial Statements (Continued)

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:

Auditor's responsibilities for the audit of the financial statements (Continued)

- 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF I&M BANK (T) LIMITED (CONTINUED)

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 I&M Bank (T) Limited;
- 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)

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Signed by: CPA Alexander Njombe (ACPA 2714)
Dar es Salaam

Date: 30 - 03 - 2021

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

	Note	2020 TZS '000	2019 TZS '000
Interest income	7	48,242,110	49,157,140
Interest expense	8	(19,935,106)	(19,863,251)
Net interest income		**28,307,004**	**29,293,889**
Fee and commission income	9	6,073,255	5,485,141
Fee and commission expense	9	(209,737)	(179,550)
Net fee and commission income		**5,863,518**	**5,305,591**
Revenue		**34,170,522**	**34,599,480**
Net trading income	10	3,169,497	3,120,982
Other operating income	11	118,891	203,884
Dividend income	12	5,802	8,620
Net operating income before change in expected credit losses and other credit impairment charges		**37,464,712**	**37,932,966**
Net impairment charge on loans and advances	19(c)	(5,533,989)	(6,327,016)
Net operating income		**31,930,723**	**31,605,950**
Staff costs	13	(11,137,344)	(11,064,633)
Premises and equipment costs	13	(838,693)	(764,647)
General administrative expenses	13	(7,991,257)	(8,378,755)
Depreciation and amortisation	13	(3,497,057)	(2,554,441)
Operating expenses		**(23,464,351)**	**(22,762,476)**
Profit before income tax	**14**	**8,466,372**	**8,843,474**
Income tax expense	15(a)	(2,436,369)	(2,841,351)
Net profit for the year after tax		**6,030,003**	**6,002,123**
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Net change in financial assets measured at fair value through other comprehensive income (FVOCI)		-	44,625
Deferred tax thereon	23	-	(13,387)
Total other comprehensive income for the year		**-**	**31,238**
Total comprehensive income for the year		**6,030,003**	**6,033,361**

The notes set out on pages 27 to 103 form an integral part of these financial statements.

Auditor's report is on pages 17 to 21

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note	2020 TZS '000	2019 TZS '000
ASSETS			
Cash and balances with Bank of Tanzania	16	49,105,678	30,774,304
Items in the course of collection	17	67,131	135,006
Loans and advances to banks	18	13,094,184	-
Loans and advances to customers	19	320,708,838	345,355,129
Financial assets measured at fair value through other comprehensive income (FVOCI)	20(a)	1,013,750	1,013,750
Other financial assets at amortised cost	20(b)	103,231,522	105,440,405
Property and equipment	21	7,779,268	7,991,456
Intangible assets - software	22	5,576,892	6,510,857
Deferred tax asset	23	7,211,018	5,620,807
Due from group companies	33(c)	1,595,582	2,252,955
Other assets	24	3,353,073	5,213,826
TOTAL ASSETS		**512,736,936**	**510,308,495**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	25	6,795,904	45,387,981
Deposits from customers	26	364,272,913	308,948,413
Due to group companies	33(c)	3,487,500	8,336,495
Other liabilities	27	9,196,232	11,105,834
Tax payable	15(c)	1,231,274	518,944
Long term borrowings	28	37,135,914	37,532,750
Subordinated debt	29	6,993,111	18,483,017
		429,112,848	**430,313,434**
Shareholders' equity			
Share capital	30(b)	16,202,000	16,202,000
Share premium	30(b)	18,090,228	18,090,228
Retained earnings		29,788,752	37,303,341
Statutory reserve		19,294,170	8,150,554
Fair value reserve		248,938	248,938
		83,624,088	**79,995,061**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**512,736,936**	**510,308,495**

The financial statements set out on pages 22 to 103 were approved and authorised for issue by the Board of Directors on 30 March 2021 and were signed by:

Name: Mr. Pratul H Shah **Title: Director** ______________________

Signature

Name: Mr. Shameer Patel **Title: Director** ______________________

Signature

The notes set out on pages 27 to 103 form an integral part of these financial statements.

Auditor's report is on pages 17 to 21

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

2020:	Share capital TZS '000	Share premium TZS '000	Retained earnings TZS '000	Statutory reserve TZS '000	Fair value reserve TZS '000	Total TZS '000
At 1 January 2020	**16,202,000**	**18,090,228**	**37,303,341**	**8,150,554**	**248,938**	**79,995,061**
Total comprehensive income for the year						
Net Profit after tax	-	-	6,030,003	-	-	6,030,003
	-	-	**6,030,003**	-	-	**6,030,003**
Other comprehensive income						
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	**6,030,003**	-	-	**6,030,003**
Other movements						
Statutory credit reserve	-	-	(11,143,616)	11,143,616	-	-
Total comprehensive income and other movements	-	-	**(5,113,613)**	**11,143,616**	-	**6,030,003**
Transactions with owners recorded directly in equity						
Dividend paid	-	-	(2,400,976)	-	-	(2,400,976)
Total transactions with owners for the year	-	-	**(2,400,976)**	-	-	**(2,400,976)**
Balance as at 31 December 2020	**16,202,000**	**18,090,228**	**29,788,752**	**19,294,170**	**248,938**	**83,624,088**

The notes set out on pages 27 to 103 form an integral part of these financial statements.

Auditor's report is on pages 17 to 21

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

2019:	Share capital TZS '000	Share premium TZS '000	Retained earnings TZS '000	Statutory reserve TZS '000	Fair value reserve TZS '000	Total TZS '000
At 1 January 2019	**16,202,000**	**18,090,228**	**34,024,365**	**7,286,602**	**217,700**	**75,820,895**
Total comprehensive income for the year						
Net Profit after tax	-	-	6,002,123	-	-	6,002,123
	-	**-**	**6,002,123**	**-**	**-**	**6,002,123**
Other comprehensive income						
Revaluation - FVOCI reserve	-	-	-	-	44,625	44,625
Deferred tax - FVOCI	-	-	-	-	(13,387)	(13,387)
Total comprehensive income	**-**	**-**	**6,002,123**	**-**	**31,238**	**6,033,361**
Other movements						
Statutory credit reserve	-	-	(863,952)	863,952	-	-
Total comprehensive income and other movements	**-**	**-**	**5,138,171**	**863,952**	**31,238**	**31,238**
Transactions with owners recorded directly in equity						
Dividend paid	-	-	(1,859,195)	-	-	(1,859,195)
Total transactions with owners for the year	**-**	**-**	**(1,859,195)**	**-**	**-**	**(1,859,195)**
Balance as at 31 December 2019	**16,202,000**	**18,090,228**	**37,303,341**	**8,150,554**	**248,938**	**79,995,061**

The notes set out on pages 27 to 103 form an integral part of these financial statements.

Auditor's report is on pages 17 to 21

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 TZS '000	2019 TZS '000
Net cash flows generated from operating activities	**31(a)**	**37,368,571**	**15,763,440**
Cash flows from investing activities			
Purchase of property and equipment	21	(1,046,371)	(1,344,132)
Purchase of intangible assets	22	(466,329)	(3,919,268)
Purchase on non-dealing securities (TMRC)		-	(171,512)
Dividends received	12	5,802	8,620
Net cash used in investing activities		**(1,506,898)**	**(5,426,292)**
Cash flows from financing activities			
Payment of lease liabilities	35	(1,027,899)	(863,187)
Repayments of long term loans	28&29	(23,908,690)	(14,178,895)
Proceeds from long term loans	28&29	11,640,000	-
Dividend paid		(2,400,976)	(1,859,195)
Net cash used in financing activities		**(15,697,565)**	**(16,901,277)**
Net increase/(decrease) in cash and cash equivalents	**31(b)**	**20,164,108**	**(6,564,129)**
Cash and cash equivalents at start of the year	**31(b)**	**9,853,638**	**16,417,767**
Cash and cash equivalents at end of the year	**31(b)**	**30,017,746**	**9,853,638**

Significant non-cash transactions

Significant non-cash transaction which is not included under investing activity is as follows:

	Note	2020 TZS '000	2019 TZS '000
Additions to right of use assets	21	838,204	4,057,725

The notes set out on pages 27 to 103 form an integral part of these financial statements.

Auditor’s report is on pages 17 to 21

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

1. REPORTING ENTITY

I&M Bank (T) Limited ('the Bank') is a limited liability company incorporated and domiciled in Tanzania. The Bank's shares are not publicly traded. The address of its registered office and place of business is:

Maktaba Square,
Maktaba Street,
PO Box 1509,
Dar es Salaam,
Tanzania.

The financial statements of I&M Bank (T) Limited for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Directors on 11 March 2021 and were signed on their behalf as shown in the statement of financial position.

2. BASIS OF PREPARATION

(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.

(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.

(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 5.

2. BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgments (Continued)

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(f)(ii).

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 Notes 3(f)(iii) and 5(a).

(e) COVID- 19 consideration

The coronavirus pandemic has had a devastating impact on the global economy and has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour. The pandemic has had a significant impact on the risks that the Bank is exposed to, in particular credit risk, and has forced the Bank to reassess assumptions, and existing methods of estimation and judgements, used in the preparation of these financial statements as a result of increased estimation uncertainty and changes to estimation techniques and assumptions for measuring ECL. There remains a risk that future performance and actual results may differ from the judgements and assumptions used. Note 4 further illustrates.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(a) Foreign currency

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. 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 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.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognised in profit or loss.

(b) Income recognition

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Income recognition (Continued)

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

Effective interest rate and amortised cost

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Income recognition (Continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Income recognition (Continued)

(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.

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 financial assets through other comprehensive income (FVOCI), 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.

(c) Other operating 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) Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of operating income.

(e)Income tax expense

i) Income tax expense

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax also includes any tax arising from dividends.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income tax expense (Continued)

ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused 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 used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual subsidiaries in the Bank. 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 realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Bank has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

(f) Financial assets and financial liabilities

(i) Recognition and initial measurement

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(i) Recognition and initial measurement (continued)

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;

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Classification – continued

- 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Classification – continued

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 derecognition, 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 derecognition of the debt instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Classification – continued

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(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;
- 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 4(a)(iii).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

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(f)(iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition 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 derecognition 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 derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

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;
- *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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(iv) De-recognition

Financial assets

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

On derecognition 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.

Cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition 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 derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(v) 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.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. 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.

The impact of modifications of financial assets on the expected credit loss calculation is discussed in Note 4 (a) (iii).

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.

(vi) Offsetting of financial assets and financial liabilities

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

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

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Fair value measurement (Continued)

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 measure fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.
- Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models.
- Assumptions and inputs used in valuation techniques include risk-free and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates and correlations.
- The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Cash and cash equivalents

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

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(i) Property and equipment

Items of property and equipment are measured at cost or valuation less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the asset.

Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Bank. On-going repairs and maintenance are expensed as incurred.

Depreciation is charged on a straight line basis to allocate the cost of each asset, to its residual value over its estimated useful life as follows:

Description	Rate
Motor vehicles	25.00%
Furniture, fixtures and fittings	12.50%
Office equipment	12.50%
Computer equipment	20.00%
Residential furniture	33.33%
Leasehold improvements	12.50% or over the period of lease if shorter than 8 years

Depreciation is recognised in profit or loss. The assets' residual values and useful lives are reviewed and adjusted as appropriate, at each reporting date.

Any gains or losses on disposal of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in other income in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets

Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is measure at cost less accumulated amortisation and accumulated impairment from the date it is available for use. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding five years. Costs associated with maintaining software are recognised as an expense as incurred.

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

(k) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and group. Impairment losses are recognised in the profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Employee benefits

(i) Defined contribution plan

The Bank and its employees contribute to National Social Security Fund on a mandatory basis. These are defined contribution schemes. Employees contribute 10% while the Bank contributes 10% to the scheme. A defined contribution scheme is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits (Continued)

(ii) Leave accrual

The monetary value of the unutilised leave by staff as at year end is recognised within accruals and the movement in the year is debited/credited to the profit or loss.

(m) Share capital and share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from initial measurement of the equity instruments.

(n) Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

(o) Contingent liabilities

Letters of credit, acceptances and guarantees are not recognised and are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to profit or loss.

(p) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

(q) Comparative information

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

(r) Financial Guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of payment guarantees, performance guarantee and bid guarantees and all these guarantees are cash secured. Financial guarantees are off-balance sheet instruments therefore not recognised in the financial statements but disclosed separately. Bank's liability under each guarantee is measured at the higher of the amount on face value of the guarantee and the value of cash deposits against that particular guarantee. All guarantees are fully secured with no exposure to the bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) 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.

The Bank acting as a lessee

The Bank leases a number of branch and office premises. The leases typically run for a period of 5 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every year whenever there are changes in the market rentals.
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.
At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. 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 recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

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

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 analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

The lease liability is measured at amortized cost using the effective interest method. It is re-measured 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Leases (continued)

The Bank acting as a lessee (continued)

When the lease liability is re-measured 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.

Where the basis for determining future lease payments changes as required by interest rate benchmark reform, the Bank re-measures 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 recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(i) New standards, amendments and interpretations effective and adopted during the year

The Bank has adopted the following new standards and amendments during the year ended 31 December 2020, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2020. The nature and effects of the changes are as explained here in.

New standards or amendments	Effective for annual period beginning or after
— IFRS 3 Definition of a Business	1 January 2020
— Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
— Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
— Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7	1 January 2020
— COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020

- **IFRS 3 Definition of a Business**
  With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgement. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain.

- **Optional concentration test**
  The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) New standards, amendments and interpretations

(i) New standards, amendments and interpretations effective and adopted during the year

- Substantive process
  If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The definition of a business is now narrower and could result in fewer business combinations being recognised.

The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.

The adoption of this standard did not have an impact on the financial statements of the Bank.

Amendments to References to the Conceptual Framework in IFRS Standards

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes did not affect the amounts and disclosures of the Banks's financial statements.

- **IAS 1 and IAS 8 Definition of Material**
  The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

  The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

  "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) New standards, amendments and interpretations (Continued)

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The bank is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted; however, the Bank has not early adopted the new and amended standards in preparing these financial statements.

The following new and amended standards are not expected to have a significant impact on the Bank's financial statements.

New standards or amendments	**Effective for annual period beginning or after**
— Onerous Contracts - Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
— Annual Improvements to IFRS Standards 2018-2020	1 January 2022
— Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
— Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
— Classification of Liabilities as Current or Non-current (Amendments IAS 1)	1 January 2022
— IFRS 17 Insurance contracts	1 January 2023
— Amendments to IFRS 17	1 January 2023
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

- **IFRS 17 Insurance Contracts**

  IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

  (a) insurance contracts, including reinsurance contracts, it issues;
  (b) reinsurance contracts it holds; and
  (c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020 (Continued)

- **IFRS 17 Insurance Contracts - continued**

(a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and

(b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Bank expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Bank determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

(a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and

(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Bank faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes will not affect the amounts and disclosures of the Bank's financial statements.

- Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)

  The amendments require the full gain to be recognised when assets transferred between an investor and its associate or Bank meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or Bank is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) New standards, amendments and interpretations (Continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2020 (Continued)

- **IFRS 17 Insurance Contracts - continued**

The effective date for these changes has now been postponed until the completion of a broader review.

The Bank did not early adopt new or amended standards in the year ended 31 December 2020.

4. FINANCIAL RISK MANAGEMENT

This section provides details of the Bank's exposure to risk and describes the methods used by management to control risk.

Financial risk

Significant types of risk to which the Bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

(a) Credit risk

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

The Board of Directors of the Bank has delegated responsibility of the management of credit risk to the Board Credit Committee. Further, the Bank has its own Credit Risk Management Committee that reports to the Board Credit Committee. The Bank's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

To manage the level of credit risk, the Bank deals with counter parties of good credit standing wherever possible and when appropriate, obtains collateral.

An assessment of the extent to which fair values of collaterals cover existing credit risk exposure on loans and advances to customers is highlighted below.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

The Bank also monitors concentrations of credit risk that arise by industry and type of customer in relation to group loans and advances to customers by carrying a balanced portfolio. The Bank has no significant exposure to any individual customer or counter-party.

To determine impairment of loans and advances, the Bank assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

(i) Credit quality analysis

(a) The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. See accounting policy on Note 3(f) (iii) for the explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired.

2020:

Risk classification	12 month ECL TZS' 000	Lifetime ECL Not Credit Impaired TZS' 000	Lifetime ECL Credit Impaired TZS' 000	Total 31 December 2020 TZS' 000
Loans and advances to Customers at amortised cost				
Stage 1	226,057,677	-	-	226,057,677
Stage 2	-	64,011,542	-	64,011,542
Stage 3	-	-	55,376,121	55,376,121
Gross carrying amount	**226,057,677**	**64,011,542**	**55,376,121**	**345,445,340**
Expected Credit Loss	(442,274)	(610,660)	(23,683,568)	(24,736,502)
Carrying amount	**225,615,403**	**63,400,882**	**31,692,553**	**320,708,838**

2019:

Risk classification	12 month ECL TZS' 000	Lifetime ECL Not Credit Impaired TZS' 000	Lifetime ECL Credit Impaired TZS' 000	Total 31 December 2019 TZS' 000
Loans and advances to Customers at amortised cost				
Stage 1	286,317,450	-	-	286,317,450
Stage 2	-	36,033,145	-	36,033,145
Stage 3	-	-	42,562,606	42,562,606
Gross carrying amount	**286,317,450**	**36,033,145**	**42,562,606**	**364,913,201**
Expected Credit Loss	(92,827)	(177,582)	(19,287,663)	(19,558,072)
Carrying amount	**286,224,623**	**35,855,563**	**23,274,943**	**345,355,129**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(i) Credit quality analysis -continued

The Bank has estimated that the ECL for the following financial assets was not significant as at 31 December 2020. These financial assets have been assessed to be in Stage 1 (low credit risk).

	2020 TZS '000	2019 TZS '000
Balances with central bank (Note 16)	31,757,968	24,480,124
Items in the course of collection	67,131	135,006
Loans and advances to banks	13,094,184	-
Financial assets at fair value through other comprehensive income (FVOCI)	1,013,750	1,013,750
Other financial assets at amortised cost	103,231,522	105,440,405
Due from group companies	1,595,582	2,252,955
Other assets	1,450,546	3,920,029
	152,210,683	**137,242,269**

The following shows the grading of loans and advances to customers in line with local prudential guidelines

Loans and advances to customers	**2020 TZS '000**	**2019 TZS '000**
Identified impairment:		
Grade 3: Substandard	7,024,321	14,793,900
Grade 4: Doubtful	14,512,241	10,328,678
Grade 5: Loss	33,839,559	17,440,028
	55,376,121	**42,562,606**
Specific allowance for impairment	(23,683,568)	(19,287,663)
Carrying amounts	**31,692,553**	**23,274,943**
Unidentified impairment:		
Grade 2: Watch	64,011,542	36,033,145
Grade 1: Normal	226,057,677	286,317,450
	290,069,219	**322,350,595**
Portfolio impairment provision	(1,052,934)	(270,409)
Carrying amounts	**289,016,285**	**322,080,186**
Total carrying amounts	**320,708,838**	**345,355,129**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(i) Credit quality analysis -continued

	Gross	Net
Identified impairment:	**TZS '000**	**TZS '000**
31 December 2020		
Grade 3: Substandard	7,024,321	6,340,952
Grade 4: Doubtful	14,512,241	9,280,715
Grade 5: Loss	33,839,559	16,070,886
	55,376,121	**31,692,553**
31 December 2019		
Grade 3: Substandard	14,793,900	11,223,817
Grade 4: Doubtful	10,328,678	4,774,470
Grade 5: Loss	17,440,028	7,276,656
	42,562,606	**23,274,943**
Unidentified impairment:		
31 December 2020		
Grade 1: Normal	226,057,677	225,615,403
Grade 2: Watch	64,011,542	63,400,882
	290,069,219	**289,016,285**
31 December 2019		
Grade 1: Normal	286,317,450	286,224,623
Grade 2: Watch	36,033,145	35,855,563
	322,350,595	**322,080,186**

Impaired loans and securities

Impaired loans and securities are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 3 (Substandard) to 5 (Loss) in the Bank's internal credit risk and grading system.

Neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed with reference to the bank's internal rating system. All such loans must be performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by their current sound net worth and paying capacity of the borrower. These loans and advances are categorised as normal in line with BOT prudential guidelines.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank. These loans are stage 2 (Watch) in the Bank's internal credit risk and grading system.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(ii) Collateral and other security enhancements

The Bank holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2020 or 2019.

An estimate of the fair value of collateral held against impaired loans is shown below:

	2020 TZS '000	2019 TZS '000
Fair value of collateral held – against impaired loans	**58,977,794**	**25,728,830**

(iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(f) (iii).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information an analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grading

Other than for loans and advances to banks and investment securities where the Bank relies on internal credit rating models, the Bank relies substantially on the prudential guidelines applicable in the market it operates in for credit risk grading that reflect its assessment of the probability of default of individual counterparties.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

In addition, the prudential guidelines are supplemented

- by Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures.
- External data such as credit bureau scoring information on individual borrowers.
- Expert judgement from the Credit Risk Officer to be fed into the final credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

The following are additional considerations for each type of portfolio held by the Bank:

Customer loans and advances

After the date of initial recognition, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness.
In addition, a relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis.

Loans and advances to banks

The model relies on published financials and market information.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction (country) and borrower and type of product as well as by credit risk grading.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and exchange rate.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Determining whether credit risk has increased significantly (continued)

Based on advice from the Risk Committees and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than [a predetermined percentage/ range].

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that 5an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(iv).

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

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

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

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Modified financial assets (continued)

COVID-19 considerations for the year ended 31 December 2020

During the year, the Bank offered various forms of assistance to customers to counteract the impact of COVID-19 on the ability of customers to meet their loan obligations. The assistance provided included arrangements such as temporary deferral of principal and interest repayments, replacing principal and interest with interest only repayments, and extension of loan maturity dates.

The loan repayment deferral package is considered to be a loan modification under IFRS 9. This either results in the loan being derecognised and replaced with a new loan (substantial modification) or the existing loan continuing to be recognised (non-substantial modification).

If the terms of a financial asset are modified or an existing financial asset is replaced with a new one for either credit or commercial reasons, an assessment is made to determine if the changes to the terms of the existing financial asset are considered substantial. This assessment considers both changes in cash flows arising from the modified terms as well as changes in the overall instrument risk profile; for example, changes in the principal (credit limit), term, or type of underlying collateral. Where a modification is considered non-substantial, the existing financial asset is not derecognised and its date of origination continues to be used to determine SICR. Where a modification is considered substantial, the existing financial asset is derecognised and a new financial asset is recognised at its fair value on the modification date, which also becomes the date of origination used to determine SICR for this new asset.

The table below shows the outstanding balance as at 31 December 2020 of all loans that have been modified:

	Loan deferral package (TZS '000')	Interest only (TZS '000")
Corporate & Institutional Banking	109,841,014	12,315,877
Personal Banking	2,742,480	347,117

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Incorporation of forward-looking information - continued

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- qualitative – e.g. breaches of covenant;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Assets and Liabilities Committee (ALCO) and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

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 PD, EAD and LGD vary by financial instrument.

The "Coefficients" column is used to indicate the relationship of the specific macroeconomic variable with NPL ratios. (i.e. positive or negative/inverse relationship).

The most significant period-end macroeconomic factors used for the ECL estimate as at 31 December 2020 and 31 December 2019 are as follows:

2019 - Significant macroeconomic factors

Macro-Economic Variable		Weighting		
		Base	Upside	Downside
	Coefficient	90%	5%	5%
Saving	(9.056268)	2.34%	2.69%	1.99%
Constant	0.348257	-	-	-

2020 - Significant macroeconomic factors (based on sectors)

Building and Construction		Weighting		
	Coefficients	Base	Upside	Downside
		50%	25%	25%
Saving	(27.046)	2.06%	2.10%	2.01%
Constant	1.225	-	-	-

Trade		Weighting		
	Coefficients	Base	Upside	Downside
		50%	25%	25%
Saving	(4.9441)	2.00%	2.05%	1.95%
Constant	0.22201	-	-	-

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Manufacturing	Coefficients	Weighting		
		Base	Upside	Downside
		50%	25%	25%
Saving	(11.2844)	2.00%	2.05%	1.95%
Lending	2.5210	16.04%	14.55%	17.53%
Constant	(0.0237)	-	-	-

Real Estate	Coefficients	Weighting		
		Base	Upside	Downside
		50%	25%	25%
Saving	(18.3186)	2.17%	2.21%	2.12%
Constant	0.61336	-	-	-

Personal & Households	Coefficients	Weighting		
		Base	Upside	Downside
		50%	25%	25%
REPO	1.3433	2.75%	2.75%	2.75%
Reverse REPO	1.0319	5.19%	4.17%	6.20%
Central Bank Rate	1.3779	7.67%	4.68%	10.65%
Deposit	1.4934	5.94%	5.75%	6.12%
Constant	(0.1677)	-	-	-

Some sectors did not have an intuitive relationship with macro-economic factors and had weak correlations. These include: Housing, Transport & Communication, Mining & Quarrying, Other Services, Tourism, Agriculture, Education and Hotels & Restaurants. For these sectors, an average adjustment of sectors with intuitive relationship with macroeconomic factors and credit conversion above 40% was used to adjust Historical PDs.

Other Sectors had no historical default rates and historical PDs were noted as 0%. This included Education, Agriculture (Stage 2) and Tourism Restaurant & Hotels (Stage 2). In view of this, management judgements were applied by taking a minimum PD of 0.05% for purposes of ECL calculation.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

— Probability of default (PD);
— Loss given default (LGD);
— Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PDs are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.
Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

— segment type; and
— credit risk quality

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL (continued)

ECL - Sensitivity analysis

The uncertainty of the impact of COVID-19 introduces significant estimation uncertainty in relation to the measurement of the Banks's allowance for expected credit losses. The rapidly evolving consequences of COVID-19 and government, business and consumer responses could result in significant adjustments to the allowance in future financial years.
Given current economic uncertainties and the judgment applied to factors used in determining the expected default of borrowers in future periods, expected credit losses reported by the Bank should be considered as a best estimate within a range of possible estimates.

The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at 31 December 2020:

	ECL TZS'000	Impact TZS'000
If 1% of stage 1 facilities were included in Stage 2	1,471,286	28,116
If 1% of stage 2 facilities were included in Stage 1	1,438,440	(4,712)
100% upside scenario	1,720,575	(277,423)
100% base scenario	1,487,119	43,968
100% downside scenario	1,228,881	(214,271)

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(f)(iii).

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Loans and advances to customers at amortised cost

2020:	Provisions (ECL allowance) 12 month ECL (Stage 1) TZS '000	Lifetime ECL not credit impaired (Stage 2) TZS '000	Lifetime ECL credit impaired (Stage 3) TZS '000	Total TZS '000	Exposure (Gross balance) 12 month ECL (Stage 1) TZS '000	Lifetime ECL not credit impaired (Stage 2) TZS '000	Lifetime ECL credit impaired (Stage 3) TZS '000	Total TZS '000
Balance at 1 January 2020	**92,826**	**177,583**	**19,287,663**	**19,558,072**	**286,317,450**	**36,033,145**	**42,562,606**	**364,913,201**
Transfer to 12 months ECL (Stage 1)	(6,425)	6,201	224	-	(36,587,970)	32,665,798	3,922,172	-
Transfer to Lifetime ECL not credit impaired (Stage 2)	24,181	(24,413)	232	-	3,986,495	(9,427,540)	5,441,045	-
Transfer to Lifetime ECL credit impaired (Stage 3)	-	184,310	(184,310)	-	-	513,697	(513,697)	-
Net remeasurement of loss allowance	326,562	268,120	4,986,909	5,581,591	(10,842,664)	4,366,385	4,597,322	(1,878,957)
New financial assets originated or purchased	10,876	-	8,997	19,873	9,061,880	-	8,997	9,070,877
Financial assets derecognised	(5,746)	(1,141)	(416,147)	(423,034)	(25,877,514)	(139,943)	(642,324)	(26,659,781)
Balance at 31 December 2020	**442,274**	**610,660**	**23,683,568**	**24,736,502**	**226,057,677**	**64,011,542**	**55,376,121**	**345,445,340**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Loans and advances to customers at amortised cost (continued)

	Provisions (ECL allowance)				Exposure (Gross balance)			
2019:	**12 month ECL (Stage 1)**	**Lifetime ECL not credit impaired (Stage 2)**	**Lifetime ECL credit impaired (Stage 3)**	**Total**	**12 month ECL (Stage 1)**	**Lifetime ECL not credit impaired (Stage 2)**	**Lifetime ECL credit impaired (Stage 3)**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Balance at 1 January 2019	**516,388**	**401,066**	**15,791,062**	**16,708,516**	**272,854,841**	**41,413,530**	**47,838,377**	**362,106,748**
Transfer to 12 months ECL (Stage 1)	(4,980)	4,980	-	-	(6,695,304)	6,695,304	-	-
Transfer to Lifetime ECL not credit impaired (Stage 2)	380,468	(380,468)	-	-	12,434,569	(12,434,569)	-	-
Transfer to Lifetime ECL credit impaired (Stage 3)	-	54,529	(54,529)	-	-	122,332	(122,332)	-
Net remeasurement of loss allowance	(737,238)	97,637	6,935,847	6,296,246	3,094,692	364,368	1,882,474	5,341,534
New financial assets originated or purchased	14,931	-	-	14,931	20,600,907	95,735	-	20,696,642
Financial assets derecognised	(76,743)	(161)	(3,384,717)	(3,461,621)	(15,972,255)	(223,555)	(7,035,913)	(23,231,723)
Balance at 31 December 2019	**92,826**	**177,583**	**19,287,663**	**19,558,072**	**286,317,450**	**36,033,145**	**42,562,606**	**364,913,201**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Loan commitments and financial guarantee contracts

	Provisions (ECL allowance)			Exposure (Gross balance)		
2020:	**12 month ECL (Stage 1)**	**Lifetime ECL not credit impaired (Stage 2)**	**Total**	**12 month ECL (Stage 1)**	**Lifetime ECL not credit impaired (Stage 2)**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Balance at 1 January 2020	**24,101**	**23,944**	**48,045**	**59,613,945**	**35,836,608**	**95,450,553**
Transfer from 12 months ECL (Stage 1)	-	-	-	(513,592)	513,592	-
Net remeasurement of loss allowance	314,980	(23,796)	291,184	91,325,485	(38,128,198)	53,197,287
New financial assets originated or purchased	4,223	52,175	56,398	27,681,605	2,872,931	30,554,536
Financial assets derecognised	(5,261)	(154)	(5,415)	(23,080,262)	(11,125)	(23,091,387)
Balance at 31 December 2020	**338,043**	**52,169**	**390,212**	**155,027,181**	**1,083,808**	**156,110,989**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Loan commitments and financial guarantee contracts

	Provisions (ECL allowance)			Exposure (Gross balance)		
2019:	**12 month ECL (Stage 1) TZS '000**	**Lifetime ECL not credit impaired (Stage 2) TZS '000**	**Total TZS '000**	**12 month ECL (Stage 1) TZS '000**	**Lifetime ECL not credit impaired (Stage 2) TZS '000**	**Total TZS '000**
Balance at 1 January 2019	**183,965**	**23,820**	**207,785**	**72,660,132**	**711,428**	**73,371,560**
Transfer from 12 months ECL (Stage 1)	-	-	-	28,954	(28,954)	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	24	(24)	-	(711,428)	711,428	-
Net remeasurement of loss allowance	(159,892)	148	(159,744)	(12,367,250)	682,648	(11,684,602)
New financial assets originated or purchased	10	-	10	9,874	40,917,451	40,927,325
Financial assets derecognised	(6)	-	(6)	(6,337)	(7,157,393)	(7,163,730)
Balance at 31 December 2019	**24,101**	**23,944**	**48,045**	**59,613,945**	**35,836,608**	**95,450,553**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(b) Liquidity risk

Liquidity risk includes the risk of being unable to meet financial obligations as they fall due because of inability to liquidate assets at a reasonable price and in an appropriate timeframe.

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy which incorporates impact of COVID-19. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

	2020	2019
At 31 December	29%	27%
Average for the period	25%	29%
Highest for the period	29%	32%
Lowest for the period	23%	26%

Deposits from customers represent transactional accounts, savings accounts, call and fixed deposit balances, which past experience has shown to be stable. The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2020 and 2019 to the contractual maturity date:

31 December 2020	Within 1 month TZS '000	Due within 1-3 months TZS '000	Due between 3-12 months TZS '000	Due between 1-5 years TZS '000	Due after 5 years TZS '000	Total TZS '000
LIABILITIES						
Deposits from banks	-	6,795,904	-	-	-	**6,795,904**
Deposits from customers	82,157,500	90,944,110	134,482,457	56,688,846	-	**364,272,913**
Due to group companies	3,487,500	-	-	-	-	**3,487,500**
Lease liabilities	-	-	-	4,748,175	-	**4,748,175**
Other liabilities	-	1,438,685	4,519,770	-	-	**5,958,455**
Long term borrowings	-	-	15,071,867	29,766,036	-	**44,837,903**
Subordinated debt	-	1,070	7,427,323	-	-	**7,428,393**
At 31 December 2020	**85,645,000**	**99,179,769**	**161,501,417**	**91,203,057**	**-**	**437,529,243**
31 December 2019						
LIABILITIES						
Deposits from banks	-	45,387,981	-	-	-	**45,387,981**
Deposits from customers	103,455,084	51,730,528	127,585,756	26,177,045	-	**308,948,413**
Due to group companies	8,336,495	-	-	-	-	**8,336,495**
Lease liabilities	-	-	-	4,354,744	-	**4,354,744**
Other liabilities	3,589,590	4,385,930	-	-	-	**7,975,520**
Long term debt	-	246,959	-	45,023,929	-	**45,270,888**
Subordinated debt	-	85,084	-	23,897,920	-	**23,983,004**
At 31 December 2019	**115,381,169**	**101,836,482**	**127,585,756**	**99,453,638**	**-**	**444,257,045**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spread (not relating to changes in the obligator's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

The Bank is primarily exposed to interest rate and foreign exchange risk. All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Bank manages its use of trading instruments in response to changing market conditions. There has not been a significant change in the market risk exposures as a result of COVID-19 pandemic.

The Board of Directors has delegated responsibility for management of market risk to the Board Risk Committee. Exposure to market risk is formally managed within risk limits and policy guidelines issued by the Board, on recommendation of the Board Risk Committee. ALCO, a management committee is charged with the responsibility of ensuring implementation and monitoring of the risk management framework in line with policy guidelines. The policy guidelines and procedures in place are adequate to effectively manage these risks.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk

This is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Bank's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates is shown below:

31 December 2020	Effective interest rate	Within 1 month TZS '000	Due within 1-3 months TZS '000	Due between 3-12 months TZS '000	Due between 1-5 years TZS '000	Due after 5 years TZS '000	Non-interest bearing TZS '000	Total TZS '000
ASSETS								
Cash and balances with Bank of Tanzania	-	-	-	-	-	-	49,105,678	**49,105,678**
Items in the course of collection	-	-	-	-	-	-	67,131	**67,131**
Loans and advances to banks	3.61%	-	13,094,184	-	-	-	-	**13,094,184**
Loans and advances to customers	10.89%	33,198,469	5,244,725	60,793,831	66,927,517	154,544,296	-	**320,708,838**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	-	-	-	1,013,750	**1,013,750**
Other financial assets at amortised cost	5.88%	1,819,562	11,102,032	26,399,488	39,895,070	24,015,370	-	**103,231,522**
Due from group companies	3.20%	-	-	-	-	-	1,595,582	**1,595,582**
Other assets	-	-	-	-	-	-	1,450,546	**1,450,546**
31 December 2020		**35,018,031**	**29,440,941**	**87,193,319**	**106,822,587**	**178,559,666**	**53,232,687**	**490,267,231**
LIABILITIES								
Deposits from banks	**3.61%**	**-**	**6,795,904**	**-**	**-**	**-**	**-**	**6,795,904**
Deposits from customers	**4.60%**	**14,885,362**	**89,910,143**	**142,704,552**	**49,814,452**	**-**	**66,958,404**	**364,272,913**
Due to group companies	**3.20%**	**3,487,500**	**-**	**-**	**-**	**-**	**-**	**3,487,500**
Other liabilities	**-**	**-**	**1,438,684**	**3,547,608**	**-**	**-**	**4,209,940**	**9,196,232**
Long term debt	**6.91%**	**-**	**-**	**-**	**37,135,914**	**-**	**-**	**37,135,914**
Subordinated debt	**9.96%**	**-**	**1,044**	**6,992,067**	**-**	**-**	**-**	**6,993,111**
31 December 2020		**18,372,862**	**98,145,775**	**153,244,227**	**86,950,366**	**-**	**71,168,344**	**427,881,574**
Interest rate gap		**16,645,169**	**(68,704,834)**	**(66,050,908)**	**19,872,221**	**178,559,666**	**(17,935,657)**	**62,385,657**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk - continued

31 December 2019	Effective interest rate	Within 1 month TZS '000	Due within 1-3 months TZS '000	Due between 3-12 months TZS '000	Due between 1-5 years TZS '000	Due after 5 years TZS '000	Non-interest bearing TZS '000	Total TZS '000
ASSETS								
Cash and balances with Bank of Tanzania	-	-	-	-	-	-	30,774,304	**30,774,304**
Items in the course of collection	-	-	-	-	-	-	135,006	**135,006**
Loans and advances to banks	3.61%	-	-	-	-	-	-	**-**
Loans and advances to customers	10.89%	37,821,569	75,720,403	75,736,636	100,545,534	55,530,987	-	**345,355,129**
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	-	-	-	-	-	1,013,750	**1,013,750**
Other financial assets at amortised cost	5.88%	-	9,324,390	48,935,909	29,267,363	17,912,743	-	**105,440,405**
Due from group companies	3.20%	-	-	-	-	-	2,252,955	**2,252,955**
Other assets	-	-	-	-	-	-	3,920,029	**3,920,029**
31 December 2019		**37,821,569**	**85,044,793**	**124,672,545**	**129,812,897**	**73,443,730**	**38,096,044**	**488,891,578**
LIABILITIES								
Deposits from banks	3.61%	-	45,387,981	-	-	-	-	**45,387,981**
Deposits from customers	4.60%	45,134,616	51,142,390	131,743,327	23,002,676	-	57,925,404	**308,948,413**
Due to group companies	3.20%	8,336,495	-	-	-	-	-	**8,336,495**
Other liabilities	-	743,039	-	-	-	7,516,242	2,846,553	**11,105,834**
Long term debt	6.91%	-	242,764	-	37,289,986	-	-	**37,532,750**
Subordinated debt	9.96%	-	83,017	-	18,400,000	-	-	**18,483,017**
31 December 2019		**54,214,150**	**96,856,152**	**131,743,327**	**78,692,662**	**7,516,242**	**60,771,957**	**429,794,490**
Interest rate gap		**(16,392,581)**	**(11,811,359)**	**(7,070,782)**	**51,120,235**	**65,927,488**	**(22,675,913)**	**59,097,088**

Customer deposits up to three months represent transactional accounts, savings accounts and call deposit account balances, which past experience has shown to be stable in a dynamic scenario.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

Sensitivity Analysis

31 December 2020	**Profit or loss**	**Equity net of tax**
100 basis points	**Increase/decrease in basis points ('000)**	**Increase/decrease in basis points ('000)**
Assets	4,370,345	3,059,242
Liabilities	(3,567,132)	(2,496,993)
Net position	**803,213**	**562,249**

An increase of 100 basis points in interest rates at the reporting date would have increased equity (net of tax) by TZS 562.2 million and the inverse is the case for decrease in interest rates of 100 basis points. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

31 December 2019	**Profit or loss**	**Equity net of tax**
100 basis points	**Increase/decrease in basis points ('000)**	**Increase/decrease in basis points ('000)**
Assets	4,507,955	3,155,569
Liabilities	(3,690,225)	(2,583,158)
Net position	**817,730**	**572,411**

An increase of 100 basis points in interest rates at the reporting date would have increased equity (net of tax) by TZS 572.4 million and the inverse is the case for decrease in interest rates of 100 basis points. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk (continued)

The table below analyses the currencies which the Bank is exposed to as at 31 December 2020 and 31 December 2019.

31 December 2020	USD TZS '000	GBP TZS '000	EUR TZS '000	Other TZS '000	Total TZS '000
ASSETS					
Cash and balances with Bank of Tanzania	3,669,913	2,591,569	1,042,076	558,283	7,861,841
Items in the course of collection	(8,282)	-	-	-	(8,282)
Loans and advances to customers	225,850,249	-	-	-	225,850,249
Other assets	47,618	-	-	-	47,618
31 December 2020	229,559,498	2,591,569	1,042,076	558,283	233,751,426
LIABILITIES					
Deposits from banks	-	-	-	-	-
Deposits from customers	185,558,105	2,579,382	939,177	-	189,076,664
Other liabilities	11,522,238	34,808	72,595	381,660	12,011,301
Long-term borrowings	37,135,915	-	-	-	37,135,915
Subordinated debt	6,993,111	-	-	-	6,993,111
31 December 2020	241,209,369	2,614,190	1,011,772	381,660	245,216,991
Net on statement of financial position	(11,649,871)	(22,621)	30,304	176,623	(11,465,565)
Net notional off balance sheet position	-	-	-	-	-
Overall net position – 2020	(11,649,871)	(22,621)	30,304	176,623	(11,465,565)

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Currency rate risk – continued

At 31 December 2019	USD TZS '000	GBP TZS '000	EUR TZS '000	Other TZS '000	Total TZS '000
ASSETS					
Cash and balances with Bank of Tanzania	2,232,983	2,265,891	443,327	214,845	**5,157,046**
Items in the course of collection	160,866	-	-	-	**160,866**
Loans and advances to banks	-	-	-	-	**-**
Loans and advances to customers	236,254,299	-	-	-	**236,254,299**
Other assets	64,321	-	-	-	**64,321**
At 31 December 2019	**238,712,469**	**2,265,891**	**443,327**	**214,845**	**241,636,532**
LIABILITIES					
Deposits from banks	4,485,000	-	-	-	**4,485,000**
Items in the course of collection	-	-	-	-	**-**
Deposits from customers	178,723,928	2,263,717	448,046	-	**181,435,691**
Other liabilities	3,861,211	5,229	231	219,294	**4,085,965**
Long-term borrowings	40,344,196	-	-	-	**40,344,196**
Subordinated debt	12,420,000	-	-	-	**12,420,000**
At 31 December 2019	**239,834,335**	**2,268,946**	**448,277**	**219,294**	**242,770,852**
Net on statement of financial position	**(1,121,866)**	**(3,055)**	**(4,950)**	**(4,449)**	**(1,134,320)**
Net notional off balance sheet position	**-**	**-**	**-**	**-**	**-**
Overall net position – 2019	**(1,121,866)**	**(3,055)**	**(4,950)**	**(4,449)**	**(1,134,320)**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(c) Market risk (continued)

Currency rate risk – continued

Sensitivity Analysis

At 31 December 2020	Profit or loss Strengthening/weakening of currency TZS '000	Equity net of tax Strengthening/ weakening of currency TZS '000
USD (± 1% movement)	(6,879)	(4,815)
GBP (± 1% movement)	(226)	(158)
EUR (± 1% movement)	303	212
Net Position	**(6,802)**	**(4,761)**

A depreciation of TZS by 100 basis points in the currency rates at the reporting date would have decreased equity (net of tax) by TZS 4.8 million and an inversely would have been the case for an appreciation of TZS. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

At 31 December 2019	Profit or loss Strengthening/weakening of currency TZS '000	Equity net of tax Strengthening/ weakening of currency TZS '000
USD (± 1% movement)	(11,219)	(7,853)
GBP (± 1% movement)	(31)	(21)
EUR (± 1% movement)	(50)	(35)
Net Position	**(11,300)**	**(7,909)**

A depreciation of TZS by 100 basis points in the currency rates at the reporting date would have decreased equity (net of tax) by TZS 7.9 million and an inversely would have been the case for an appreciation of TZS by 100. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

(d) Capital management

The Bank of Tanzania sets and monitors capital requirements for the Tanzania banking industry. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a bank's capital. In implementing current capital requirements, The Bank of Tanzania requires Banks to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank's regulatory is analysed in two tiers:

— Tier 1 capital: This includes ordinary share capital, share premium, retained earnings, after deductions for prepaid expenses, goodwill, other intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

— Tier 2 capital: This includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as FVOCI.

Various limits are applied to elements of the capital base such as qualifying Tier 2 capital cannot exceed Tier 1 capital and qualifying subordinated debt may not exceed 50 percent of Tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Tier 1 capital is also subjected to various limits such as Tier 1 capital should not be less than 10 percent of the risk weighted assets and premises investments should not exceed 70 percent of the core capital and movable assets should not exceed

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d Capital management (continued)

20% of core capital. In addition to the above requirements, the Bank of Tanzania require banks to maintain a capital conservation buffer of 2.5% over and above the regulatory capital ratios to enable the Bank to withstand stressful economic conditions. In situations where the buffer is less than 2.5%, the Bank is restricted from distributing any dividends to shareholders as well as paying bonus to senior management and other staff members. Further the Bank is required to submit a capital restoration plan to the Bank of Tanzania (BoT) within a specified period of time as determined by BoT. In the event the capital restoration plan is not approved by BoT, the Bank may be directed to raise additional capital in order to restore the capital conservation buffer.

The Bank's regulatory capital position is as illustrated below:

		2020 TZS '000	2019 TZS '000
Core capital (Tier 1)			
Share capital		16,202,000	16,202,000
Share premium		18,090,228	18,090,228
Retained earnings		29,788,752	37,303,341
		64,080,980	**71,595,569**
Less: Prepaid expenses		(1,902,527)	(1,293,797)
Deferred tax asset		(7,211,018)	(5,620,807)
Total Core capital		**54,967,435**	**64,680,965**
Supplementary capital (Tier 2)			
Term subordinated debt		6,993,111	3,680,000
Statutory reserve		19,294,170	8,150,554
Fair value reserve		248,938	248,938
		26,536,219	**12,079,492**
Total capital		**81,503,654**	**76,760,457**
Risk weighted assets			
On balance sheet		316,632,102	334,697,311
Off balance sheet		50,713,528	46,799,438
Capital charge on operational risk		30,156,410	27,871,571
Capital charge for market risk		890,274	1,144,316
Total risk weighted assets		**398,392,314**	**410,512,636**
Capital ratios	**Minimum***	**Ratio**	**Ratio**
Core capital /Total risk weighted assets	**10%**	**13.80%**	**15.76%**
Total capital /Total risk weighted assets	**12%**	**20.46%**	**18.70%**

* The minimum as defined by Bank of Tanzania on top of which the Bank should have a buffer of 2.5% for both core and total capital.

As at 31 December, 2020, the Bank had a capital conservation buffer of 3.8% and 8.46% for Tier 1 and Tier 2 Capital respectively.

5. USE OF ESTIMATES AND JUDGEMENT

(e) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements. The compliance function is responsible for establishing and maintaining an appropriate framework of Bank compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

Key sources of estimation uncertainty

(a) Allowance for credit losses

The 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). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3(f) (iii) which also sets out key sensitivities of the ECL to changes in these elements.

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

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

(b) Income taxes

Significant estimates are required in determining the liability for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax liability in the period in which such determination is made.

(c) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out under accounting policy note 3(i).

5. USE OF ESTIMATES AND JUDGEMENT (CONTINUED)

(d) Leases

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For the leases of office space, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. Most extension options in offices have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

To determine the incremental borrowing rate, the bank where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

(e) Financial Instruments - Classification

Critical accounting judgements made in applying the Bank's accounting policies include financial asset and liability classification. The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets as at amortised costs, the Bank has determined that it has both positive intention and ability to hold the assets until their maturity date as required by the bank's accounting policies.

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications at carrying amounts and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities measured at amortised cost (not measured at fair value) since the carrying amount is a reasonable approximation of fair value because they re-price in the short term.

	Carrying amounts				Fair value			
31 December 2020	**Financial assets at amortised cost TZS '000**	**Financial assets at FVOCI TZS '000**	**Other financial liabilities at amortised cost TZS '000**	**Total TZS '000**	**Level 1 TZS '000**	**Level 2 TZS '000**	**Level 3 TZS '000**	**Total TZS '000**
Financial assets								
Cash and balances with Bank of Tanzania	49,105,678	-	-	**49,105,678**	-	-	-	-
Items in the course of collection	67,131	-	-	**67,131**	-	-	-	-
Financial assets measured at FVOCI	-	1,013,750	-	**1,013,750**	-	-	1,013,750	1,013,750
Other financial assets at amortised cost	103,231,522	-	-	**103,231,522**	-	-	-	-
Loans and advances to banks	13,094,184	-	-	**13,094,184**	-	-	-	-
Loans and advances to customers	320,708,838	-	-	**320,708,838**	-	-	-	-
Due from group companies	1,595,582	-	-	**1,595,582**	-	-	-	-
Other assets	1,450,546	-	-	**1,450,546**	-	-	-	-
31 December 2020	**489,253,481**	**1,013,750**	**-**	**490,267,231**	-	-	1,013,750	1,013,750
Financial liabilities								
Deposits from banks	-	-	6,795,904	6,795,904	-	-	-	-
Deposits from customers	-	-	364,272,913	364,272,913	-	-	-	-
Due to group companies	-	-	3,487,500	3,487,500	-	-	-	-
Long term borrowings	-	-	37,135,914	37,135,914	-	-	-	-
Other liabilities	-	-	9,196,232	9,196,232	-	-	-	-
Subordinated debt	-	-	6,993,111	6,993,111	-	-	-	-
31 December 2020	**-**	**-**	**427,881,574**	**427,881,574**	**-**	**-**	**-**	**-**

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (CONTINUED)

Accounting classifications at carrying amounts and fair values – continued

	Carrying amounts				Fair value			
At 31 December 2019	Financial assets at amortised cost	Financial assets at FVOCI	Other financial liabilities at amortised cost	Total	Level 1	Level 2	Level 3	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Financial assets								
Cash and balances with Bank of Tanzania	30,774,304	-	-	**30,774,304**	-	-	-	-
Items in the course of collection	135,006	-	-	**135,006**	-	-	-	-
Financial assets measured at FVOCI	-	1,013,750	-	**1,013,750**	-	-	1,013,750	**1,013,750**
Other financial assets at amortised cost	105,440,405	-	-	**105,440,405**	-	-	-	-
Loans and advances to customers	345,355,129	-	-	**345,355,129**	-	-	-	-
Other assets	3,920,029	-	-	**3,920,029**	-	-	-	-
Due from group companies	2,252,955	-	-	**2,252,955**	-	-	-	-
31 December 2019	**487,877,828**	**1,013,750**	**-**	**488,891,578**	**-**	**-**	**1,013,750**	**1,013,750**
Financial liabilities								
Deposits from banks	-	-	45,387,981	**45,387,981**	-	-	-	-
Deposits from customers	-	-	308,948,413	**308,948,413**	-	-	-	-
Due to group companies	-	-	8,336,495	**8,336,495**	-	-	-	-
Long term borrowings	-	-	37,532,750	**37,532,750**	-	-	-	-
Other liabilities	-	-	11,105,834	**11,105,834**	-	-	-	-
Subordinated debt	-	-	18,483,017	**18,483,017**	-	-	-	-
31 December 2019	**-**	**-**	**429,794,490**	**429,794,490**	**-**	**-**	**-**	**-**

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (CONTINUED)

Unobservable inputs used in measuring fair value

The Bank has investment in Tanzania Mortgage Refinance Company (TMRC). As at 31 December 2020, the bank held 625,000 shares equivalent to 3% shareholding (2019: 625,000 shares equivalent to 3% shareholding).

The Bank uses the discounted cashflows method which is based on formulating assumptions about the future. This method takes into account the size and timing of the net cash flows and discount them at the cost of equity capital of the company or the required investor rate of return. The business values depend on the perceived risk associated with earnings and cash flows.

The key assumptions used in the model are;

- Projected cashflows; Cash flows in future are projected on an assumption that refinancing growth will continue, and sufficient liability will be raised at current margin level.
- Discount rate; The value per share is obtained by discounting the free cash flows to equity at appropriate cost of capital which was determined to be 18.5%.

Sensitivity analysis

Major variables used in the projections were included in simulation to determine sensitivity of the business values obtained. The results showed that there is 81.91% chance that TMRC share value is between TZS 1,500 and TZS 1,700.

7. INTEREST INCOME

	2020 TZS '000	2019 TZS '000
Loans and advances to customers	37,598,966	38,898,190
Loans and advances to banks	307,803	15,815
Investment securities:-		
- At amortised cost	10,335,341	10,243,135
	48,242,110	**49,157,140**

8. INTEREST EXPENSE

Deposits from customers	14,844,845	13,231,577
Deposits from banks	1,755,053	1,887,276
Long term debt	1,728,638	2,756,121
Subordinated debt	1,272,881	1,719,193
Lease liabilities	333,689	269,084
	19,935,106	**19,863,251**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

9. NET FEE AND COMMISSION INCOME

Fee and commission income		
Commissions	3,201,195	3,470,123
Service fees	2,872,060	2,015,018
	6,073,255	**5,485,141**
Fees and commission expense		
Interbank transaction fees	(209,737)	(179,550)
Net fee and commission income	**5,863,518**	**5,305,591**

10. NET TRADING INCOME

Income from foreign exchange dealings	**3,169,497**	**3,120,982**

11. OTHER OPERATING INCOME

Other income	**118,891**	**203,884**

Other income comprises among others mobile banking fees and gain on sale of property and equipment.

12. DIVIDEND INCOME

Dividend income-Tanzania Mortgage Refinancing Company Limited	**5,802**	**8,620**

13. OPERATING EXPENSES

	2020 **TZS '000**	**2019** **TZS '000**
Staff costs		
Salaries and wages	7,421,320	7,364,331
Statutory contribution	891,143	770,940
Other staff costs	2,824,881	2,929,362
	11,137,344	**11,064,633**
Premises and equipment costs		
Utilities	628,603	202,275
Expenses for short term and low value leases	210,090	562,372
	838,693	**764,647**
General administrative expenses		
Deposit protection insurance contribution	520,062	498,769
Other general administrative expenses	7,471,195	7,879,986
	7,991,257	**8,378,755**
Depreciation and Amortisation		
Depreciation on property and equipment (Note 21)	1,158,260	1,067,999
Depreciation on right of use asset (Note 21)	938,503	720,832
Amortisation of intangible assets (Note 22)	1,400,294	765,610
	3,497,057	**2,554,441**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

14. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:		
Depreciation	2,096,763	1,788,831
Amortisation of intangible assets	1,400,294	765,610
Directors' emoluments: -fees	153,706	106,588
Directors' emoluments: -other	71,234	71,234
Auditor's remuneration	169,595	130,726

15. TAXATION

		2020 TZS '000	2019 TZS '000
(a)	**Income tax expense**		
	Corporate tax charge	4,026,580	3,580,821
		4,026,580	**3,580,821**
	Deferred tax credit -Current year	(1,590,211)	(739,470)
	Income tax expense	**2,436,369**	**2,841,351**

The tax on the Bank`s profit differs from the theoretical amount using the basic tax rate as follows:

		2020 TZS '000	2019 TZS '000
(b)	**Accounting profit before tax**	**8,466,372**	**8,843,474**
	Computed tax using the applicable corporation tax rate at 30%	2,539,912	2,653,042
	Effect on non-deductible costs /non-taxable income	(103,543)	188,309
		2,436,369	**2,841,351**
(c)	**Tax Payable**		
	At 1 January	518,944	710,645
	Income tax expense (Note 15(a))	4,026,580	3,580,821
	Tax paid	(3,314,250)	(3,772,522)
	At 31 December	**1,231,274**	**518,944**

16. CASH AND BALANCES WITH BANK OF TANZANIA

Cash on hand	8,853,580	6,294,180
Short term money market placements	8,494,130	-
Balances with Bank of Tanzania:		
-Statutory minimum reserve	19,155,063	21,055,672
-Unrestricted balances	12,602,905	3,424,452
	49,105,678	**30,774,304**

The Statutory Minimum Reserve is non-interest earning and is based on the value of deposits as adjusted for Bank of Tanzania requirement. At 31 December 2020, the cash ratio requirement was 10.0% (2019: 10.0%) of eligible deposits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

17. ITEMS IN THE COURSE OF COLLECTION

	2020 TZS '000	2019 TZS '000
Assets	**67,131**	**135,006**

Items in the course of collection represent net settlement balances through the inter-banking clearing process.

18. LOANS AND ADVANCES TO BANKS

	2020 TZS '000	2019 TZS '000
Due within 90 Days	**13,094,184**	**-**

19. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

Overdrafts	101,632,940	128,127,770
Loans	243,812,400	236,785,431
Gross loans and advances	**345,445,340**	**364,913,201**
Less: Impairment losses on loans and advances	(24,736,502)	(19,558,072)
Net loans and advances	**320,708,838**	**345,355,129**

(b) Non-performing loans and advances

Non-performing loans and advances net of impairment losses and estimated value of securities are disclosed in Note 4(a).

	2020 TZS '000	2019 TZS '000
Accrued interest impaired loans and advances	**13,104,849**	**10,324,910**

(c) Impairment losses on loans and advances movement

2020:	Loans and advances to Customers TZS '000	Loan commitments and financial guarantees TZS '000	Total TZS '000
Net remeasurement of loss allowance	5,581,591	291,184	5,872,775
New financial assets originated or purchased	19,873	56,398	76,271
	5,601,464	**347,582**	**5,949,046**
Release of impairment	(423,034)	(5,415)	(428,449)
Total impairment	**5,178,430**	**342,167**	**5,520,597**
Recoveries of loans and advances previously written off	(34,658)	-	(34,658)
Amounts directly written off during the year	48,050	-	48,050
Net impairment charge	**5,191,822**	**342,167**	**5,533,989**

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Impairment losses on loans and advances movement (continued)

2019:	Loans and advances to Customers at amortised cost	Loan commitments and financial guarantee contracts	Total
	TZS '000	TZS '000	TZS '000
Net remeasurement of loss allowance	6,296,246	(159,744)	6,136,502
New financial assets originated or purchased	14,931	10	14,941
	6,311,177	**(159,734)**	**6,151,443**
Release of impairment	(3,461,621)	(6)	(3,461,627)
Recoveries of loans and advances previously written off	(315,717)	-	(315,717)
Amounts directly written off during the year	3,952,917	-	3,952,917
	6,486,756	**(159,740)**	**6,327,016**

(d) Loans and advances concentration by sector

	2020		2019	
	TZS '000	%	TZS '000	%
Manufacturing	69,445,016	20%	83,195,590	23%
Wholesale and retail trade	50,574,144	15%	52,453,430	14%
Building and construction	6,207,814	2%	7,711,790	2%
Agriculture	13,081,348	4%	13,661,830	4%
Real estate	88,447,391	26%	87,590,430	24%
Transport and communication	15,343,325	4%	17,557,230	5%
Business services	33,923,507	10%	52,175,330	14%
Mining and quarrying	9,942,673	3%	9,234,510	3%
Others	58,480,122	16%	41,333,061	11%
	345,445,340	**100%**	**364,913,201**	**100%**

20. FINANCIAL ASSETS

(a) Financial assets measured at fair value through other comprehensive income (FVOCI)

The Bank has investment in Tanzania Mortgage Refinance Company (TMRC). As at 31 December 2020, the bank held 625,000 shares equivalent to 3% shareholding (2019: 625,000 shares equivalent to 3% shareholding).

Tanzania Mortgage Refinance Company (TMRC) is a financial institution owned by banks and non-bank institutions with the sole purpose of supporting banks to do mortgage lending by refinancing banks' mortgage portfolios.

	2020	2019
	TZS '000	TZS '000
Equity investment	**1,013,750**	**1,013,750**

20. FINANCIAL ASSETS

(b) Other financial assets at amortised cost

Treasury bonds (Liquid)	3,397,054	3,593,417
Treasury bonds (Non Liquid)	68,053,004	57,536,166
Treasury bills (Liquid)	817,308	1,548,226
Treasury bills (Non Liquid)	30,964,156	42,762,596
	103,231,522	**105,440,405**

(c) The change in the carrying amount of investment securities held by the Bank is as shown below:

	Other financial assets at amortised cost TZS '000	Financial assets measured at fair value through other comprehensive income (FVOCI) TZS '000	Total TZS '000
At 1 January 2020	105,440,405	1,013,750	106,454,155
Additions	67,678,343	-	67,678,343
Disposals and maturities	(74,101,588)	-	(74,101,588)
Interest receivable	4,214,362	-	4,214,362
At 31 December 2020	**103,231,522**	**1,013,750**	**104,245,272**
At 1 January 2019	98,884,257	811,000	99,695,257
Additions	46,000,000	158,125	46,158,125
Disposals and maturities	(43,423,000)	-	(43,423,000)
Revaluation gain	-	44,625	44,625
Interest receivable	3,979,148	-	3,979,148
At 31 December 2019	**105,440,405**	**1,013,750**	**106,454,155**

21. PROPERTY AND EQUIPMENT

2020	Leasehold improvements TZS '000	Furniture, fittings, fixtures and office equipment TZS '000	Computers TZS '000	Motor vehicles TZS '000	Right of use assets* TZS '000	Capital work in progress TZS '000	Total TZS '000
Cost							
At 1 January 2020	3,878,433	5,315,386	807,792	378,341	4,057,725	76,107	14,513,784
Additions	215,287	747,817	37,838	-	838,204	45,429	1,884,575
Disposals	(1,550)	(2,738)	(132,401)	-	(137,001)	-	(273,690)
Reclassification/internal transfers	-	76,107	-	-	-	(76,107)	-
At 31 December 2020	**4,092,170**	**6,136,572**	**713,229**	**378,341**	**4,758,928**	**45,429**	**16,124,669**
Depreciation							
At 1 January 2020	2,219,284	2,611,653	674,121	296,438	720,832	-	6,522,328
On disposals	(1,550)	(2,738)	(132,401)	-	(137,001)	-	(273,690)
Charge for the year	425,051	652,910	47,558	32,741	938,503	-	2,096,763
At 31 December 2020	**2,642,785**	**3,261,825**	**589,278**	**329,179**	**1,522,334**	**-**	**8,345,401**
Net book value at 31 December 2020	**1,449,385**	**2,874,747**	**123,951**	**49,162**	**3,236,594**	**45,429**	**7,779,268**

* Right of use assets comprises of leased branch premises and head office

21. PROPERTY AND EQUIPMENT (CONTINUED)

2019	Leasehold improvements TZS '000	Furniture, fittings, fixtures and office equipment TZS '000	Computers TZS '000	Motor vehicles TZS '000	Right of use assets* TZS '000	Capital work in progress TZS '000	Total TZS '000
Cost							
At 1 January 2019	3,873,308	4,273,914	655,904	327,301	4,057,725	-	13,188,152
Additions	5,125	1,041,472	151,888	69,540	-	76,107	1,344,132
Disposal	-	-	-	(18,500)	-	-	(18,500)
At 31 December 2019	**3,878,433**	**5,315,386**	**807,792**	**378,341**	**4,057,725**	**76,107**	**14,513,784**
Depreciation							
At 1 January 2019	1,811,008	2,114,012	585,515	241,461	-	-	4,751,996
On disposals	-	-	-	(18,499)	-	-	(18,499)
Charge for the year	408,276	497,641	88,606	73,476	720,832	-	1,788,831
At 31 December 2019	**2,219,284**	**2,611,653**	**674,121**	**296,438**	**720,832**	**-**	**6,522,328**
Net book value at 31 December 2019	**1,659,149**	**2,703,733**	**133,671**	**81,903**	**3,336,893**	**76,107**	**7,991,456**

* Right of use assets comprises of leased branch premises and head office

22. INTANGIBLE ASSETS

2020	**Computer Software**	**Capital work in progress**	**Total**
Cost	**TZS '000**	**TZS '000**	**TZS '000**
At 1 January 2020	**9,889,595**	**-**	**9,889,595**
Additions	466,329	-	466,329
Write offs*	(863,234)		(863,234)
At 31 December 2020	**9,492,690**	**-**	**9,492,690**
Amortisation			
At 1 January 2020	**3,378,738**	**-**	**3,378,738**
Amortisation for the year	1,400,294	-	1,400,294
Write offs*	(863,234)	-	(863,234)
At 31 December 2020	**3,915,798**	**-**	**3,915,798**
Carrying amount at 31 December 2020	**5,576,892**	**-**	**5,576,892**
2019			
Cost			
At 1 January 2019	**2,748,315**	**3,222,012**	**5,970,327**
Additions	3,919,268	-	3,919,268
Reclassification from capital work in progress	3,222,012	(3,222,012)	-
At 31 December 2019	**9,889,595**	**-**	**9,889,595**
Amortisation			
At 1 January 2019	**2,613,128**	**-**	**2,613,128**
Amortisation for the year	**765,610**	**-**	**765,610**
At 31 December 2019	**3,378,738**	**-**	**3,378,738**
Carrying amount at 31 December 2019	**6,510,857**	**-**	**6,510,857**

*The intangible asset written off relates to the Finacle 7 software which was fully depreciated. The Bank upgraded to Finacle 10 system during the year ended 31 December 2019.

23. DEFERRED TAX ASSET

2020	Balance at 1 January TZS '000	Recognized in equity TZS '000	Recognized in profit or loss TZS '000	Balance at 31 December TZS '000
Equipment	(535,289)	-	(97,955)	(633,244)
General provisions	6,131,321	-	1,667,930	7,799,251
Financial assets measured at fair value through other comprehensive income (FVOCI)	(106,688)	-	-	(106,688)
Right of use of asset (IFRS 16)	131,463	-	20,236	151,699
	5,620,807	**-**	**1,590,211**	**7,211,018**

2019	Balance at 1 January TZS '000	Recognized in equity TZS '000	Recognized in profit or loss TZS '000	Balance at 31 December TZS '000
Equipment	(340,120)	-	(195,169)	(535,289)
General provisions	5,328,145	-	803,176	6,131,321
Financial assets measured at fair value through other comprehensive income (FVOCI)	(93,301)	(13,387)	-	(106,688)
Right of use of asset (IFRS 16)	-	-	131,463	131,463
	4,894,724	**(13,387)**	**739,470**	**5,620,807**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

24. OTHER ASSETS

	2020 TZS '000	2019 TZS '000
Prepayments	1,902,527	1,293,797
Other receivables	1,450,546	3,920,029
	3,353,073	**5,213,826**

25. DEPOSITS FROM BANKS

Due within 90 Days	**6,795,904**	**45,387,981**

26. DEPOSITS FROM CUSTOMERS

Government and Parastatals	3,395,615	1,404,740
Private sector and individuals	360,877,298	307,543,673
	364,272,913	**308,948,413**

27. OTHER LIABILITIES

Accruals	1,438,685	1,419,699
Other accounts payables	3,819,721	6,194,738
Lease liabilities	3,237,777	3,130,314
Provisions for loan commitments*	390,218	48,051
Bankers cheques payable	309,831	313,032
	9,196,232	**11,105,834**

*This represents impairment allowance for loan commitments and financial guarantee contracts.

28. LONG TERM BORROWINGS

	2020 TZS '000	2019 TZS '000
Less than one year	15,071,867	11,485,084
One to five years	22,064,047	26,047,666
	37,135,914	**37,532,750**

Loan movement schedule

At 1 January	37,532,750	45,311,446
Funds received	11,640,000	-
Principal repayment	(12,288,627)	(11,834,564)
Interest paid	(1,687,753)	-
Interest expense	1,728,638	4,475,313
Translation loss/(gain)	210,906	(419,445)
At 31 December	**37,135,914**	**37,532,750**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

28. LONG TERM BORROWINGS (CONTINUED)

TMRC (TANZANIA MORTGAGE REFINANCE COMPANY LIMITED)

The long term borrowing of TZS 3,250 million was granted in two tranches of which (i) TZS 1,800 million was granted on 13th August 2018 with an effective rate of 9.0% for tenure of 5 years and (ii) TZS 1,450 million was granted on 30th August 2018 with an effective rate of 9.0% for a tenure of 3 years. The interest on the facility is repayable on a quarterly basis and the principal at maturity. The outstanding balance as at 31 December 2020 was TZS 3.25 billion (2019: TZS 3.25 billion)

FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.)
The first long term borrowing of USD 12 million granted on March 2016 by FMO as a senior debt for tenor of 6 years. The interest and principal on the facility is repayable on a quarterly basis. The effective interest rate on the first long term borrowing is 6.06% p.a. The outstanding balance as at 31 December 2020 was USD 2.4 Million (2019: USD 4.8 Million)

The second-long term borrowing of USD 15 million granted on December 2018 by FMO as a senior debt for tenor of 5 years, of which an amount of USD 10 Million was received during the month of December 2018. The interest and principal on the facility is repayable on a quarterly basis. The effective interest rate on the second-long term borrowing is 5.68% p.a. The outstanding balance as at 31 December 2020 was USD 7.5 Million (2019: USD 10 Million).

The third long term borrowing of USD 5 Million facility granted on 16th October 2020 by FMO as senior debt for a tenor of 3 years. The interest rate is 3.43% Per annum payable on quarterly basis. The outstanding balance as at 31 December was USD 4.6 Million.

During the year, the Bank had breached single group exposure ratio, however, the lender granted the Bank a waiver for the breach and hence the loan was no repayable on demand.

29. SUBORDINATED DEBT

	2020 TZS '000	2019 TZS '000
Less than one year	-	83,017
One to five years	6,993,111	18,400,000
	6,993,111	**18,483,017**

DEG (DEUTSCHE INVESTITIONS- UND ENTWICKLUNGSGESELLSCHAFT MBH)

The long term borrowing of USD 10 million was granted on January 2015 by DEG as subordinated debt qualifying as Tier II capital, of which an amount of USD 8 Million was received. The effective interest rate of the long term borrowing is 9.96%. The outstanding balance as at 31 December 2020 was USD 3 Million. (2019: USD 8 Million).

During the year, the Bank had breached single group exposure and open assets exposure ratios, however, the lender granted the Bank a waiver for the breach and hence the loan was no repayable on demand

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 (CONTINUED)

29. SUBORDINATED DEBT (CONTINUED)

Loan movement schedule	2020 TZS'000	2019 TZS'000
At 1 January	18,483,017	18,732,569
Interest expense	1,272,881	1,802,210
Foreign exchange translation losses	60,850	292,569
Interest repayment	(1,203,574)	-
Principal repayment	(11,620,063)	(2,344,331)
At 31 December	**6,993,111**	**18,483,017**

30. SHARE CAPITAL AND RESERVES

(a) **Authorized share capital**

2020	**Number of shares**	**TZS '000**
Authorized - Ordinary A Class Shares		
At 31 December 2020 (par value TZS 1,000,000 each)	50,000	50,000,000
Authorized - Ordinary B Class Shares		
At 31 December 2020 (par value TZS 1,000,000 each)	50,000	50,000,000
2019		
Authorized - Ordinary A Class Shares		
At 31 December 2019 (par value TZS 1,000,000 each)	50,000	50,000,000
Authorized - Ordinary B Class Shares		
At 31 December 2019 (par value TZS 1,000,000 each)	50,000	50,000,000

(b) **Issued and fully paid up share capital**

2020	**Number of shares**	**Share Capital TZS '000**	**Share Premium TZS '000**
Ordinary A Class Shares			
1 January 2020 (par value TZS 1,000,000 each)	2,792	2,792,000	17,995,751
At 31 December	**2,792**	**2,792,000**	**17,995,751**
2020			
Ordinary B Class Shares			
1 January 2020 (par value TZS 1,000,000 each)	13,410	13,410,000	94,477
At 31 December	**13,410**	**13,410,000**	**94,477**
Total	**16,202**	**16,202,000**	**18,090,228**

30. SHARE CAPITAL AND RESERVES (CONTINUED)

	Number of shares	Share Capital	Share Premium
2019		**TZS '000**	**TZS '000**
Ordinary A Class Shares			
1 January 2019 (par value TZS 1,000,000 each)	2,792	2,792,000	17,995,751
At 31 December	**2,792**	**2,792,000**	**17,995,751**
2019			
Ordinary B Class Shares			
1 January 2019 (par value TZS 1,000,000 each)	13,410	13,410,000	94,477
At 31 December	**13,410**	**13,410,000**	**94,477**
Total	**16,202**	**16,202,000**	**18,090,228**

(c) Statutory reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits and the reverse for reductions. These reserves are not distributable. During the year the statutory reserve amounted to TZS 19 Billion (2019: TZS 8 Billion).

31. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash flow from operating activities

	Note	2020 TZS '000	2019 TZS '000
Cash flows from operating activities			
Profit before income tax		**8,466,372**	**8,843,474**
Adjustments for:			
Depreciation on Property & Equipment	21	2,096,763	1,788,831
Net impairment on loans and advances	19 (c)	5,533,989	6,327,016
Amortisation of intangible asset	22	1,400,294	765,610
Interest on lease liabilities	8	333,689	269,084
Interest on long term loans		3,001,519	6,277,523
Exchange loss/(gain) on long term loans		271,756	(126,876)
Dividend income	12	(5,802)	(8,620)
		21,098,580	**24,136,042**
Increase/(decrease) in operating assets			
Net movement of loans and advances to customers		19,112,302	(6,283,913)
Investment in securities		2,208,882	(6,556,148)
Loans and advances to banks		(13,094,184)	7,838,743
Due from group companies		657,373	(1,168,378)
Cash and balances with Bank of Tanzania:			
– Statutory Minimum Reserve		1,900,609	4,972,750
Other assets		1,860,753	(3,280,083)
		12,645,735	**(4,477,029)**
Increase in operating liabilities			
Customer deposits		55,324,500	(20,118,757)
Deposits from banks		(38,592,077)	26,358,998
Balances due to group companies		(4,848,995)	(8,998,837)
Other liabilities		(1,949,835)	2,718,875
		9,933,593	**(39,721)**
Cash inflows from operating activities		**43,677,908**	**19,619,292**
Tax paid	15(c)	(3,314,250)	(3,772,522)
Interest paid on long term loans		(2,891,327)	-
Interest paid on lease liabilities	35	(103,760)	(83,330)
Net inflows from operating activities		**37,368,571**	**15,763,440**

31. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(b) Analysis of cash and cash equivalents

	Note	2020 TZS '000	2019 TZS '000	Change TZS '000
Cash and balances with Bank of Tanzania – excluding SMR*	16	29,950,615	9,718,632	20,231,983
Items in the process of collection	17	67,131	135,006	(67,875)
		30,017,746	**9,853,638**	**20,164,108**

*Cash and balances with the Bank of Tanzania comprise cash on hand, short term money market placements and unrestricted balances with the Bank of Tanzania.

32. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

In the ordinary course of business, the bank conduct business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At the period end, the contingent liabilities were as follows:

	2020 TZS '000	2019 TZS '000
Contingencies related to:		
Letters of credit	24,440,824	28,279,463
Guarantees	99,028,563	55,469,106
Acceptances/undrawn balance	34,516,532	37,552,558
	157,985,919	**121,301,127**

Guarantees are generally written by a 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.

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

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Forward contracts are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

The fair values of the respective currency forwards are carried on the face of the balance sheet.

33. RELATED PARTY TRANSACTIONS

In the normal course of business, the Bank enters into transactions with related parties. All the loans and advances and deposits are issued or received from the related parties at market interest rates. There were no provisions held towards impairment of any of the advances to related parties

		2020 TZS '000'	2019 TZS '000'
(a)	**Directors and key management personnel: Loans**		
	Loans outstanding at the beginning of the year	1,359,673	1,359,673
	Loans issued during the year	1,585,590	558,050
	Loan repayments during the year	(581,063)	(201,099)
	Loans outstanding at the end of the year	**2,364,200**	**1,716,624**
	Interest income earned	**1,001,390**	**654,379**
(b)	**Directors and key management personnel: Deposits**		
	Deposits at the beginning of the year	4,626,564	4,626,564
	Deposits received during the year	4,906,650	1,835,878
	Deposits repaid during the year	(4,799,609)	(2,155,744)
	Deposits at the end of the year	**4,733,605**	**4,306,698**
	Interest expense	**134,433**	**91,130**
(c)	**Amount due to/from related companies**		
	Amounts due from I&M Bank Limited - Holding Company	1,595,582	2,252,955
	Amounts due to I&M Bank Limited - Holding Company	3,487,500	8,336,495
(d)	**Key management compensation**		
	Salaries and other short-term benefits	2,673,600	2,577,603
	Post-employment benefits	267,360	221,487
		2,940,960	**2,799,090**
	Key management comprise of CEO and all heads of department.		
	Directors' remuneration-made up of short-term benefits	224,940	177,822
(e)	**Management fees**		
	Management fees paid to I&M Bank Limited	**1,323,709**	**1,020,451**

34. CAPITAL COMMITMENTS

	2020 TZS '000	2019 TZS '000
Capital commitments	**12,275,315**	**17,294,010**

35. LEASES

Bank as lessee

	2020	2019
(i) Lease liabilities	**3,237,777**	**3,130,314**
Expected to be settled within next 12	1,111,489	1,204,740
Expected to be settled more than 12 months	2,126,288	1,925,574
	3,237,777	**3,130,314**
The total cash outflow for leases in the year was:		
Payments of principal portion of the lease liability	1,027,899	863,187
Interest paid on lease liabilities	103,760	83,330
	1,131,659	**946,517**
(ii) Lease liability movement		
Balance at 1 January	3,130,314	-
Additions	905,433	3,807,747
Interest expense	333,689	269,084
Lease payments	(1,131,659)	(946,517)
Balance at 31 December	**3,237,777**	**3,130,314**
(iii) Amounts recognised in profit or loss		
Interest on lease liabilities (Note 8)	333,689	269,084
Depreciation of right to use asset (Note 21)	938,503	720,832
	1,272,192	**989,916**

(iv) Extensions options

Some leases of office premises contain extension options exercisable by the Bank up to one term after the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

36. OTHER DISCLOSURES

(a) Operational risk

The overall responsibility of managing operational risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board through the Board Risk Committee, issues policies that guide management on appropriate practices of operational risk mitigation. An independent Risk Manager assures the Board Risk Committee of the implementation of the said policies.

The following are key measures that the Bank undertakes in managing operational risk:

- Documentation of procedures and controls, including regular review and updates to reflect changes in the dynamic business environment.
- Appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence.
- Development and implementation of Business Continuity and Disaster Recovery Plans
- Training and professional development of employees to ensure they are well equipped to identify and mitigate operational risks in a timely manner.
- Establishment of ethical practices at business and individual employee's level.
- Implementation of Risk mitigation parameters, including insurance where this is considered effective.

The entire operational risk management framework is subjected to periodic independent audits (internal) in order for the bank to obtain an independent opinion on the effectiveness and efficiency of the framework. Further, the findings of the Internal Audit department are reviewed by the Board Audit Committee and recommendations made implemented in line with the agreed timeframe.

(b) Environmental and social risk

Environmental and social risks are the risks that the Bank could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the bank to assess the impacts of activities (of both the bank and its clients) which could harm the environment or have negative social impact.

The Bank is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and social management policy and by adopting the country's labour and environmental laws. The Bank also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Tanzanian government). An environmental and social management system is put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

The Directors are responsible for selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

37. SUBSEQUENT EVENTS

At the date of signing the financial statements, the Directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in these financial statements, which significantly affect the financial position of the Bank and results of its operations.

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