

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

**AUDITED REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

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VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

**BANK INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2021**

BANK INFORMATION

Principal place of business: Tanzania

Registered office: 5th Floor, AICC Building
Serengeti Wing
P.O. Box 1546
Arusha, Tanzania

Lawyers: Imboru Chambers
Advocates, Notaries Public and Commissioners for Oaths
P.O. Box 11054
Arusha, Tanzania

Auditors: Ernst & Young
P.O. Box 2475
Tanhouse Tower (4th Floor)
34/1 Ursino South,
New Bagamoyo road
Dar Es Salaam, Tanzania

Main Bankers CRDB Bank Plc.
Azikiwe Street
P.O. Box 268
Dar Es Salaam, Tanzania

NMB Bank Plc.
Ohio Street/ Ali Hassan Mwinyi Road
P.O. Box 9213
Dar Es Salaam, Tanzania

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

The Directors submit their report together with the audited financial statements for the year ended 31 December 2021, which disclose the financial position of VisionFund Tanzania Microfinance Bank Limited as at that date.

1. INCORPORATION AND REGISTERED OFFICE

The Bank was incorporated in Tanzania on 9 March 2012 under the Companies Act, 2002. Its registered office is situated on the 5th Floor, AICC Building, Serengeti Wing and P.O. Box 1546 Arusha, Tanzania. The Bank was granted a license to carry on banking business in Tanzania as a microfinance bank on 20 May 2014.

2. MISSION AND VISION

Vision statement

Our vision for every child, life in all its fullness: Our prayer for every heart, the will to make it so.

Mission statement

We believe in brighter future for children, empowering families to create income and jobs, unlocking economic potential of communities.

3. PRINCIPAL ACTIVITIES

The principal activity of the Bank is provision of financial services to small holder farmers, micro entrepreneurs and low-income households in the rural and urban areas of the United Republic of Tanzania.

4. FUTURE DEVELOPMENT PLANS

The Bank is strategically focused on improving the Processes, Products, and services provided to clients and outreach. New initiatives are as outlined below:

Outreach: The Bank will continue to increase its outreach to rural and semi urban areas by implementing projects such as FAST (Finance Accelerating Saving Transformation) and the like that are geared in improving micro entrepreneurs and the small holder farmers' livelihood. The Bank works with other likeminded institutions such as World Vision Tanzania.

Operating Model and Branch Consolidation: Develop and invest in a sustainable operating model and Branch network that is simplified and digitized to enable broader impact at scale that aims at lowering operating cost, high efficiency and sustainable profitability

5. SOLVENCY AND CAPITAL ADEQUACY

The Bank's financial position as at 31 December 2021 is set out on page 18 of the financial statements. The Directors consider the Bank to be solvent within the meaning ascribed by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006. The capital adequacy of the Bank is shown in note 28 to the financial statements.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

DIRECTORS' REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2021

6. 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.

7. GENDER PARITY

The Bank 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, tribe, religion and disability which does not impair ability to discharge duties. As at 31 December 2021, the Bank had 59% of its staff being male and 41% female thereby achieving desirable gender parity.

8. RELATED PARTY TRANSACTIONS

Related party transactions and balances are disclosed in note 33 to the financial statements.

9. POLITICAL DONATIONS

The bank did not make any political donations during the year.

10. CORPORATE SOCIAL RESPONSIBILITY

The bank participates actively in community activities and development programmes in the country. Areas being given priority by the bank are Education and Health.

11. KEY PERFORMANCE INDICATORS FOR THE BANK

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

Performance indicator	Definition and calculation method	2021	2020
Return on equity	Net profit/Total equity	-1%	-1.95%
Return on assets	Net profit/Total assets	0.2%	-1.43%
Cost to income ratio	Total costs/Net income	77%	123%

Return on Equity and Return on asset is projected at above 4% and above 3% respectively by end of financial year 2022.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

12. CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania (BOT). These ratios measure capital adequacy by comparing the Bank's eligible capital with its financial position assets, off-statement of financial position commitments and market and operational risk positions at a weighted amount to reflect their relative risk.

The Bank was in compliance with the Bank of Tanzania's liquidity and capital adequacy ratios, including the required minimum Core Capital amount of TZS 5,000,000,000. The Board confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Board has reasonable expectation that the Bank will have adequate resources to continue in operational existence and growth for the foreseeable future. The capital adequacy of the Bank is shown in note 28 to the financial statements.

13. COMPOSITION OF THE BOARD OF DIRECTORS

The Directors of the Bank who held office during the period and to the date of this report, except where otherwise stated were:

Name	Position	Age	Nationality	Qualification
Mwijage B. Bishota	Chairman to August 2021	52	Tanzanian	MBA, BSc Business Administration & Political Science, AA- Liberal Arts
Barry Firth	Member	53	British	ACMA, BA (Accounting and Law),
Athanasia Soka	Chair from September 2021	58	Tanzanian	ML,PGD - in Women's law, LLB
Loyce Isanzu Maro	Member	48	Tanzanian	PGD - Entrepreneurship, Ms-Entrepreneurship, ADCA, CPA
Ljiljana Spasojevic	Member To November 2021	52	Serbian	BSc. Economics
Worku Tsega	Member From October 2021	61	Ethiopian	MBA, BA(Management and Public Administration), Post Graduate Diploma in NGO Leadership.
Nesserian Mollel	Member From September 2021	46	Tanzanian	MA in Social Work Studies, Bsc Home Economics and Human Nutrition
Gilbert Kamanga	Member	59	Malawian	MA Rural Social Development, BSc. Sociology and Geography

None of the Directors received any remuneration from the Bank during the year.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

14. STAKEHOLDER ENGAGEMENT

Effective engagement through consistent dialogue with key stakeholders is central to business sustainability, both in terms of understanding opinions and concerns, and in delivering the Bank's commitments

Employees

- Our staff are key for the performance of the bank. We embrace Christian Values in nurturing our staff, motivate them and help them find value in their work. Staff as part of society, contribute materially to the communities in which they live and work.
- Formal and informal face-to-face meetings as well as video conference meetings are regularly held with and between employees throughout the Bank; and
- Emails are sent to employees regarding policies, procedures and/or employment related information.

Customers

- Savers, borrowers, and other customers continues to be our key stakeholders in helping us grow sustainably and create the desired impact.
- Enhanced market survey and feedback mechanism to understand customer specific needs. In addition, the bank collaborates with other partners to secure less expensive channels and solutions

Suppliers

- Formalized procurement policies and procedures have been established throughout the Group; and
- Competitive procurement of goods and supplies is exercised at all times and fairness is of utmost importance while awarding supply contract to selected service providers

Shareholders/ Investors

- Annual General Meeting (AGM) is held on a yearly basis,
- The annual report is presented at the AGM to shareholders; and Shareholder's seminar is held on a yearly basis

Regulatory authorities

- Regular communication with the central bank (Bank of Tanzania) and other regulatory authorities (Capital Market when necessary; and
- Interaction with Tanzania Revenue Authority in respect of Bank's tax commitments, as appropriate

Government

Regular interactions through Government Relations and Regulatory Affairs teams.

Community

Collaboration with related entities concerning CSR to foster responsible initiatives and disseminate best practices.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

15. CORPORATE GOVERNANCE

The Board is comprised of non-executive members. Board members serve on a three-year term basis which is renewable once, allowing for a maximum of six years of Board service. The Chairman and all other members of the Board of Directors are appointed by Shareholders. The composition of the Board is representatives from World Vision Tanzania, VisionFund International and the Tanzania Business Community.

The Board takes overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board of Directors met regularly throughout the year. It delegates day to day management of the business to the Chief Executive Officer. Senior management are invited to attend board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

The Bank is committed to the principles of effective corporate governance. The positions of Chairman of the Board of Directors and Chief Executive Officer are held by different people. The Chairman of the Board of Directors is non-executive. The directors also recognize the importance of integrity, transparency and accountability. They bring skills and experience from their own spheres of business to complement the professional experience and skills of the management team.

The Board is supported by the following committees:

Audit and Finance Committee

This is responsible for ensuring compliance with applicable Bank policies, risk management and the requirements of regulatory authorities, reviewing reports and following up on matters raised by the external auditors, internal auditors and Global Internal Auditors.

The Audit and Finance Committee members who served the Committee during 2021 are detailed below:

Name	Position	Nationality	Attendance	Comments
Loyce Isanzu Maro	Chairperson	Tanzanian	3/4	
Mr. Barry Firth	Member	British	3/4	

The Audit and Finance Committee met four (4) times during the year.

Following the recent completed examination by the Central Bank, the Board of VisionFund Tanzania Microfinance Bank considers changing the name of this committee to Board Audit, Risk and Compliance Committee. Composition and roles of the committee will be aligned accordingly.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

14. CORPORATE GOVERNANCE (Continued)

Board Governance and Compensation committee

The Governance and Compensation Committee members who served the Committee during 2021 are detailed below:

Name	Position	Nationality	Attendance	Comments
Ms. Athanasia Soka	Chairperson	Tanzanian	3/4	
Mr. Gilbert Kamanga	Member	Malawian	4/4	
Ms. Ljiljana S. Spasojevic	Member	Serbian	2/4	
Nesserian Mollel	Member	Tanzanian	1/4	

The Board Governance and Compensation Committee met four (4) times during the year.

Following the recent completed examination by the Central Bank, the Board of VisionFund Tanzania Microfinance Bank considers to change the name of this committee to Board Governance and Remuneration Committee. Composition and roles of the committee will be aligned accordingly

Board Risk and Credit Management Committee

The Risk Management Committee members who served the Committee during 2021 are detailed below:

Name	Position	Nationality	Attendance	Comments
Loyce Isanzu Maro	Chair Person	Tanzanian	3/4	
Mr. Barry Firth	Member	British	3/4	
Mr. Worku Tsega	Member	Ethiopian	1/4	

The Board Risk and Credit Management Committee met four (4) times during the year.

Following the recent completed examination by the Central Bank, the Board of VisionFund Tanzania Microfinance Bank considers to change the name of this committee to Board Credit, Finance and Operations Committee. Composition and roles of the committee will be aligned accordingly

Board Impact and Social Performance Committee

The Board Impact and Social Performance Committee members who served the Committee during the year 2021 are detailed below:

Name	Position	Nationality	Attendance	Comments
Mr. Gilbert Kamanga	Member	Malawian	4/4	
Ms Athanasia Soka	Chairperson	Tanzanian	3/4	
Ms. Ljiljana S. Spasojevic	Member	Serbian	2/4	
Nesserian Mollel	Member	Tanzanian	1/4	

The Board Impact and Social Performance Committee met four (4) times during the year.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

15. CAPITAL STRUCTURE AND SHAREHOLDING

i) Capital structure

The Bank's capital structure as at 31 December 2021 is as shown below:

Authorized share capital

The total authorized share capital of the Bank is 100,000 ordinary shares of TZS 1,000,000 each.

Paid up share capital

At year end, the Bank had issued and fully paid up ordinary share capital of 21,200 shares of TZS 1,000,000 each.

ii) Shareholding

The ordinary shares of the Bank as at 31 December were held as follows:

	Number of shares	% of Shareholding
VisionFund International	13,992	66
World Vision Deutschland	3,604	17
World Vision Nederland	3,604	17
	<u>21,200</u>	<u>100</u>

15. MANAGEMENT OF THE BANK

The Bank is under the supervision of the Board of Directors and VisionFund International with the day- to-day management entrusted to the Chief Executive Officer. VisionFund International is a subsidiary of World Vision International that has been mandated to manage all World Vision micro finance institutions, VisionFund Tanzania being one of them.

The management structure incorporates the following departments: -

- Finance and Administration
- Operations
- Business Development and Innovations
- Information Technology
- People and Culture
- Internal Audit; and
- Risk Management

Each department is headed by a Head of Department. The Chief Executive Officer reports to the Board and all heads of departments report to the Chief Executive Officer except for the Head of Internal Audit who reports functionally to the Board Audit Committee and administratively to the Chief Executive Officer.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

16. FINANCIAL PERFORMANCE

The Bank made a net loss of TZS 143.758 million for the year ended 31 December 2021 (2020: a net loss of TZS 439.705 million). The performance of the Bank for the year is set out on page 17 of these financial statements.

As Covid 19 Pandemic situation continues to diminish across the world, we are seen business going back to normal and more improvement in the market. We therefore expect to see reduction in Non-Performing Loans, growth in Deposit book, growth in Loan book and growth in Profits in Financial year 2022 as projected in the business plan.

17. DIVIDENDS

The Directors of the Bank do not recommend the payment of a dividend to the owners for the year ended 31 December 2021.

18. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

The Board assessed the internal control systems throughout the financial year ended 2021 and is of opinion that they met accepted criteria.

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

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2021

19. GOING CONCERN

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

20. AUDITORS

Ernst & Young was the auditor of the Bank during the year ended 31 December 2021 and has expressed the willingness to continue and is eligible for re-appointment. A resolution to appoint the auditor for the year 2022 will be put up at the Annual General Meeting.

Ernst & Young (EY)
Tanhouse Tower (4th floor), 34/1 Ursino South,
New Bagamoyo Road, Dar es Salaam P.O. Box 2475, Tanzania
Office: +255 22 292 7868 | Fax: +255 22 292 7872, Cell: +255 654 818 513
Website: <http://www.ey.com>
Firms' registration Number:151, TIN number: 100-149-222

21. RESPONSIBILITY OF THE AUDITORS


Auditor is responsible to provide assurance of the correctness and consistency of each and every information contained in the report by those charged with governance with those provided in the financial statements.

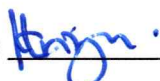
22. STATEMENT OF RESPONSIBILITY BY THOSE CHARGED WITH GOVERNANCE

It is the responsibility of the those charged with governance to prepare financial statements of the entity which show a true and fair view in accordance with applicable standards, rules, regulations and legal provisions.

This responsibility covers the period from the beginning of the financial year to the date those charged with governance approve the audited financial statements and it covers all those charged with governance who acted in this capacity during any part of the period covered by financial statements.

Approved by the Board of Directors on 29 March 2022 and signed on its behalf by:

Name: Atanasia Sale Title: Chairman Signature: 

Name: Loyce Isamu Title: Director Signature: 

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES AS AT 31 DECEMBER 2021

The Tanzania Companies Act, 2002 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the Bank's operating results for that year. It also requires the directors to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, Tanzania Financial Reporting Standard on Directors' Report and in the manner required by the Tanzania Companies Act, 2002 and the Banking and Financial Institutions Act, 2006. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Tanzania Companies Act, 2002 and the Banking and Financial Institutions Act, 2006.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of the Bank's operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control. To enable the directors to meet these responsibilities:

Approval of financial statements

Approved by the board of directors and authorized for issue on 29 March 2022 and signed on its behalf by:

.....
Athanasia A. Soka
Chairman

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

**DECLARATION OF THE HEAD OF FINANCE/ACCOUNTING
AS AT 31 DECEMBER 2021**

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

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

I **Rogathe Godson** being the Head of Finance of **VisionFund Tanzania Microfinance Bank Limited** hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2021, have been prepared in compliance with applicable accounting standards and statutory requirements.

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



Signed by: Rogathe Godson

Position: Chief Finance Officer

NBAA Membership No: GA 3640

Date: 29 March 2022

INDEPENDENT AUDITOR'S REPORT

To the shareholders of *Vision Fund Tanzania Microfinance Bank Limited*

REPORT OF THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of **VisionFund Tanzania Microfinance Bank Limited** (the Bank) set out on pages 17 to 83, which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the International 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 the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT (Continued)
To the shareholders of VisionFund Tanzania Microfinance Bank Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

Key audit matter	How our audit addressed the key audit matter
Credit risk and Expected Credit losses on financial assets instruments	
<p>The IFRS 9 Expected credit losses (ECL) approach is applicable to all financial assets at amortised cost.</p> <p>ECL represents Management's best estimate of the losses expected to be incurred at reporting date. The ECL allowances are significant in the context of the financial statements due to their magnitude as well as the estimation uncertainty and significant level of judgement inherent in determining the value of the allowances.</p> <p>The models used to determine the ECL estimate are complex and include inputs from multiple sources. Management applies adjustments to the model outputs to cater for factors not included in the model assessment, which can be highly subjective</p> <p>Individual ECL recognition Significant judgements, estimates and assumptions are applied by Management to:</p> <ul style="list-style-type: none"> ▸ Determine if the financial asset is impaired; ▸ Determine the expected future cash flows to be collected; ▸ Estimate the timing of the future cash flows <p>The accounting policy and key sources of estimation uncertainty in relation to impairment of financial instruments are disclosed in Note 6 to the financial statements. The Expected Credit Loss is disclosed in note 15 to the financial statements.</p>	<p>Accounting policies: We have evaluated the IFRS 9 accounting policies and assessed the ECL methodologies applied and compared these to the requirements of IFRS 9: Financial Instruments.</p> <p>Audit procedures We have performed our audit procedures to assess the 31 December 2021 closing provision and the movement in ECL over the period.</p> <p>We have obtained an understanding of Management's process over credit origination, credit monitoring and credit remediation and tested the relevant key controls identified within these processes.</p> <p>Collective ECL recognition Where expected credit losses are calculated on a collective modelled basis, we have performed the following audit procedures, amongst others, with the assistance of our credit risk quantitative specialists:</p> <ul style="list-style-type: none"> • Evaluated the control environment supporting the models as well as the governance processes over impairments as a whole. • Assessed the design and implementation of the ECL models, including assessing the significant assumptions applied and the data used to derive model parameters with reference to the requirements of IFRS 9. • Evaluated the ECL modelling methodology applied by Management to determine the Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) used to compute portfolio ECL allowances against the requirements of IFRS 9 and the Bank's internal policies. • Assessed Management's ECL models for mathematical accuracy and alignment to internally approved modelling methodology by re-performing the ECL models.

INDEPENDENT AUDITOR'S REPORT (Continued)
To the shareholders of VisionFund Tanzania Microfinance Bank Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

Other Information

Other information consists of the information included in the Directors' Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

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 management and the Directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of VisionFund Tanzania Microfinance Bank Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

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

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

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

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of VisionFund Tanzania Microfinance Bank Limited

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS.

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


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

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

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

- In our opinion, the capital adequacy ratios as presented in Note 28 to the financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 of Bank of Tanzania.

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



Signed by Dr. Neema Kiure (FCPA 1227)
On behalf of Ernst & Young
Certified Public Accountants
Dar Es Salaam

Date: 31/03 2022

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

		2021	2020
	Notes	TZS'000	TZS'000
Operating income			
Effective interest income	8	11,112,786	10,734,539
Effective interest expense	9	(129,946)	(124,275)
Net interest income		10,982,840	10,610,264
Fees and commission income	10	-	159,813
Other income	11	1,058,146	1,033,011
Gain on disposal of assets	12	-	3,150
Net operating income before impairment charge on loans and advances		12,040,986	11,806,238
Expected credit losses	15	(780,918)	(1,069,574)
Net operating income		11,260,068	10,736,663
Personnel expenses	13	(5,378,796)	(6,063,295)
Loss on disposal of assets	12	(1,244)	-
Operating expenses	14	(5,199,518)	(3,801,025)
Depreciation and amortisation	17, 18	(621,736)	(556,112)
		(11,201,294)	(10,420,432)
Profit before tax		58,774	316,232
Income tax charge	16	(202,532)	(755,937)
Loss for the year		(143,758)	(439,705)
Other comprehensive income		-	-
Other comprehensive income, net of tax		-	-
Total comprehensive (loss)/income for the year, net of taxes		(143,758)	(439,705)

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 TZS'000	2020 TZS'000
ASSETS			
Cash and cash equivalents	19	10,648,949	5,391,972
Loans to customers	20	18,882,353	15,481,188
Deposits with banks	21	-	6,179,588
Trade and other receivables	22	559,940	551,920
Property, equipment and right-of-use assets	17	2,254,903	2,539,166
Intangible assets	18	281,922	438,168
Tax receivables	16	161,091	-
Deferred tax asset	16	-	152,630
Total assets		32,789,158	30,734,632
SHARE HOLDERS' FUNDS			
Share capital	27	21,200,000	21,200,000
Advance towards share capital		11,596	11,596
Retained earnings		971,312	1,115,070
Property revaluation reserves	28	247,572	247,572
Total equity attributable to equity holders		22,430,480	22,574,238
LIABILITIES			
Deposits from customers	23	1,486,154	1,254,278
Special deposit	24	3,922,975	3,329,472
Deferred tax liabilities	16	49,902	-
Deferred grants income	25	1,951,502	1,988,992
Other liabilities	26	2,948,145	1,538,743
Tax payables	16	-	48,909
Total liabilities		10,358,678	8,160,394
Total liabilities and equity		32,789,158	30,734,632

These financial statements were approved by the Board of Directors for issue on 29 March 2022 and were signed on its behalf by:

Name: Atomasia Seleka Title: Director Signature: [Signature]

Name: Loyce Kanyu Title: Director Signature: [Signature]

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

		2021	2020
	Notes	TZS'000	TZS'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		58,773	316,232
Adjustment for non-cash items			
Depreciation of property and equipment	17	363,491	335,283
Amortisation of intangible assets	18	156,246	119,553
Depreciation of right of use assets	17	101,999	101,276
Interest expense	9	129,946	124,275
Amortisation of grant income	25	(86,423)	(297,580)
Gain/Loss on disposal of Property and equipment	12	1,244	(3,150)
Write off other assets		-	-
Expected credit losses - Loans	15	780,918	1,069,574
		<u>1,506,195</u>	<u>1,765,463</u>
Changes in:			
Decrease in loans to customers		(4,235,730)	2,968,821
Decrease in trade and other receivables		(8,020)	356,205
Increase in deposit from customers		231,876	(543,451)
Increase in special deposit		593,503	(860,143)
(Decrease)/Increase in other liabilities, accrued expenses, and revolving fund		<u>1,583,237</u>	<u>(13,782)</u>
Cash generated from operating activities		<u>(328,939)</u>	<u>3,673,113</u>
- Interest paid		(129,130)	(110,205)
- Tax paid	16	(210,000)	(337,011)
Net cash flows from operating activities		<u>(668,069)</u>	<u>3,225,897</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	17	(189,244)	(544,307)
Proceeds from disposal of property and equipment		2,655	4,754
Net cash used in investing activities		<u>(186,589)</u>	<u>(539,553)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Deferred Grant received	25	48,934	241,500
Payment of principal portion of lease liabilities		(61,866)	(83,240)
Net cash flows used in financing activities		<u>(12,933)</u>	<u>158,260</u>
Increase/(decrease) in cash and cash equivalents		(867,591)	2,844,603
Net foreign exchange difference		(3,383)	628
Cash and cash equivalents at the beginning of the year		<u>11,625,432</u>	<u>8,780,201</u>
Cash and cash equivalents at the end of the year		<u><u>10,754,458</u></u>	<u><u>11,625,432</u></u>
Composition of cash and cash equivalents is as follows:			
Cash and bank balance	19	10,754,458	5,445,843
Investment in market securities maturing in less than 90 days	21	-	6,179,588
		<u>10,754,458</u>	<u>11,625,432</u>
Additional information on operational cash flows from interest and dividends			
Interest paid		129,130	110,205
Interest received		10,499,443	8,948,626

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021**

1. GENERAL INFORMATION

VisionFund Tanzania Microfinance Bank Limited is a Bank domiciled in Tanzania aimed at providing financial services to small holder farmers, micro entrepreneurs and low-income households in the rural and urban areas of the United Republic of Tanzania. The entity's registered address is on the 5th Floor, AICC Building, Serengeti Wing and P.O. Box 1546 Arusha, Tanzania.

2. BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except where otherwise stated or as required by International Financial Reporting Standards and Interpretations to those Standards for assets and liabilities to be stated at their fair value as disclosed in the accounting policies hereafter. The financial statements are presented in Tanzania shillings (TZS) and the amounts are rounded to the nearest thousand (000), except where otherwise indicated.

Statement of compliance

The financial statements of VisionFund Tanzania Microfinance Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) and Interpretations to those standards, and comply with the Tanzanian Companies Act, 2002 and the Banking and Financial Institutions Act, 2006.

For the purpose of reporting under the Companies Act, 2002 of Tanzania, the statement of financial position represents the balance sheet in these financial statements and the statement of profit or loss and other comprehensive income represents the profit and loss account.

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in note 31 of these financial statements.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a currently legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

3.1 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year.

Changes from the new or revised standards and interpretations, amendments to existing standards and interpretations and improvements to IFRSs that were effective for the current reporting period did not have material impact on the accounting policies, financial position or performance of the Bank.

The new accounting pronouncements issued but not yet effective are not expected to have an impact on the Bank's financial statements. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.1 New and amended standards and interpretations

The standard which are effective this year have no impact on financial statements of the Vision Fund Microfinance Bank.

International Financial Reporting Standards and amendments effective for the first time for December 2021 year-end	
Number	Executive summary
<p>Amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases'-interest rate benchmark (IBOR) reform (Phase 2)</p> <p>Effective date</p> <p>Annual periods beginning on or after 1 January 2021</p>	<p>Key amendments address issues that arise from the implementation of the reform of an interest rate benchmark.</p>
<p>IFRS 16, 'Leases' COVID-19-Related Rent Concessions Amendment</p> <p>Effective date</p> <p>Annual periods beginning on or after 1 April 2021.</p>	<p>The amendment provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.</p>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.2. Standards issued but not yet effective

International Financial Reporting Standards, interpretations and amendments issued but not effective	
Number	Executive summary
<p>IFRS 17, 'Insurance contracts'</p> <p>Effective date</p> <p>Annual periods beginning on or after 1 January 2023</p>	<p>IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.</p> <p>Current the Bank has no insurance contract but will keep on assessing the impact of adopting IFRS 17 on its financial statements in future when the plan to start Bancassurance is completed,</p>
<p>Amendment to IFRS 3, 'Business combinations'</p> <p>Asset or liability in a business combination clarity</p> <p>Effective date</p> <p>Annual periods beginning on or after 1 January 2023</p>	<p>The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard.</p> <p>The amendment is effective for accounting periods beginning on or after 1 January 2022 and is not expected to have significant impact on the financial statements.</p>
<p>Amendment to IAS 1 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current</p> <p>Effective date</p> <p>Annual periods beginning on or after 1 January 2023</p>	<p>The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.</p> <p>The amendment to IAS 1 is effective for accounting periods beginning on or after 1 January 2023 and is not expected to have significant impact on the financial statements.</p>
<p>IFRS 17, Insurance contracts Amendments</p> <p>Effective date</p> <p>Annual periods beginning on or after 1 January 2022</p>	<p>No Impact to the Bank since there were no Insurance contract.</p>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.2. Standards issued but not yet effective (Continued)

International Financial Reporting Standards, interpretations and amendments issued but not effective	
Number	Executive summary
<p>Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use</p> <p>Effective date</p> <p>Annual periods beginning on or after 1 January 2022</p>	<p>The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.</p> <p>The amendment to IAS 16 is effective for accounting periods beginning on or after 1 January 2022 and due to the nature of the Bank, is not expected to have significant impact on the financial statements.</p>
<p>Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' on Onerous Contracts—Cost of Fulfilling a Contract</p> <p>Effective date</p> <p>Annual periods beginning on or after 1 January 2022</p>	<p>The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).</p> <p>The amendment to IAS 37 is effective for accounting periods beginning on or after 1 January 2022 and is not expected to have significant impact on the financial statements.</p>
<p>Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12</p> <p>Effective for annual periods beginning on or after 1 January 2023</p>	<p>The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.</p> <p>Amendment is not expected to have significant impact on the financial statements</p>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

3.2. Standards issued but not yet effective (Continued)

International Financial Reporting Standards, interpretations and amendments issued but not effective	
Number	Executive summary
<p>Annual improvements cycle 2018 - 2020</p> <p>Effective date</p> <p>Annual periods beginning on or after 1 January 2022</p>	<p>The Annual Improvements to IFRS Standards 2018-2020 makes amendments to the following standards:</p> <p>IFRS 1 - The amendment permits a subsidiary that applies paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRSs.</p> <p>IFRS 9 - The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.</p> <p>IFRS 16 - The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.</p> <p>IAS 41 - The amendment removes the requirement in paragraph 22 of IAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.</p> <p>The amendment to above standards is effective for accounting periods beginning on or after 1 January 2022 and is not expected to have significant impact on the financial statements.</p>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires directors to exercise judgment in the process of applying the Bank's accounting policies. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Refer to the estimates and judgements below and reference to the notes to these financial statements for the related carrying amounts.

(a) Expected credit losses on financial assets: Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a Bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future credit risk losses should depend not just on the health of the economy today but should also take account of changes to the economic environment in the future. To capture the effect of changes to the economic environment in the future, the computation of probability of default (PD), loss given default (LGD) and so expected credit loss incorporates forward-looking information; assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Bank's clients. Such variables include Inflation, Gross Domestic Product (GDP) growth, oil prices fluctuation, average electricity generation, natural gas, population, total household spending, total food sales, total public debt, Government spending in priority sector, unemployment rate, exchange rate movement. Forward-looking information has been incorporated into the Bank's impairment methodology calculations which typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.

Consideration has been made on the impact of COVID-19 pandemic on estimation of the Expected Credit Losses. Considering that Tanzania as a country had not gone into a lockdown, economic activities of the customers continued and this prevented significant impact on loan repayments. As part of managing risk on the Expected Credit Losses, the Bank lowered disbursements of new loans during the year 2021. There have not been signs that the country will go into a lockdown in a near future. From this consideration, there was no significant impact on the Expected Credit Losses as a result of the COVID-19 pandemic.

Refer to notes 15, 19, 20 and 21 to these financial statements for the carrying amounts of the affected assets.

b) Significant increase of credit risk

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors the weight of which depends on the type of product and counterparty.

Refer to note 6 (b) to these financial statements for the carrying amounts of the affected assets.

c) Establishing Groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that Group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

The table below displays a representative summary of the economic variables that the Bank considers to be among the most important determinants of its expected credit loss.

Macroeconomic variable	Annual average
CPI	119.92
GDP Growth Rate %	4.70
Inflation Rate %	3.10
Lending Rate %	16.66
Money supply growth rate %	5.70
Unemployment %	2.20

Refer to note 6 (b) to these financial statements for the carrying amounts of the affected assets.

d) Deferred tax

Deferred tax is the tax expected to be payable or recoverable in the future arising from temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and taxable profits will be available against which deductible temporary differences can be utilized. The judgments take into consideration the effect of both positive and negative evidence, including historical financial performance, projections of future taxable income, and future reversals of existing taxable temporary differences.

The deferred tax asset recognized on the Bank's statement of financial position in year 2021 amounted to TZS 152.63 million (2020: TZS 464.61 million). Refer to note 16 to these financial statements for further details.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

**e) Determination of the lease term for lease contracts with renewal and termination options
(Bank as a lessee)**

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset). Further details in relation to leases have been disclosed in note 17 to the financial statements.

f) Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

g) Estimating the incremental borrowing rate (Continued)

The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for entities that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the entity's functional currency). The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the entity's stand-alone credit rating, or to reflect the terms and conditions of the lease). Further details in relation to leases have been disclosed in note 17 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition

(i) *Interest income and expenses*

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

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

The EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e., the gross carrying amount less the allowance for expected credit losses (ECLs)).

Under IFRS 9, interest income is recorded using the Effective Interest Rate (EIR) method for all financial instruments measured at amortised cost.

Interest income and interest expense for the period are disclosed in notes 8 and 9 (respectively) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Revenue recognition (Continued)

(i) *Interest income and expenses (Continued)*

The table below summarizes the recognition of interest income for the stages of the financial assets:

	Stage 1 (performing loans)	Stage 2 (under- performing loans)	Stage 3 (non-performing loans)
Recognition of interest	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated based on the amortized cost net of the loss provision, (net carrying amount).

(ii) *Fees and commission income*

The Bank earns fee and commission income from various services it provides to its customers and mainly include loan application fees and dormant account fees. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank's revenue contracts do not typically include multiple performance obligations.

When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified). The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Application fees and other similar service fees

Fee income received by the Bank for administration such as application fees is recognised at a point in time when the application has been processed while for the dormancy fee is recognised as revenue as the service is provided.

Other fees and commission incomes are 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 fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

Fees and commission income for the period are disclosed in note 10 to the financial statements.

(iii) *Other income*

Other income includes amortization of deferred grant income, penalty income, sundry income and other fees. Other income is recognized in the period in which it is earned.

Other income is disclosed in note 11 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Grant's recognition

Grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Bank receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments.

Any unutilized deferred revenue grants at the expiry of the contracts or agreements are dealt with in accordance with the terms stated out in the respective contracts or agreements.

b) Employees' benefits including post-employment benefits

Short-term employee benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are expensed as the related service is provided. A liability is recognized for the expected amount to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

Postretirement benefits

The Bank operates a defined contribution plan whereby it contributes 10% of an employee gross monthly salary in respect of social security contributions (NSSF). Other than these monthly contributions, the Bank has no further commitments or obligations for its employees' social security contributions neither does it have other postretirement benefit schemes. The contributions are charged to profit or loss in the year to which they relate.

Employee benefits have been disclosed in note 13 to the financial statements.

c) Property and equipment

Upon initial recognition, the Bank's Furniture, fittings and equipment, Motor vehicles and motorcycles and Computers are recorded at cost which includes expenditure that is directly attributable to the acquisition of the items. Subsequently, except for branch improvements which are subsequently measured at cost less accumulated depreciation and impairment, the Bank's Furniture, fittings and equipment, Motor vehicles and motorcycles and Computers are stated in the statement of financial position at revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. The valuation, which is performed after every four years, is determined by independent valuers with reference to the market value. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Property and equipment (Continued)

Any revaluation increase arising on the revaluation of Furniture, fittings and equipment, Motor vehicles and motorcycles and Computers is recognized in other comprehensive income and cumulated in revaluation reserve in equity except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed.

A decrease in the carrying amount arising on the revaluation of Furniture, fittings and equipment, Motor vehicles and motorcycles and Computers is recognized in profit or loss to the extent that it exceeds the balance, if any, held in revaluation reserve relating to a previous revaluation of that asset. Upon disposal, any revaluation surplus relating to the particular asset being sold is transferred to retained earnings.

All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred. Depreciation of assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Description	Rate (%)
Furniture, fittings and equipment	12.5
Motor vehicles and motorcycles	25
Computers	25
Branch improvements	10

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

The residual values, useful lives and methods of depreciating property and equipment are reviewed, and adjusted if appropriate, at each reporting date.

e) Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right of use is presented with PPE in the statement of financial position. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Buildings	2 to 19 years
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The right-of-use assets are subject to assessment of impairment in line with the Bank's policy for Impairment of non-financial assets. Refer to note 5 (m) for further details.

The right of use asset is presented with PPE in the SOFP, and lease liability is presented with on other payable in the SOFP.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the profit and loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

The annual rate of amortization which has been consistently applied is:

Computer software	25% per annum
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Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

g) Financial Instruments

Initial Recognition of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are capitalized to the initial carrying amount of the financial asset/liability, as appropriate on initial recognition.

The Bank recognizes financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price.

Classification and Measurement of Financial Instruments

On initial recognition, the Bank classifies its financial assets into the following measurement categories:

- Amortized cost;
- Fair value through other comprehensive income;

The classification and subsequent measurement of financial assets depends on:

- The business model within which the financial assets are managed; and
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of principal and interest).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial Instruments

Classification and Measurement of Financial Instruments

Business model assessment:

The business model reflects how the Bank manages the financial assets in order to generate cash flows and returns. The Bank makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The factors considered in determining the business model include (i) how the financial assets' performance is evaluated and reported to management, (ii) how the risks within the portfolio are assessed and managed and (iii) the frequency, volume, timing for past sales, sales expectations in future periods, and the reasons for such sales. The Bank reclassifies debt instruments when, and only when, the business model for managing those assets changes. Such changes are highly unlikely and therefore expected to be very infrequent.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI):

In making the assessment of whether the contractual cash flows have SPPI characteristics, the Bank considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin. Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be mandatorily measured at fair value through profit or loss. In making the assessment, the Bank considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, 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. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government securities and corporate bonds. The Bank classifies its debt instruments as follows:

- Amortised cost - Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. Financial asset are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are accounted for in profit or loss when the asset is derecognised, modified or impaired.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial Instruments (Continued)

Classification and Measurement of Financial Instruments (Continued)

Fair value through profit or loss - Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in Gains and losses from banking and trading activities in profit or loss. The Bank may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise.

Financial Liabilities

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

Expected Credit Losses on Financial Assets

The Bank uses a mixed approach to impairment where parameters are modelled at an individual financial instrument level or on a portfolio basis when they are only evident at this higher level. A collective approach will only be carried out when financial instruments share similar risk characteristics, which could include factors such as instrument type, collateral type, industry, and geography and credit risk ratings.

The Bank recognizes expected credit losses based on unbiased forward-looking information. Expected credit losses are recognized on:

- Financial assets at amortised cost
- Loan commitments not measured at fair value

Impairment is recognized based on a three-stage approach:

Stage 1: Exposures where there has not been a significant increase in credit risk since origination. For these exposures an expected credit loss is recognized based on the credit losses expected to result from default events that are possible within 12 months of the reporting date. Interest income is calculated based on the gross carrying value of these instruments.

Stage 2: Exposures for which the credit risk has increased significantly since initial recognition. For these exposures, lifetime expected credit losses should be recognized (i.e. credit losses from default events that are possible over the life of the instrument). The Bank will assess whether a significant increase in credit risk has occurred based on (i) qualitative drivers including being marked as high risk or reflected on management's watch list; and (ii) quantitative drivers such as the change in the asset's cumulative weighted average lifetime probability of default (PD). Any exposure that is more than 30 days past due will also be included in this stage. Interest income is calculated based on the gross carrying value of these instruments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial Instruments (Continued)

Expected Credit Losses on Financial Assets (Continued)

Stage 3: Exposures which are credit impaired. For these exposures, expected credit losses are based on lifetime losses. Assets are considered to be credit impaired when they meet the regulatory definition of default which includes unlikeliness to pay indicators as well as any assets that are more than 90 days past due. Interest income is calculated based on the carrying value net of the loss allowance.

Expected loss calculation

The measurement of expected credit losses must reflect:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money (represented by the effective interest rate); and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions
- interest rate. The expectation of cash flows take into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses comprise the unbiased probability weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. Expected credit losses are calculated (for both 12 months and lifetime losses) as a function of the exposure at default (EAD); PD and loss given default (LGD). These terms are interpreted as follows per the requirements of IFRS 9:

- EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioural expectation of limit usage by customers in the various stages of credit risk.
- PD is the probability of default at a particular point in time, which may be calculated, based on the defaults that are possible to occur within the next 12 months; or over the remaining life; depending on the stage allocation of the exposure.
- LGD - is the loss that is expected to arise on default which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

Definition of default

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

Under IFRS 9, the Bank will consider a financial asset as 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial Instruments (Continued)

Expected Credit Losses on Financial Assets (Continued)

Forward looking information

- In the expected credit losses models, the Bank relies on a broad range of forward-looking information as economic inputs.
- The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Derecognition of financial assets and liabilities

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either

- (i) the bank transfers substantially all the risks and rewards of ownership, or
- (ii) the bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

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

- (i) Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

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

Write -off

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, deposits held at call with other banks and highly liquid financial assets with original maturities of three months or less from the acquisition date 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 amortized cost in the statement of financial position.

h) Taxation

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax liabilities are recognised for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax arising from items that are recognised in other comprehensive income or equity, either in current or prior periods, are also recognised in other comprehensive income or directly in equity.

Refer to note 16 for the details of deferred tax recognized.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Regulatory and General provision reserve (Non-distributable reserve)

Under IFRS, an allowance for either 12-month or lifetime expected credit losses (ECLs), is recognized depending on whether there has been a significant increase in credit risk since initial recognition. However, Bank of Tanzania prudential guidelines require the Bank to set aside amounts for impairment losses on loans to customers in addition to those losses that have been recognized under IFRS. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the non-distributable reserve.

(j) Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (the 'reporting entity'). In the normal course of business, a number of banking relationships are entered into with related parties' i.e. key management staff, Directors, their associates and companies associated with Directors. Such relationships are guided by policies approved by the Board to ensure the same is done at arm's length. Related party transactions and balances are disclosed in note 33 to these financial statements.

(k) Leasing

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are subject to assessment of impairment in line with the Bank's policy for Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. The lease liability is presented on the other payable in the Statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Leasing (Continued)

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(l) Impairment of non-financial assets

The Bank's non-financial assets mainly include property and equipment, right-of-use assets and intangible assets. The Bank assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include activities that the Bank is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Impairment losses of continuing operations are recognized in profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk and market risks. This note presents information about the Bank's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Bank's board of directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board of directors has established the Board Risk Management Committee, which is responsible for developing and monitoring Bank risk management policies.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Bank's risk Audit Committee oversees how management monitors compliance with the Bank's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's risk Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit Committee. The three main risks i.e. credit risks, liquidity risks and market risks are explained in the following paragraphs.

b) Credit risk

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

Management of credit risk

As part of managing the credit risk, the customers' credit limit is assessed when approving the loan after assessing the respective customer's ability to repay. This assessment involves review of the customer's bank statements, financial statements and other relevant financial information whereby the entire amount of the loan applied can be approved or the credit committee can approve only part of the loan applied. Each branch is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Bank's credit committee. Each branch manager reports on all credit related matters to management. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios. This includes review of the branch's daily portfolio quality reports by the Branch Manager, assessment of recovery efforts made so far and determination of further recovery efforts to be made as per the approved credit manual. Internal Audit undertakes regular audits of branches and the entity's credit processes.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Loans and advances

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflects three components:

- i. the 'probability of default' by the client or counterparty on its contractual obligations;
- ii. current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default'; and
- iii. the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are embedded in the Bank's daily operational management. This is in line with impairment requirements of IFRS 9, which requires the bank to estimate its losses using expected loss model where a 12 months or lifetime horizon need to be put into consideration (Looking into the future).

(i) Probability default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgment. Clients of the Bank are segmented into rating classes based on performance. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

(ii) Exposure at default

Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value.

(iii) Loss Given Default (LGD)

Loss given default represent the Bank's expectation of the extent of the loss on a claim should a default occur. The ninety percent (90%) of the Bank's loans are secured against cash collaterals calculated as a percentage of disbursed amount. The percentage rate used depends on the product taken by the customer. The Bank's LGD is therefore computed per loan considering the cash collateral. The cash collateral is non-interest bearing. Since the collaterals are in cash, there is no discounting of the cash flows and also there are no transaction costs in realizing them. For loans not secured against cash collateral, the LGD is considered to be one hundred percent (100%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Impairment and provisioning policies

The Bank has its internal credit rating tools tailored in accordance with the Bank of Tanzania (BOT) guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale reflects the range of default probabilities defined for each rating class.

The impairment provision shown in the statement of financial position at period-end is derived from each of the internal rating grades. However, the majority of the impairment provision comes from the bottom two grades. Details showing the percentage of the Bank's on-balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories are shown below.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment provisions on individually assessed accounts are determined by an evaluation of expected credit losses at reporting date on a case-by-case basis and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account. Majority of the loans issued by the Bank, around ninety nine percent (99%) are secured with cash collateral equivalent to 10% of the loan amount. Since the collateral is in cash, there are no transaction costs in realizing this collateral. The cash collateral values fluctuate from period to period since the Bank offsets the same with overdue amounts for loans above 180 days past due hence cash collateral expected to be realized may be less than the original amount of 10% of the loan. The cash collateral is non-interest bearing. In arriving at the cash collateral to be realized, the Bank has used the actual outstanding amount of cash collateral per loan

Bank's rating	Staging	Description of the grade	Number of days past due
1	Stage 1	Current	0 to 5 days
2	Stage 1	Especially Mentioned	6 to 30 days
3	Stage 2	Substandard	31 to 60 days
4	Stage 2	Doubtful	61 to 90 days
5	Stage 3	Loss	More than 90 days

The total impairment provision for loans and advances represents both individually impaired loans and loans assessed on a portfolio basis.

Gross carrying amount of loans to customers and the corresponding ECL allowances are summarized as follows:

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

Loans and advances to customers*

	Stage 1	Stage 2	Stage 3	Total 2021	Total 2020
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Internal rating grade					
Current	18,692,886	-	-	18,692,886	15,306,327
Especially mentioned	590,025	-	-	590,025	305,373
Substandard	-	127,335	-	127,335	99,246
Doubtful	-	68,239	-	68,239	112,900
Loss	-	-	303,603	303,603	1,392,806
Gross Carrying amount	19,282,912	195,574	303,603	19,782,089	17,216,652
ECL allowance	592,880	- 5,593	301,262	- 899,736	- 1,735,463
Net Loans and advances to customers	18690032	189981	2341	18882353	15481189

	Stage 1	Stage 2	Stage 3	Total 2020	Total 2019
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Internal rating grade					
Current	15,306,327	-	-	15,306,327	18,758,800
Especially mentioned	305,373	-	-	305,373	667,321
Sub-standard	-	99,246	-	99,246	264,066
Doubtful	-	112,900	-	112,900	235,564
Loss	-	-	1,392,806	1,392,806	1,317,882
Gross Carrying amount	15,611,700	212,146	1,392,806	17,216,652	21,243,633
ECL allowance	- 340,178	- 5,069	- 1,390,216	- 1,735,463	- 1,679,418
Net Loans and advances to customers	15,271,521	207,077	2,590	15,481,189	19,564,215

CASH AND CASH EQUIVALENTS

	2021		2020
	Stage 1	Total	Stage 1
Internal rating grade			
Current	10,754,458	10,754,458	5,445,843
Gross Carrying amount	10,754,458	10,754,458	5,445,843
ECL allowance	(105,509)	(105,509)	(53,871)
Net Cash and Cash equivalents	10,648,949	10,648,949	5,391,972

INVESTMENT IN SHORT TERM DEPOSIT WITH BANKS

	2021		2020
	Stage 1	Total	Stage 1
Internal rating grade			
Current	-	-	6,257,308
Gross Carrying amount	-	-	6,257,308
ECL allowance	-	-	(77,720)
Net Cash and Cash equivalents	-	-	6,179,588

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
1 January 2021	16,613,485	1,485,398	487,300	6,494	115,867	243,571	17,216,652	1,735,463
New assets originated or purchased	29,155,981	591,841	409,880	5,331	372,950	196,825	29,938,811	793,997
Payments and assets derecognised	(25,470,133)	(1,068,845)	(691,297)	(1,177)	(169,211)	(716,447)	(26,330,641)	(1,786,470)
Accrued interest	597,866	-	6,064	-	9,413	-	613,343	-
Accrued penalty Amounts written off	(13,014)	-	(132)	-	(205)	-	(13,350)	-
	(1,601,275)	(1,601,275)	(16,241)	(16,241)	(25,212)	(25,212)	(1,642,727)	(1,642,727)
At 31 December 2021	19,282,912	(592,880)	195,574	(5,593)	303,603	(301,262)	19,782,089	(899,736)

Note: Gross carrying amount of the loans to customers and the corresponding ECL allowances represented a maximum credit risk exposure.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

b) Credit risk (Continued)

	Stage 1		Stage 2		Stage 3		ECL		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
1 January 2021	20,391,333	1,237,534	519,186	15,094	333,115	426,790	21,243,634	1,679,418		
New assets originated or purchased	15,656,525	1,223,816	-	-	-	-	15,656,525	1,223,816		
Payments and assets derecognized	(19,078,823)	(23,607)	(39,996)	(8,600)	(111,432)	(77,403)	(19,230,251)	(109,610)		
Accrued interest	596,795	-	8,110	-	-	-	604,905	-		
Amounts written off	(952,345)	(952,345)	-	-	(105,816)	(105,816)	(1,058,161)	(1,058,161)		
At 31 December 2020	16,613,485	1,485,398	487,300	6,494	115,867	243,571	17,216,652	1,735,463		

Note: Gross carrying amount of the loans to customers and the corresponding ECL allowances represented a maximum credit risk exposure.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Write-off policy

The Bank writes off a loan balance in arrears equal to or greater than 180 days (and any related allowances for impairment losses) once the following actions have taken place: Bank credit committee determines that the loans are uncollectible; internal audit does an independent review of these loans; and a final write-off proposal is compiled and submitted to the Board of Directors for approval.

Collateral held

The Bank holds collateral against loan and advances to customers in form of deposits called "special deposits" against each loan and advance paid by the customer at the time of disbursement. The deposit is calculated as a percentage of disbursed amount. In the event the customer fails to repay, the loan balance will be written off net of the compulsory security savings. The percentage rate used depends on the product taken by the customer. Table below shows each product and its rate of compulsory security savings for the year 2021.

Loan product	Rate
Biashara loan	10%
Jiendeleze loan	10%
Kitita cha SEDA	10%
Premium loan	5%
Mkombozi	10%
Partnership Loan Product	0%
Elimu	0%
SME	0%
Savings Group	0%
Jitume	10%
Jikomboe	10%

Refer to note 24 for the details of the compulsory deposits as at the end of the year.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The table below summarizes the Bank's collateral for loans and advances:

Product	Gross carrying amount				Collateral			Total			Net exposure		
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
31 December 2021 in TZS'000													
Individual Loan Product	5,792,849	74,328	164,674	6,031,851	866,004	12,705	1,271	879,980	61,623	163,403	4,926,845	61,623	163,403
Biashara Loan Product	6,293,543	58,500	64,319	6,416,362	1,024,325	12,146	1,045	1,037,516	46,354	63,274	5,269,218	46,354	63,274
Jiendezeze Loan Product	4,414,128	47,666	52,360	4,514,154	717,073	9,190	390	726,653	38,476	51,970	3,697,055	38,476	51,970
Elimisha Loan Product	10,592	410	635	11,637	2,936	160	-	3,096	250	635	7,657	250	635
Mkombozi Loan Product	2,013,890	11,248	3,198	2,028,336	189,824	1,712	40	191,576	9,536	3,158	1,824,066	9,536	3,158
Jikomboe Loan Product	302,476	2,291	4,996	309,763	34,110	700	-	34,810	1,591	4,996	268,366	1,591	4,996
Jitume Loan Product	231,740	-	-	231,740	21,145	-	-	21,145	-	-	210,595	-	-
Partnership Loan Product	33,406	-	-	33,406	1,025	-	-	1,025	-	-	32,381	-	-
Savings Group Loan Product	160,816	-	-	160,816	-	-	-	-	-	-	160,816	-	-
Uzalishaji Loan Product	29,471	1,130	13,422	44,023	1,100	-	50	1,150	1,130	13,372	28,371	1,130	13,372
	<u>19,282,912</u>	<u>195,574</u>	<u>303,603</u>	<u>19,782,089</u>	<u>2,857,543</u>	<u>36,613</u>	<u>2,796</u>	<u>2,896,952</u>	<u>158,961</u>	<u>300,807</u>	<u>16,425,369</u>	<u>158,961</u>	<u>300,807</u>

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

The table below summarizes the Bank's collateral for loans and advances:

	Gross carrying amount				Collateral			
31 December 2021 in TZS'000	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Biashara Loan Product	5,477,497	42,775	272,064	5,792,336	939,990	8,560	734	949,284
Jiendeleze Loan Product	3,157,461	33,379	209,874	3,400,714	530,140	7,455	497	538,092
Premium Loan Product	275,478	13,916	38,440	327,834	28,275	750	-	29,025
Mkombozi Loan Product	1,728,070	36,541	113,544	1,878,155	177,088	4,416	10	181,514
Partnership Loan Product	11,867	-	180	12,046	-	-	-	-
Jitume Loan Product	148,346	8,505	29,536	186,387	15,295	2,050	-	17,345
Jikomboe Loan Product	187,684	2,250	35,308	225,242	22,400	300	-	22,700
Individual Loan Product	3,873,538	50,326	334,096	4,257,960	600,954	10,350	1,400	612,704
Uzalishaji Loan Product	378,605	24,455	167,006	570,067	12,009	-	100	12,109
Savings Group Loan Product	65,571	-	-	65,571	-	-	-	-
Partner Equipment Loan Product	122,118	17,029	123,858	263,004	-	-	-	-
Elimisha Loan Product	10,551	-	189	10,740	3,795	-	-	3,795
VFT Dry Land Loan Product	-	-	68,711	68,711	-	-	-	-

6. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Geographical analysis

	Tanzania TZS'000
At 31 December 2021	
Financial assets	
Cash and cash equivalents	10,648,949
Loans to customers	18,882,353
	29,531,302
At 31 December 2020	
Financial assets	
Cash and cash equivalents	5,391,972
Loans to customers	15,481,188
Deposits with banks**	6,257,308
	27,130,468

**These are Fixed deposits in Commercial Banks that are regulated by the Bank of Tanzania.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk (Continued)

Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counterparties.
(Amounts are in TZS'000);

31 December 2021	Agriculture	Trade and Commercial	Hotels and Restaurants	Fishing	Financial services	Others	Total
Cash and cash equivalents	-	-	-	-	10,754,458	-	5,445,843
Loans to customers	3,315,416	5,899,072	4,991,460	2,935,617	-	2,640,524	19,782,089
Deposits with banks	-	-	-	-	-	-	-
Trade and other receivables	-	-	-	-	-	51,164	90,359
	<u>2,950,794</u>	<u>5,250,306</u>	<u>4,442,511</u>	<u>2,612,765</u>	<u>10,754,458</u>	<u>2,440,484</u>	<u>29,400,009</u>
31 December 2020							
Cash and cash equivalents	-	-	-	-	5,445,843	-	5,445,843
Loans to customers	2,950,794	5,250,306	4,442,511	2,612,765	-	2,350,125	17,606,500
Deposits with banks	-	-	-	-	6,257,308	-	6,257,308
Trade and other receivables	-	-	-	-	-	90,359	90,359
	<u>2,950,794</u>	<u>5,250,306</u>	<u>4,442,511</u>	<u>2,612,765</u>	<u>11,703,151</u>	<u>2,440,484</u>	<u>29,400,009</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the entity's reputation. Finance receives information from the business regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Finance then maintains a portfolio of short-term liquid assets to ensure that sufficient liquidity is maintained within the entity as a whole.

Exposure to liquidity risk

The key measure used by the entity for managing liquidity risk is the ratio of cash to total customer deposits. The table below shows the position as at 31 December 2021 and the ratio:

	2021	2020
	TZS '000	TZS '000
Cash and bank balances	10,648,949	5,445,843
Investment in term deposits (maturing within 90 days)	-	6,257,308
	<u>10,648,949</u>	<u>11,703,151</u>
Total customer deposits	5,409,129	4,583,750
Cash to customer deposits ratio	<u>197%</u>	<u>255%</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

The table below summarizes the maturity profile of the Bank's financial assets and the undiscounted cash flows of its financial liabilities as at 31 December to the contractual maturity date.

	Up to 3 months TZS'000	Up to 6 months TZS'000	Up to 12 months TZS'000	1-5 years TZS'000	Total TZS'000
31 December 2021					
Financial assets					
Cash and cash equivalents	10,754,458	-	-	-	10,754,458
Loans to customers	4,331,712	8,936,067	6,381,315	132,994	19,782,089
Total financial assets	<u>15,086,170</u>	<u>8,936,067</u>	<u>6,381,315</u>	<u>132,994</u>	<u>30,536,547</u>
Financial Liabilities					
Deposits from customers	1,486,154	-	-	-	1,486,154
Special deposits	2,171,469	1,113,061	710,650	16,704	4,011,884
Total financial liabilities	<u>3,657,623</u>	<u>1,113,061</u>	<u>710,650</u>	<u>16,704</u>	<u>5,498,038</u>
Liquidity gap	<u>11,428,547</u>	<u>7,823,006</u>	<u>5,670,665</u>	<u>116,290</u>	<u>25,038,509</u>
	Up to 3 months TZS'000	Up to 6 months TZS'000	Up to 12 months TZS'000	1-5 years TZS'000	Total TZS'000
31 December 2020					
Financial assets					
Cash and bank balances	5,445,843	-	-	-	5,445,843
Loans to customers	11,032,131	5,191,819	1,782,827	39,886	18,046,663
Deposits with banks	6,257,308	-	-	-	6,257,308
Total financial assets	<u>22,735,282</u>	<u>5,191,819</u>	<u>1,782,827</u>	<u>39,886</u>	<u>29,749,814</u>
Financial Liabilities					
Deposits from customers	1,254,278	-	-	-	1,254,278
Special deposits	1,860,644	942,174	587,048	12,825	3,402,691
Total financial liabilities	<u>3,114,922</u>	<u>942,174</u>	<u>587,048</u>	<u>12,825</u>	<u>4,656,969</u>
Liquidity gap	<u>18,900,066</u>	<u>4,168,437</u>	<u>1,167,893</u>	<u>26,437</u>	<u>24,262,833</u>

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(c) Liquidity risk (Continued)

Maturity analysis of lease liabilities is summarized below:

	Up to 3 months TZS'000	Up to 6 months TZS'000	Up to 12 months TZS'000	1-5 years TZS'000	Total TZS'000
31 December 2021					
Lease liabilities	72,964	24,407	92,042	1,570,539	1,759,951
	<u>72,964</u>	<u>24,407</u>	<u>92,042</u>	<u>1,570,539</u>	<u>1,759,951</u>
31 December 2020					
Lease liabilities	39,020	70,236	120,979	799,046	1,029,281
	<u>39,020</u>	<u>70,236</u>	<u>120,979</u>	<u>799,046</u>	<u>1,029,281</u>

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. The Bank is subject to minimal market risks due to its lack of reliance on external debt funding. The entity also does not hold equity instruments as investments. Foreign exchange risk to the entity is limited to holding a long open position, since the entity receives most of its funding in hard currency. The entity does not engage in foreign exchange operations as part of its business.

(i) Interest rate risk

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

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risks (Continued)

(i) Interest rate risk (Continued)

31 December 2021	Up to 3 months TZS'000	Up to 6 months TZS'000	Up to 12 months TZS'000	1-5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
Assets						
Cash and bank balances	-	-	-	-	10,754,458	10,754,458
Loans to customers	4,331,712	8,936,067	6,381,315	132,994	-	19,782,089
	4,331,712	8,936,067	6,381,315	132,994	10,754,458	30,536,547
Liabilities						
Deposits from customers	(1,486,154)	-	-	-	-	(1,486,154)
Special deposit	-	-	-	-	(3,922,975)	(3,922,975)
Lease liabilities	(72,964)	(24,407)	(92,042)	(1,570,539)	-	(1,759,951)
	(1,559,118)	(24,407)	(92,042)	(1,570,539)	(3,922,975)	(7,169,081)
Interest sensitivity gap	2,772,594	8,911,660	6,289,274	(1,437,544)	6,831,483	23,367,466

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risks (Continued)

(i) Interest rate risk (Continued)

31 December 2020	Up to 3 months TZS'000	Up to 6 months TZS'000	Up to 12 months TZS'000	1-5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
Assets						
Cash and bank balances	-	-	-	-	5,391,972	5,391,972
Loans to customers	9,463,827	4,153,761	1,129,384	734,216	-	15,481,188
Deposits with banks	6,179,588	-	-	-	-	6,179,588
	<u>15,643,415</u>	<u>4,153,761</u>	<u>1,129,384</u>	<u>734,216</u>	<u>5,391,972</u>	<u>27,052,748</u>
Liabilities						
Deposits from customers	(1,254,278)	-	-	-	-	(1,254,278)
Special deposit	-	-	-	-	(3,329,472)	(3,329,472)
Lease liabilities	(32,517)	-	(100,815)	(724,402)	-	(857,734)
	<u>(1,286,795)</u>	<u>-</u>	<u>(100,815)</u>	<u>(724,402)</u>	<u>(3,329,472)</u>	<u>(5,441,484)</u>
Interest sensitivity gap	<u>14,356,620</u>	<u>4,153,761</u>	<u>1,028,569</u>	<u>9,814</u>	<u>2,062,500</u>	<u>21,611,264</u>

Interest rate sensitivity

With all other variables held constant, if the interest rates prevailing during the year shifted by 5% the bank's profitability would be reduced/improved by TZS 2,939 million (2020: TZS 15,812 million) due to increase/decrease in annual interest expenses.

(ii) Currency risk

The Bank does not have a significant foreign currency position at the end of the period. The Bank has an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risks (Continued)

(i) Interest rate risk (Continued)

31 December 2020	Up to 3 months TZS'000	Up to 6 months TZS'000	Up to 12 months TZS'000	1-5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
Assets						
Cash and bank balances	-	-	-	-	5,391,972	5,391,972
Loans to customers	9,463,827	4,153,761	1,129,384	734,216	-	15,481,188
Deposits with banks	6,179,588	-	-	-	-	6,179,588
	<u>15,643,415</u>	<u>4,153,761</u>	<u>1,129,384</u>	<u>734,216</u>	<u>5,391,972</u>	<u>27,052,748</u>
Liabilities						
Deposits from customers	(1,254,278)	-	-	-	-	(1,254,278)
Special deposit	-	-	-	-	(3,329,472)	(3,329,472)
Lease liabilities	(32,517)	-	(100,815)	(724,402)	-	(857,734)
	<u>(1,286,795)</u>	<u>-</u>	<u>(100,815)</u>	<u>(724,402)</u>	<u>(3,329,472)</u>	<u>(5,441,484)</u>
Interest sensitivity gap	<u>14,356,620</u>	<u>4,153,761</u>	<u>1,028,569</u>	<u>9,814</u>	<u>2,062,500</u>	<u>21,611,264</u>

Interest rate sensitivity

With all other variables held constant, if the interest rates prevailing during the year shifted by 5% the bank's profitability would be reduced/improved by TZS 2,939 million (2020: TZS 15,812 million) due to increase/decrease in annual interest expenses.

(ii) Currency risk

The Bank does not have a significant foreign currency position at the end of the period. The Bank has an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

6. FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risks (Continued)

(ii) Currency risk (Continued)

Sensitivity analysis

The table below summarizes the exposure to foreign currency exchange rate risk at 31 December 2021. Assets and liabilities are categorized by currency.

31 December 2021	USD TZS'000	Total TZS'000
Assets		
Cash and cash equivalents	30,186	30,186
	<u>30,186</u>	<u>30,186</u>
	<u>30,186</u>	<u>30,186</u>
Net exposure		
Increase/(decrease) in Profit Before Tax	1,509	1,509
	1,057	1,057
31 December 2020		
Assets	USD TZS'000	Total TZS'000
Cash and cash equivalents	48,233	48,233
	<u>48,233</u>	<u>48,233</u>
	<u>48,233</u>	<u>48,233</u>
Net exposure		
Increase/(decrease) in Profit Before Tax	2,412	2,412
Increase/(decrease) in equity	1,688	1,688

If Tanzanian Shillings had weakened/strengthened by 5% against United States dollar with all variables held constant, the pre-tax profit would have been higher/lower by TZS 1,509 million (2020: TZS 2,412 million).

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

7 FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	Amortised Cost TZS'000
Assets as per Statement of Financial Position - 2021	
Cash and cash equivalents	10,754,458
Loans to customers	19,782,089
Trade and other receivables	30,536,547
	<u>10,754,458</u>

Liabilities as per Statement of Financial Position - 2021

Deposits from customers	1,486,154
Special deposit**	3,922,975
Lease liabilities	825,850
Total liabilities	<u>6,234,979</u>

** Special deposit relate to deposits for loans, these deposits are calculated as 10% of the amount taken as a loan. The amounts are used to settle off the final instalment of the loans taken.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

7 FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	Amortised Cost TZS'000
Assets as per Statement of Financial Position - 2020	
Cash and cash equivalents	5,391,972
Loans to customers	15,481,188
Deposits with banks	6,257,308
Trade and other receivables	90,359
	<u>27,220,827</u>
Liabilities as per Statement of Financial Position - 2020	
Deposits from customers	1,254,278
Special deposit**	3,329,472
Lease liabilities	857,734
Total liabilities	<u>5,441,484</u>

** Special deposit relate to deposits for loans, these deposits are calculated as 10% of the amount taken as a loan. The amounts are used to settle off the final instalment of the loans taken.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 TZS '000	2020 TZS '000
8 EFFECTIVE INTEREST INCOME		
Interest income from loans to customers	9,616,790	9,367,436
Interest income from term deposits	154,995	128,924
Application fees that are integral part of EIR	1,341,001	1,238,179
	<u>11,112,786</u>	<u>10,734,539</u>
9 EFFECTIVE INTEREST EXPENSE		
Interest on deposits from customers	13,787	12,163
Interest expense on lease liabilities	116,159	112,112
	<u>129,946</u>	<u>124,275</u>
10 FEES AND COMMISSION INCOME		
Dormant account fees	-	159,813
	<u>-</u>	<u>159,813</u>
11 OTHER INCOME		
Amortisation of deferred grant income	86,423	297,580
Translation Differences	3,383	-
Penalty income	260,329	460,784
Sundry income	667,187	253,069
Other fees	40,824	21,578
	<u>1,058,146</u>	<u>1,033,011</u>
12 LOSS ON DISPOSAL OF ASSETS		
Loss on disposal of assets	(1,244)	3,150
	<u>1,244</u>	<u>3,150</u>
13 PERSONNEL EXPENSES		
Salaries and wages	4,903,811	5,403,982
Benefits	474,985	659,313
	<u>5,378,796</u>	<u>6,063,295</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 TZS '000	2020 TZS '000
14 OPERATING EXPENSES		
Audit fee	148,159	140,247
Management fee	138,522	-
Insurance expenses	9,124	114,526
Duties and other taxes	196,230	42,686
Government levies and license	183,979	93,602
Vehicle expenses	332,834	167,971
Field expenses	304,899	327,425
Travel expenses	524,805	254,799
Postage and communication expenses	501,840	558,397
Office rent and utilities	507,224	344,078
Office supplies	-	346,501
Translation loss	-	628
Other expenses	2,351,902	1,410,165
	<u>5,199,518</u>	<u>3,801,025</u>

Operating expenses include expenses relating to intercompany allocated expenses of TZS 1.033 billion (2020: Nil), short-term leases of TZS 153 million (2020: TZS 291 million) and leases of low-value assets is Nil (2020: TZS 28 million).

15 EXPECTED CREDIT LOSSES/IMPAIRMENT LOSSES

Cash and cash equivalents	51,638	12,649
Investment in term deposits with banks	(77,719)	(57,280)
Loans to customers	806,999	1,114,205
Statement of comprehensive income charge	<u>780,918</u>	<u>1,069,574</u>

16 TAXATION

Current tax charge		
Charge for the year	-	181,945
Prior year tax under provision	-	262,011
Deferred tax charge	202,532	311,981
	<u>202,532</u>	<u>755,937</u>

A reconciliation between the tax expense and the accounting profit and multiplied by the domestic tax rate for the years ended 31 December 2021 and 2020 is as follows:

Profit before tax	<u>58,774</u>	<u>316,232</u>
Tax applicable rate of 30% (2020: 30%)	17,632	94,870
Non-deductible expenses*	219,157	400,000
Non-taxable income	(34,257)	(944)
Prior year tax under provision	-	262,011
Total income tax charge	<u>202,532</u>	<u>755,937</u>

Non-Deductible expenses

General and administration expenses	218,784	400,000
Loss on disposal	373	-
	<u>219,157</u>	<u>400,000</u>

Non-deductible income

Amortisation of deferred grant	34,257	944
	<u>34,257</u>	<u>944</u>

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

16 TAXATION (CONTINUED)

Deferred tax

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

At 01 January	152,630	464,611
Deferred tax charge	(202,532)	(311,981)
Deferred tax (liability)/asset	(49,902)	152,630

Details of the deferred income tax asset are as follows:

Capital allowances	(351,475)	(157,830)
Provision for impairment ECL allowances	301,573	310,460
Deferred tax (liability)/asset at end of year	(49,902)	464,611

Tax receivable/(payable)

At 01 January	(48,909)	58,036
Charge for the year - current	-	(181,945)
Prior year tax under provision	-	(262,011)
Payments made during the year	210,000	337,011
	161,091	(48,909)

There was unused tax asset of TZS 8.4mill arise from unused tax losses which management did not recognize during the year. The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning and strategies. The judgments take into consideration the effect of both positive and negative evidence, including historical financial performance, projections of future taxable income, and future reversals of existing taxable temporary differences.

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

17 PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

	Furniture, fittings and equipment	Motor vehicles and motorcycles	Computers	Branch improvements	Right-of-use assets - Buildings	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cost or valuation						
At 1 January 2020	887,216	410,659	415,445	582,541	1,564,713	3,860,574
Lease re-assessment	-	-	-	-	(769,034)	(769,034)
Additions	50,150	-	183,626	-	310,531	544,307
Disposals	-	-	(5,704)	-	(155,508)	(161,212)
Reclassification*	94,525	-	(94,525)	-	-	-
At 31 December 2020	1,031,891	410,659	498,842	582,541	950,702	3,474,635
Additions	43,695	8,420	122,602	-	14,528	189,244
Disposals	(2,207)	(5,760)	(570)	(90,483)	-	(99,020)
Lease re-assessment	-	-	-	-	19,053	19,053
At 31 December 2021	1,073,379	413,320	620,874	492,058	984,283	3,583,912
Accumulated depreciation						
At 1 January 2020	104,776	65,435	58,801	254,074	211,160	694,246
Charge for the year	124,265	99,559	111,459	-	101,276	436,559
Disposals	-	-	(1,414)	-	(155,508)	(156,922)
Lease re-assessment	-	-	-	-	(38,414)	(38,414)
At 31 December 2020	229,041	164,994	168,846	254,074	118,514	935,469
Charge for the year	110,703	86,942	116,021	49,825	101,999	465,490
Disposals	(703)	(3,672)	(262)	(67,312)	-	(71,950)
At 31 December 2021	339,040	248,264	284,605	236,586	220,513	1,329,009
The carrying amount						
At 31 December 2021	734,339	165,056	336,269	255,472	763,770	2,254,903
At 31 December 2020	802,850	245,665	329,996	328,467	832,189	2,539,166

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

17. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

The Bank's Furniture, fittings and equipment, Motor vehicles and motorcycles and Computers were revalued with effect from 1 January 2020 by an independent valuer PROPERTYWISE (T) LIMITED to determine the fair value of the respective assets. The valuation, which conforms to International Valuation Standards, was determined by reference to market transactions on arm's length terms. None of the property and equipment is pledged as security for liabilities. The revaluation reserve is not available for distribution to the shareholders.

Right-of-use assets relate to lease arrangements that the entity has for its offices.

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

	2021 TZS TZS'000	2020 TZS TZS'000
As at 1 January	857,734	1,397,571
Additions	14,528	310,530
Lease re-assessment	14,638	(769,034)
Accretion of interest	116,159	112,112
Payments:		
- Principal portion	(61,866)	(83,240)
- Interest portion	(115,343)	(110,205)
As at 31 December	825,850	857,734

The Bank's lease arrangements relate to leased space for the bank's offices and the lease payments are fixed over the lease terms.

From the assessment of the lease arrangements as at the reporting date, management was not aware of future cash outflows to which the Bank is potentially exposed that are not reflected in the measurement of lease liabilities.

The assessment has considered:

Aspect considered	Comments
Exposures from any variable lease payments	None, the payments are fixed
Extension options and termination options	these were considered in determining the lease term
Residual value guarantees	None
Any leases not yet commenced to which the Bank is committed	None
Any sale and leaseback transactions	None

Leases are presented as follows in profit or loss:

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

17. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (Continued)

Leases in the income statement

	2021 TZS'000	2020 TZS'000
Revenue/other operating income		
Operating lease income	-	-
Sublease income	-	-
Lease expenses (Note 14, included in office rent and utilities)		
Expenses from short-term leases	291,406	153,188
Expenses from low-value asset leases	-	27,574
Total cash outflow for leases	291,406	180,762
Depreciation and impairment losses		
Depreciation of right-of-use assets	101,999	101,276
Impairment loss on right-of-use assets	-	-
Net finance costs		
Interest expenses on lease liabilities	116,159	112,112

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

18 INTANGIBLE ASSETS

	MIS Software	Tablet Platform	Payroll Software	T24 License	Agr software	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Cost						
At 1 January 2020	1,540,849	996,080	36,518	245,613	16,696	2,835,756
At 31 December 2020	<u>1,540,849</u>	<u>996,080</u>	<u>36,518</u>	<u>245,613</u>	<u>16,696</u>	<u>2,835,756</u>
At 1 January 2021	1,540,849	996,080	36,518	245,613	16,696	2,835,756
At 31 December 2021	<u>1,540,849</u>	<u>996,080</u>	<u>36,518</u>	<u>245,613</u>	<u>16,696</u>	<u>2,835,756</u>
Accumulated amortization						
At 1 January 2020	1,527,364	484,888	35,522	230,261	-	2,278,035
Additions during the year	2,630	100,575	996	15,352	-	119,553
At 31 December 2020	<u>1,529,994</u>	<u>585,463</u>	<u>36,518</u>	<u>245,613</u>	<u>-</u>	<u>2,397,588</u>
Amortisation during the year	10,855	128,695	-	-	16,696	156,246
At 31 December 2021	<u>1,540,849</u>	<u>714,158</u>	<u>36,518</u>	<u>245,613</u>	<u>16,696</u>	<u>2,553,834</u>
Carrying amount						
At 31 December 2021	<u>-</u>	<u>281,922</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>281,922</u>
At 31 December 2020	<u>10,855</u>	<u>410,617</u>	<u>-</u>	<u>-</u>	<u>16,696</u>	<u>438,168</u>

*The agriculture software is under development. Amortization will be done once the software is available for use.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 TZS '000	2020 TZS '000
19 CASH AND CASH EQUIVALENTS		
Cash in hand and bank balances		
Cash in hand	83,661	104,678
Cash in bank	10,670,797	5,341,165
	<u>10,754,458</u>	<u>5,445,843</u>
Less - Expected credit losses	(105,509)	(53,871)
	<u>10,648,949</u>	<u>5,391,972</u>
 Opening IFRS 9 impairment	53,871	41,222
Charge during the year	51,638	12,649
	<u>105,509</u>	<u>53,871</u>
Cash and cash equivalents		
Cash in hand and bank balances	10,754,458	5,445,843
Investment in market security maturity in less than 90 days - note 21	-	6,257,308
	<u>10,754,457</u>	<u>11,703,151</u>
20 LOANS TO CUSTOMERS		
Gross Loans to customers	19,681,453	17,058,766
Interest accrued on loans and advances	613,343	658,148
Penalty accrued on loans	(13,350)	(110,414)
Gross loans and accrued interest	<u>20,281,446</u>	<u>17,606,500</u>
 Expected credit losses	(899,736)	(1,735,463)
	<u>19,381,710</u>	<u>15,871,037</u>
 Deferred application fees	(499,357)	(389,849)
	<u>18,882,353</u>	<u>15,481,188</u>
The movement in provision for impairment on Loans to customers during the year is as follows		
At 01 January	1,735,463	1,679,419
Loans written off during the year	(1,642,727)	(1,058,161)
Charge during the year - IFRS 9	806,999	1,114,205
At 31 December	<u>899,736</u>	<u>1,735,463</u>
Expected losses		
Stage 3	270,211	1,020,490
Stage 2	5,017	58,106
Stage 1	531,772	35,609
Allowances for impairment	<u>806,999</u>	<u>1,114,205</u>

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 TZS'000	2020 TZS'000
21 INVESTMENT IN TERM DEPOSITS WITH BANKS		
Term deposits (maturing within 90 days)	6,179,588	6,257,308
Less - Expected credit losses	-	(77,719)
Less withdrawal	(6,179,588)	-
	<u>-</u>	<u>6,179,588</u>
Opening IFRS 9 impairment	77,720	135,000
Utilised/release during the year	(77,720)	(57,280)
	<u>-</u>	<u>77,720</u>
22 TRADE AND OTHER RECEIVABLES		
Sundry Debtors	51,164	90,360
Prepayments	508,776	461,560
	<u>559,940</u>	<u>551,920</u>
23 DEPOSITS FROM CUSTOMERS		
Customers deposits	<u>1,486,154</u>	<u>1,254,278</u>
24 SPECIAL DEPOSIT		
At 1 January	3,329,472	4,189,615
Net Savings collected during the year/Collections during the year	593,503	(860,143)
At 31 December	<u>3,922,975</u>	<u>3,329,472</u>
These are deposits for loans, these deposits are calculated as 10% of the amount taken as a loan.		
25 DEFERRED GRANT		
The movement in deferred grant during the year is as follows		
At 1 January	1,988,992	2,045,071
Grants received during the year	48,934	241,500
Amortisation of grants during the year	(86,423)	(297,580)
Balance at 31 December	<u>1,951,502</u>	<u>1,988,992</u>

This relates to grant of USD 1,984,000 received from The Registered Trustees of the Financial Sector Deepening Trust Tanzania (FSDT). The purposes of the grant is to facilitate transformation of Vision Fund Trust into a regulated microfinance deposit taking institution. The grant covers transformation exercise in various aspects including system upgrade, purchase of items of property and equipment and technical assistance among others. The conditions of the grant are subject to the achievement of performance targets relating to the number of outstanding loans, number of clients, average, outstanding women loans balance at year-end among other conditions

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 TZS'000	2020 TZS'000
26 OTHER LIABILITIES		
Accrued expenses:		
Accrued leave pay	-	71,648
Other accrued expenses*	1,925,309	411,377
Agriculture revolving fund reserve**	-	1,477
Area Development revolving fund**	196,986	196,507
Lease liabilities	825,850	857,734
	<u>2,948,145</u>	<u>1,538,743</u>

* Accrued expenses relate to: Accruals for internet (invoices not received yet for December 2021), accrual for leave not taken (significant amount), telephone expenses, audit expenses, city service levy etc. The amounts are not individually significant except for the leave accrual of 72 million (2020: TZS 129 million) disclosed above.

** Revolving Fund is designed to pay off a client's outstanding loan (principal and accrued interest) in the event of the demise of the client or total incapacitation of the client due to, for example, illness or fire (that the client cannot go back to work in his or her business because of incapacitation). The amounts are paid by the customers as loan prerequisites prior to loan disbursements usually at the rate of 1% of the loan amount.

27. REGULATORY CAPITAL

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

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

The Bank's capital is computed in accordance with section 16 and 17 of the Banking and Financial Institutions Act, 2006 and Microfinance Regulations, 2016 as issued by the Bank of Tanzania as follows:

	2021 TZS'000	2020 TZS'000
Share capital (see below)	21,200,000	21,200,000
Retained earnings	<u>1,106,272</u>	<u>1,115,070</u>
	22,171,312	22,315,070
Less:		
Prepaid expenses	(508,776)	(461,560)
Deferred tax assets	-	(152,630)
Core capital (tier 1)	<u>21,662,536</u>	<u>21,700,880</u>
Supplementary capital (Tier 2)	-	-
Total capital (Tier 1+Tier 2)	<u>21,662,536</u>	<u>21,700,881</u>
Risk weighted assets		
On-balance sheet	<u>22,430,480</u>	<u>21,332,320</u>
Bank ratios		
Tier 1 (BoT minimum -10%)	<u>97%</u>	<u>102%</u>
Tier 2 (BoT Minimum -12%)	<u>97%</u>	<u>102%</u>

28. REGULATORY CAPITAL (Continued)

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2021

Authorized share capital

The total authorized share capital of the Bank is 100,000 ordinary shares of TZS 1,000,000 each.

Paid up share capital

At year end, the Bank had issued and fully paid up ordinary share capital of 21,200 shares of TZS 1,000,000 each, totaling TZS 21,200 million (2020: TZS 21,200 million).

29. PROPERTY AND EQUIPMENT REVALUATION RESERVE

The property revaluation reserve arises on the revaluation of Furniture, fittings and equipment, Motor vehicles and motorcycles and Computers.

The reserve is not available for distribution to the shareholders.

Where revalued property and equipment items are sold, the portion of the property revaluation reserve that relates to that asset, and is effectively realized, is transferred to retained earnings.

The reported fair values for property and equipment are based on valuations performed by PROPERTYWISE (T) Limited, an accredited independent valuer who has valuation experience for similar items in Tanzania since 2005.

Below is the summary of the methodology employed in revaluation of the items of property and equipment:

S/N	Category	Method of valuation		
1	Office Furniture	Replacement cost / cost approach		
2	Office Equipment	Replacement cost / cost approach		
3	IT equipment	Replacement cost / cost approach		
4	Other equipment	Replacement cost / cost approach		
5	Motor vehicles & Motorcycles	Replacement cost / cost approach		
			2021 TZS'000	2020 TZS'000
Movement in property and equipment revaluation reserve				
Balance at beginning of year			247,572	247,572
Balance at end of year			247,572	247,572

30. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

The management assessed that the fair values of Cash and cash equivalents, other receivables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
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30. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behavior that was used for estimating the EIR.

	Within 12 months TZS'000	After 12 months TZS'000	Total TZS'000
As at 31 December 2021			
Cash and cash equivalents	10,754,458	-	10,754,458
Loans to customers	19,649,094	132,994	19,782,089
Deposits with banks	-	-	-
Trade and other receivables	51,164	-	51,164
Property, equipment and right-of-use assets	-	2,254,903	2,254,903
Intangible assets	-	281,922	281,922
Current tax receivables	161,091	-	161,091
Total assets	30,615,807	2,669,816	33,285,626
Liabilities			
Deposits from customers	1,486,154	-	1,486,154
Special deposits	3,910,282	12,693	3,922,975
Deferred grants income	-	1,951,502	1,951,502
Other liabilities	1,211,463	1,736,682	2,948,145
Deferred tax liabilities	-	49,902	49,902
Total liabilities	6,607,869	3,750,779	10,358,678
Net	24,007,908	(1,080,960)	22,926,948
As at 31 December 2020			
Cash and cash equivalents	5,391,972	-	5,391,972
Loans to customers	15,455,337	25,851	15,481,188
Deposits with banks	6,179,588	-	6,179,588
Trade and other receivables	551,919	-	551,919
Property, equipment and right-of-use assets	-	2,539,166	2,539,166
Intangible assets	-	438,168	438,168
Deferred tax asset	-	152,630	152,630
Total assets	27,578,816	3,155,815	30,734,631
Liabilities			
Deposits from customers	1,254,278	-	1,254,278
Special deposits	3,318,699	10,773	3,329,472
Deferred grants income	-	1,988,992	1,988,992
Other liabilities	519,016	1,019,727	1,538,743
Current tax payable	48,909	-	48,909
Total liabilities	5,140,902	3,019,492	8,160,394
Net	22,437,914	136,323	22,574,237

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NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021

31. CHANGES IN LIABILITY ARISING FROM FINANCING ACTIVITIES

	2021 TZS '000	2020 TZS '000
Deferred Grant received		
Opening balance	1,988,992	2,045,071
Cashflow movement		
Grant received	48,934	241,500
Non cash movement		
Amortisation of grant	(86,423)	(297,580)
	1,951,502	1,988,991
Payment of principal portion of lease liabilities		
Opening balance	857,734	1,397,571
Cashflow movement		
Payments principal portion	(61,866)	(83,240)
Payment of interest portion	(115,343)	(110,205)
Non cash movement		
Additions	14,528	310,530
Lease re-assessment	14,638	(769,034)
Accretion of interest	116,159	112,112
	825,850	857,734

32. COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

The Bank did not have any significant commitments as at 31 December 2021.

Contingent liabilities

As at 31 December 2021, the Directors are not aware of any litigations against the Bank.

33. RELATED PARTIES

The following are the entity's related party relationships.

Related party	Nature of the relationship
VisionFund International	66% shareholding
World Vision Deutschland	17% shareholding
World Vision Nederland	17% shareholding
Key Management Personnel	Provision of managerial services to the Bank

Transactions with the related parties are indicated below:

Key management compensation

Salaries and wages	684,149	712,655
Defined contributions	68,415	71,266
	<u>752,564</u>	<u>783,921</u>

VISIONFUND TANZANIA MICROFINANCE BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2021**

34. SUBSEQUENT EVENTS

There were no events after the reporting period which require adjustment to or disclosure in the financial statements.