NMB
Close to you

Annual Report 2020

REACHING NEW HEIGHTS

REACHING
NEW HEIGHTS

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Abbreviations

AGM Annual General Meeting

ALCO Assets and Liabilities Committee

ALM Assets and Liabilities Management

BARCC Board Audit, Risk and Compliance Committee

BIA Basic Indicator Approach

BOT Bank of Tanzania

CSR Corporate Social Responsibility

DSE Dar es Salaam Stock Exchange

EAD Exposure at Default

ECL Expected Credit Losses

EIB European Investment Bank

EPS Earnings per Share

FMO Financierings-Maatschappij voor Ontwikkelingslanden N.V

FVOCI Fair Value through Other Comprehensive Income

FVTPL Fair Value through Profit or Loss

IASB International Accounting Standards Board

ICT Information and Communication Technology

IESBA International Ethics Standards Board for Accountants

IFC International Finance Corporation

IFRS International Financial Reporting Standards

ISA International Standards on Auditing

LC Letters of Credit

LDR Loans to Deposits Ratio

LGD Loss Given Default

LIBOR London Bank Offered Rate

LTFR Long-term Funding Ratio

MSE Micro and Small Enterprises

NMB NMB Bank Plc

NHIF National Health Insurance Fund

OCI Other Comprehensive Income

PD Probability of Default

POCI Purchased or Originated Credit Impaired

QR Quick Response

SICR Significant Increase in Credit Risk

SME Small and Medium Enterprises

SMR Statutory Minimum Reserve

SPPI Solely Payments of Principal and Interest

SPV Special Purpose Vehicles

SWL Salaried Workers' Loan

TMRC Tanzania Mortgage Refinance Company Limited

TZS Tanzanian Shillings

UJVC Upanga Joint Venture Company

USD United States Dollars

USSD Unstructured Supplementary Service Data

YoY Year on Year

WHO WE ARE

About Us

With a balance sheet of over TZS 7 trillion as of 31st December 2020, NMB Bank Plc. is the leading financial institution in Tanzania. More than 4 million customers bank with us and we employ 3,465 full-time staff as at end of December 2020.

We offer a full suite of financial services and products to a wide range of our clientele in our Retail, Wholesale, and Treasury business divisions. We continue to leverage on our vast network to offer the best banking experience to our valued customers. We have 226 branches, 8,410 active agents (Wakala), 2 standalone Bureau de Change outlets, and 753 ATMs across the country as at end of December 2020.

We have received numerous local and international recognitions, including being awarded the "Best Bank in Tanzania" by Euromoney for eight years in a row (2013-2020) and the Safest Bank in Tanzania for the year 2020 by Global Finance Magazine.

Our vision

To be the preferred financial services partner.

Our mission

To be the bank of choice, delivering innovative and transformative customer experience that promotes financial inclusion and wellbeing.

Our values

- Customer Focus
- Innovation
- Compliance
- Teamwork
- Integrity

Our Reach

Digital Channels

NMB MKONONI

NMB INTERNET BANKING

QR CODES

POS DEVICES

	2019	2020
Branches	224	226
Customers	>3 MILLION	>4 MILLION
Agents	5,980	8,410
ATMs	794	753
Staff	3,450	3,465

Financial Highlights

Financial Highlights for the Years 2016-2020

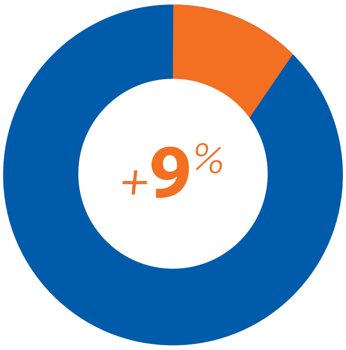
	2016	2017	2018	2019	2020
Profitability (TZS Million)					
Total Income	716,132	744,243	797,514	722,050	836,934
Operating Expenses	348,516	355,053	408,953	410,552	421,879
Income Tax	67,599	44,409	43,978	68,921	89,941
Net Profit	153,825	93,494	97,663	142,167	205,802
Solvency (TZS Million)					
Total Assets	4,951,075	5,506,359	5,680,984	6,556,015	7,098,097
Tier 1 Capital	664,960	694,490	711,199	854,360	1,026,639
Risk Weighted Assets (RWA)	3,519,618	4,114,144	4,321,532	4,988,790	5,310,036

	2016	2017	2018	2019	2020
Selected Ratios					
Return on equity	20%	12%	11%	15%	18%
Return on assets	3%	2%	2%	2%	3%
Cost to Income Ratio	59%	58%	59%	60%	51%
Capital Adequacy Ratio					
Tier 1 Capital Ratio	19%	17%	17%	17%	19%
Tier 1 + Tier 2 Capital Ratio	20%	18%	19%	19%	21%

In 2020, we delivered a record-setting performance, with a registered Profit After Tax (PAT) of TZS 206 billion being the ***highest profit recorded in the history of the Tanzanian banking sector***. We have continued to deliver strong set of results, underpinned by disciplined strategy execution and supported by favorable macro-economic conditions. We remain to be the most efficient bank with cost to income ratio of 51%.

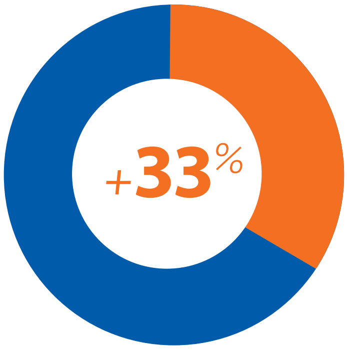
2020 results at a glance

Net Interest Income



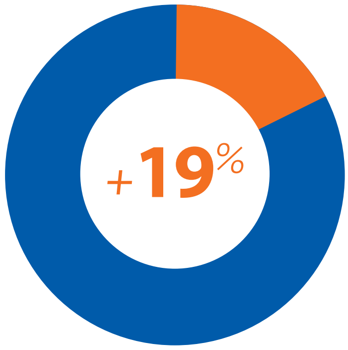
2020: TZS 566 bln | 2019: TZS 518 bln

Non Interest Income



2020: TZS 271 bln | 2019: TZS 204 bln

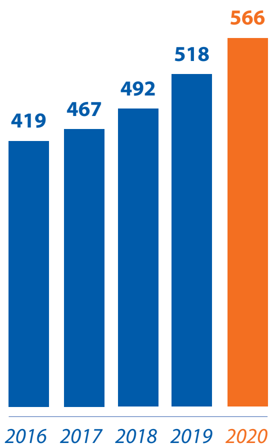
Impairment Loss on Loans and Advances



2020: TZS 119 bln | 2019: TZS 100 bln

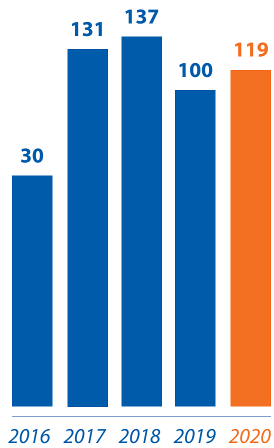
5-year trend

In TZS Billions



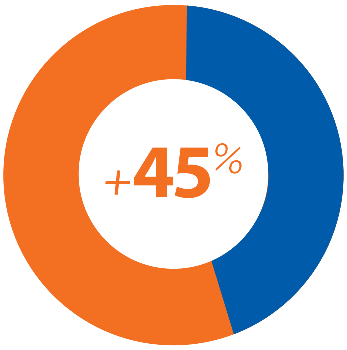
In TZS Billions

In TZS Billions



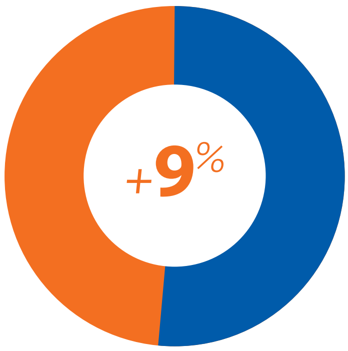
2020 results at a glance

Profit After Tax



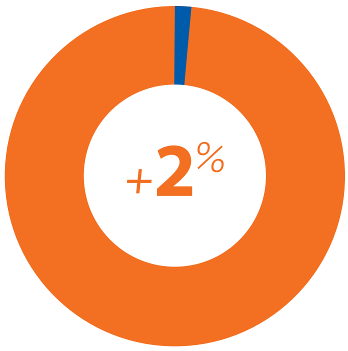
2020: TZS 206 bln | 2019: TZS 142 bln

Cost to Income Ratio



2020: 51% | 2019: 60%

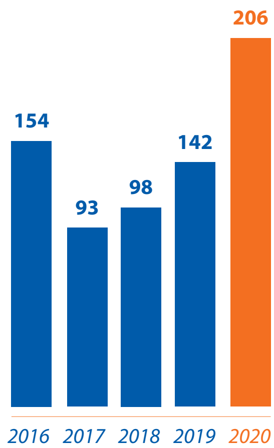
NPL Ratio



2020: 5% | 2019: 7%

5-year trend

In TZS Billions

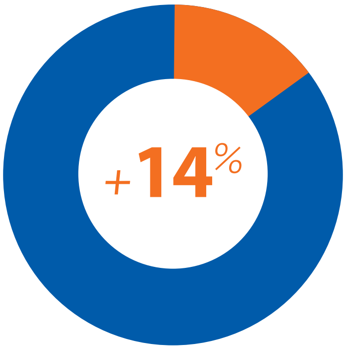


In %

In %

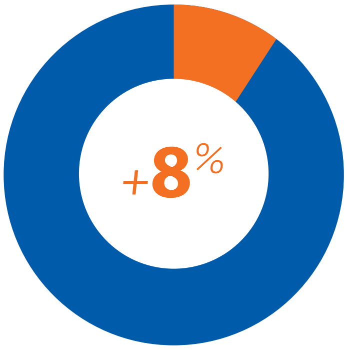
2020 results at a glance

Loans and Advances



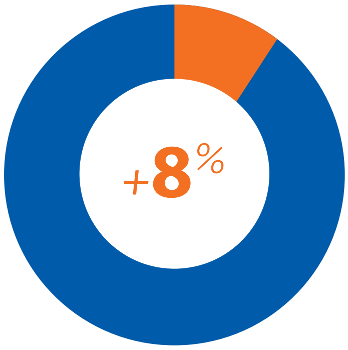
2020: TZS 4,109 bln | 2019: TZS 3,596 bln

Customer Deposits



2020: TZS 5,325 bln | 2019: TZS 4,922 bln

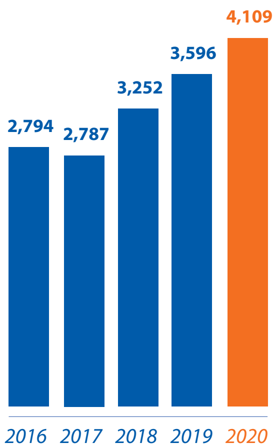
Total Assets



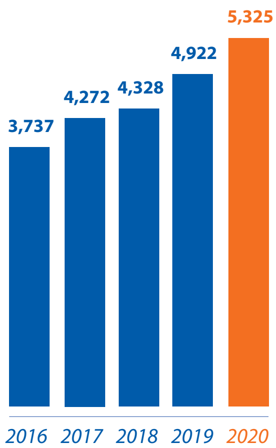
2020: TZS 7,098 bln | 2019: TZS 6,556 bln

5-year trend

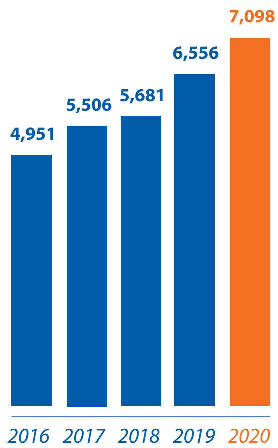
In TZS Billions



In TZS Billions



In TZS Billions



Recognitions

The Bank continues to grow from strength to strength. Reflecting on the milestones being made in delivering superior banking experiences across the country, and positively impacting the lives of Tanzanians.

Proud winner of the Euromoney Awards for Excellence

BEST BANK IN TANZANIA 8 *years*

Global Finance Magazine - New York, USA

SAFEST BANK IN TANZANIA 2020

BEST RATED BANK IN TANZANIA 2020

+ included in the 100 top banks in the Lafferty 1000 global Banking database

Awarded by the National Board of Accountants and Auditors (NBAA) Top three (3)

BEST PRESENTED FINANCIAL STATEMENTS 2019

Dr. Edwin P. Mhede, NMB Board Chairman being presented with the Euromoney Best Bank in Tanzania award 2020 by the bank's CEO Ms. Ruth Zaipuna.

Annual General Meeting 2021

NOTICE OF THE 21st ANNUAL GENERAL MEETING OF THE MEMBERS OF NMB BANK PLC

Notice is hereby given that the 21st Annual General Meeting of NMB Bank Plc shareholders will be held Online on ***Friday, 4th June, 2021*** at ***10.00 a.m***.

The agenda will be as follows:

21.1	*Notice and Quorum*
21.2	*Adoption of the agenda*
21.3	*Confirmation of the minutes of the 20th Annual General Meeting held on 5th June 2020*
21.4	*Matters arising from the previous minutes*
21.5	*To receive, consider and adopt the Directors' Report and Audited Financial Statements for year ended 31st December 2020*
21.6	*Dividend Declaration for the Financial Year 2020*
21.7	*To receive and approve the proposal for Directors' Remuneration*
21.8	*Changes to the Articles of Association*
21.9	*Resignation and Appointment of Directors*
21.10	*To receive and approve appointment of External Auditors for the Financial Year 2021*
21.11	*Any other business*

IMPORTANT NOTES:

1. Members wishing to attend the meeting must submit online one of the following: a copy of his/her depository receipt, passport, voters ID card, or bank card.
2. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his/her behalf in accordance with the provisions of the Articles of the Company. The proxy form must be deposited at the registered office of the company (physical or online) not later than 10.00 am Thursday, 3rd June 2021.
3. The meeting will be held online. Copies of annual report and proxy forms will be available in NMB branches and on the NMB website (www.nmbbank.co.tz).
4. Directors propose payment of a dividend of TZS 137 per share, amounting to TZS 68.5 billion out of 2020 profit.

Date of announcement of results:	*14th May 2021*
Shares trading cum div:	*14th May 2021*
Last day of trading cum-dividend:	*2nd June 2021*
Shares start trading ex-div:	*3rd June 2021 onwards*
Register Closing Date (Books Closure Date):	*7th June 2021*
Payment of dividend:	*16th June 2021*

By order of the Board.

Lilian R. Komwihangiro
Company Secretary
7 May 2021

STRATEGY REVIEW

Dr. Edwin P. Mhede
Board Chairman

Chairman's Report

"The Bank delivered outstanding performance in the year... despite the challenges from the global COVID-19 pandemic...

I am pleased to present to you the 2020 Annual Report and Financial Statements of NMB Bank Plc ("NMB" or "the Bank"). The Bank delivered outstanding performance in the year under reference despite the challenges from the global COVID-19 pandemic, which validates the focus and direction we have chosen to pursue on the key strategic pillars and demonstrates the boldness of the entire Bank team. I am, therefore, delighted with the record-setting results that the Bank has earned in 2020. The Profit Before Tax (PBT) grew by 40% to TZS 296 billion from TZS 211 billion in 2019. The Bank remains among the best capitalized in the market, with our share price averaging at TZS 2,340 per share in 2020.

As Board Chairman, I am immensely proud of the progress we have made along our transformation journey. From our humble beginnings, we have grown to become a key player in the financial sector, serving a wide range of customers and clients with innovative value propositions and establishing ourselves as a key socio-economic development partner for the country. This successful and on-going transformation has been possible due to the Bank's strong governance structures, solid capabilities (coupled with our internal multifaceted and continuous improvements), and resilience in evolving market driven business working environments by the need for a greater convenience, accessibility, seamless trade, and a growing preference for technology driven solutions.

The performance we registered in 2020 reflects the strong team-spirit that trickles down every aspect of our organization. As a Board, we are grateful and indebted to the dedication and hard-work of our entire staff team working across the country who put in great efforts throughout the year. We are very much encouraged by this year's results and are optimistic that, through our pragmatic approach in dealing with business issues, continued customer-focus, and in-house investments in productivity-enhancing technologies, we will be able to better serve our clients and provide them with even more quality support towards the country's socio-economic development agenda.

The Board is also very grateful to the Bank of Tanzania (BOT) for its guidance and support and, indeed, for their continued positive engagements with the Bank and our counterparts in the financial sector as whole. We recognize the efforts being undertaken by the regulator to cushion the economy from the impact of the pandemic and are grateful for their continued oversight of the sector to ensure its stability and soundness. Moreover, we would like to extend our special thanks to the Government of the United Republic of Tanzania for their continued support and cooperation.

Operating Environment

Though output in the East Africa region contracted by an estimated 3.7% in 2020, the economy of Tanzania was among the best performing ones in the region. Tanzania's real GDP projections for 2020 were lowered by the Government to 5.5% from the initial projection of 6.9%. The slowdown from the 6.8% in 2019 was due to various factors, including the impact of COVID-19, heavy rains, and delayed implementation of some projects. Annual average headline inflation in 2020 declined to 3.3% compared to 3.4% in 2019 and is within the Government's medium-term target of 5%. Credit to the private sector maintained an annual growth of 3% in 2020 compared to 11% in 2019, with the subdued growth partly due to the impact of the pandemic on some businesses.

The proactive and prudent monetary policies initiated by the Government, and the same being timely implemented through BOT, and Government's adaptive stance on combating the spread of COVID-19, helped to cushion the Tanzania economy and business environment with an appropriate level of liquidity for much of the year.

Medium Term Plan 2021-2025

2020 marked the last year of our Vision 2020 Medium Term Plan (MTP). During the year, we revisited our mission, vision, and our values to refresh who we want to be and aligned them with our ambitions for the next medium-term period covering 2021-2025. This culminated in a refreshed strategic direction which affirms our commitment to serving our customers with relevant and innovative solutions and to continue being a key partner to them in supporting the socio-economic development agenda. We believe that we have a strong mix of talent, capabilities, and tenacity to succeed in the future in line with our strategic ambitions.

Shareholding Structure

The share transfer from Rabobank to Arise B.V. was successfully completed in 2020. Following regulatory approval from the Ministry of Finance and Planning (MOFP), the Bank of Tanzania (BOT), the Fair Competition Commission (FCC), Tanzania Revenue Authority (TRA), Business Registrations and Licensing Agency (BRELA), and the Capital Markets and Securities Authority (CMSA), RaboBank completed the transfer of 174,500,000 shares held in NMB to Arise B.V. who now own 34.9% of the shares in NMB. We are positive about the said changes and look forward to a close working relationship with Arise B.V. as our new majority shareholder. We are very grateful for the support and counsel we received from the respective authorities throughout the transfer process.

Leadership Developments

During the year, we appointed Ms. Ruth H. Zaipuna as Chief Executive Officer (CEO) of the Bank. Ruth had held the position of Acting CEO from October 2019 until her formal appointment in August 2020. Her passionate leadership throughout the year ensured stability and continued growth of the Bank through focused execution of the Bank's key strategic pillars and good governance. As Board, we are encouraged by the Bank's strong performance this year and are confident that the Bank will continue to succeed and to grow under the leadership of Ruth as CEO.

The Board

The NMB Board upholds high standards of management and corporate governance which we believe are key to delivering sustainable shareholder value and the Bank's short-and-long-term success. Throughout the year, the Board continued to provide leadership through oversight of the Bank's strategy execution, internal controls, risk management, and people management. We worked closely with relevant stakeholders and regulators, including BOT and CMSA, to ensure that our internal governance standards meet the underlying expectations.

During the year, we welcomed Mr. Juma Kisaame to the Board and extended the appointment of Ms. Margaret Ikongo as Board Director for another year. Mr. Kisaame has deep and wide-ranging experience in finance, commercial banking, and in providing oversight at the Board level and we are very pleased to have him in the team. We are also very grateful to Ms. Ikongo for her continued wise-counsel and service to the Bank. Lastly, but by no means least, I wish to profoundly thank my fellow Directors for electing me to serve as Board Chairman of the Bank. I have learned a lot from you (fellow Directors) and I enjoy working with this diverse and experienced team from various nationalities. Together, we will continue to ensure we fulfil our governance role most-objectively and effectively while at the same time embracing integrity to a highest level possible.

Dividend Declaration for the Financial Year Ended 31st December, 2020

Due to improved performance and strong capital position, the Directors propose payment of a dividend of TZS 137 per share, a 43% increase from the previous dividend payment of TZS 96 per share.

Dividend per Share **43%** *growth*

Looking Forward

While we continue to make good progress along our transformation journey, we as Board, remain ever committed to supporting the management and the Bank to ensure we succeed in executing our strategic objectives. As the global economy begins to recover from the pandemic, we are positive about the future and will continue to exercise good-governance to ensure value-creation for our stakeholders.

In closing, I would like to express my sincere appreciation to our shareholders, to the Government of the United Republic of Tanzania, and to our strategic partners for their continued support to the Bank.

Dr. Edwin P. Mhede
Board Chairman

Ruth Zaipuna
Chief Executive Officer

CEO's Statement

We continued to see affirmation of our key strategic pillars...

2020 was a positive year for the bank as it maintained its market leading position and continued to grow its key business segments. Despite challenges in the broader operating environment from the global COVID-19 pandemic, the bank performed very well and posted record results in the industry for the year. We continued to see affirmation of our key strategic pillars which underline our strong capabilities and our commitment to remaining relevant to our customers. Our innovative products and services, deepened client relationship management which enables us to understand our customers' needs, focus on operational efficiency and customer experience excellence, together with continued good governance had led to strong balance sheet growth and good income performance from a diverse mix of channels.

Industry Developments

The COVID-19 pandemic posed far-reaching challenges across the global economy in 2020. Various measures to contain the spread of COVID-19 and to save lives were implemented across the globe which resulted in the disruption of economic activities. Wary of these uncertainties, the Bank of Tanzania responded decisively by enacting a range of COVID-19 relief measures to cushion the economy from the impact of the pandemic and to safeguard the stability of the country's financial sector. The Statutory Minimum Reserve (SMR) requirement for public deposits was reduced from 7% to 6% and the discount rate was also reduced from 7% to 5%. These measures eased liquidity pressure in the market and helped to lower borrowing costs for commercial banks, enabling them to extend credit to the private sector. Credit extended to the private sector maintained a positive growth rate of 3% annual growth as at December 2020, with the subdued performance due to COVID-19 impact on business. Interest rates on loans and those offered on deposits exhibited a general declining trend reflecting the impact of sustained accommodative monetary policy throughout the year.

In line with the Central Bank's guidance, we raised mobile money daily transaction limits from TZS 2 million to TZS 5 million (for bank to wallet (B2W)), from TZS 5 million to TZS 10 million (for daily internal transfers), and from TZS 3 million to TZS 10 million (for transfers to other banks) to encourage transactions via self-service channels, thereby decongesting branches to safeguard the health of customers and staff.

The Central Bank introduced measures to support flexibility in restructuring loans of borrowers who were adversely impacted by the COVID-19 pandemic to allow them sufficient time for recovery in their business activities. These measures were also meant to provide relief on banks' impairment stock. The industry's NPL ratio remained flat at 9% in 2020, with on-going efforts being taken across the sector to bring the ratio down to 5% in order to maintain a stable and healthy credit system.

Overall, the industry's performance in 2020 was encouraging with total income growing 7% YoY and a moderate growth in operating expenses which grew by 3% YoY, reflecting the industry's continued drive for operational efficiency. Industry-wide loans and advances increased by 10% YoY while customer deposits increased by 11% YoY.

2020

Balance Sheet
TZS **7,098 BILLION** up **8%**

Customer Deposits
TZS **5,325 BILLION** up **8%**

Bank Performance Overview

The bank's performance in the year was impressive with notable growth in the balance sheet, total income, and slight growth in operating expenses. The balance sheet grew by 8% YoY to TZS 7,098 billion in 2020 with a significant growth in loans and advances of 14% YoY and an increase in customer deposits of 8% YoY to TZS 5,325 billion in 2020. Notably, our asset quality also improved with the NPL ratio at 5% which remains significantly lower than the market's average of 9%. The improvement in the NPL ratio positively indicates that our proactive strategies to maintaining a quality loan book continue to pay off.

In line with the strong performance on loans and advances, we saw very good growth in net interest income which closed the year 9% up YoY from TZS 518 billion in 2019 to TZS 566 billion in 2020. Continued strategic investments in Government securities, which grew 71% YoY, also contributed to the strong net interest income growth. Profit before tax grew from TZS 211 billion in 2019 to 296 billion in 2020, being 40% up YoY. Cost-efficiency initiatives continued to be implemented in the year and these supported the slight increase in operating expenses of 3% YoY. The cost-to-income ratio closed at 51%, well below the industry average of 66%. Net profit crossed the TZS 200 billion mark for the first time in the history of the Tanzanian banking industry, closing the year at TZS 206 billion which is up 45% YoY.

Progress on Key Strategic Pillars

The bank's strong performance in 2020 affirms the good progress we have made on our key strategic pillars of deposit mobilization, revenue generation, and operational efficiency.

DEPOSIT MOBILIZATION

Through enhanced customer relationship management, we saw good growth in our customer deposits in the year which enabled us to support our lending ambitions. Deposit mobilization efforts from across our wide network continued to pay-off with strong deposits growth coming from the personal segment. Our deepened relationship with Corporate and Institutional clients also strongly contributed to the growth in deposits in the year.

REVENUE GENERATION

Customer preferences are rapidly changing, driven by the need for accessible and convenient products and services which are relevant to their aspirations. Our commitment to addressing our customers' unique needs through relevant and innovative products and services continued with the introduction of several key products in the year. During the year, we launched Bancassurance, introduced our credit card, UPI card, and pre-paid card along with an e-commerce platform to support the growing number of businesses who prefer to manage their business online. These products will also supplement our revenue growth ambitions via increased

2020

Loans & Advances
TZS **4,109 BILLION** up **14%**

Net Profit
TZS **206 BILLION** up **45%**

transactional income. Our self-service channels continued to grow as we scaled our QR and POS footprint in the market and saw increased customer interactions on our mobile platform, NMB Mkononi. We continue to enhance our alternative channels through optimization of the ATM network, widening of the agency banking network, and enrichment of our mobile money and internet banking platforms to provide a secure and convenient solution for customers and to migrate transactions to alternative channels.

To support the country's financial inclusion agenda, we launched an enhanced Pamoja Account proposition to cater for the financially excluded. The proposition enables formal and informal community groups to save and manage finances to group members from the convenience of their mobile phones. Through a partnership with the National Health Insurance Fund (NHIF), we launched Dunduliza which allows Tanzanians to flexibly contribute towards their health-insurance installments via mobile. This unique proposition aims to widen access to health insurance through a safe and easily accessible means. The Women Proposition, dubbed Jasiri, was also launched in the year as recognition of the important role that women play in the socio-economic development of the country. The proposition aims to increase women's access to formal financial services through a package of banking services which are aimed at addressing their unique needs and helping them achieve their goals.

> *"Jasiri, was also launched in the year as recognition of the important role that women play in the socio-economic development.*

We also saw good growth on construction mortgage and pensioner's loans as we continued to diversify our revenue sources. Our on-going involvement in key Government priority areas continued throughout the year to support the country's economic development agenda through project financing and via digital payments solutions. Our payments solutions and integrations with a range of private and public institutions also ensures that we provide our customers and stakeholders with secure and convenient means to manage large – volume transactions. We are confident that our on-going investments in technology will provide even more benefits through provision of relevant solutions for the Government and for a broad range of multinational clients.

OPERATIONAL EFFICIENCY

Being cognizant of the fast-evolving customer preferences, we strive to ensure we remain relevant to a range of customers through better customer experience. During the year, we saw good improvement in customer advocacy through the bank's net-promoter score (NPS). We are encouraged by the progress we have made in customer engagements and are working ever hard to enhance our value propositions and improve customer experience to ensure we remain relevant to them. The implementation of cost-saving initiatives continued to pay off in the year. The cost-to-income ratio improved to 51% in 2020, with significant savings achieved across a range of areas without compromising the quality of service and productivity of staff. We will continue to identify and implement additional initiatives to further improve operational efficiency and will leverage the investments we've made in technology to optimize processes, improve productivity and customer experience, reduce costs, and operate with greater agility.

Our Response to COVID-19 Pandemic

In response to the COVID-19 pandemic, the bank activated a range of measures to prioritize the health and safety of customers, stakeholders, and staff and to ensure continued provision of banking services by invoking the bank's Business Continuity Plan (BCP).

Remote working arrangements enabled staff whose roles made it possible to work remotely from home or Disaster Recovery site, while a few staff continued to work from the Head Office. Mandatory temperature checks were performed to staff and customers prior to entering our branches and the head office facility. Staff and customers were also regularly encouraged to frequently clean their hands. To maintain a conducive work environment, personal protective equipment including masks and sanitizers were distributed to staff across the network together with continuous awareness-raising on social-distancing. Other psycho-social services were also made available to ensure staff-wellness. We also collaborated with the national and local authorities and provided over TZS 200 million in financial support to help mitigate the pandemic in both mainland Tanzania and in Zanzibar.

We monitored the operating environment and leveraged our technological capabilities to ensure customers are able to securely and conveniently transact through digital and self-service channels including mobile, ATM, and internet banking platforms. We closely evaluated the economic impact to our business customers who were affected by global supply-chain disruptions to ensure they were supported through relief measures in line with the Central Bank's guidelines. Our relationship-management teams stayed very close to our clients during the pandemic period to provide them with support to overcome their challenges. Our strong capital position and large balance sheet enabled us to absorb any impact from the changes in business environment, ensuring that we are able to support our strategic ambitions. As the world continues to deal with the global pandemic, we are working very hard with all the capabilities we have to ensure we continue to support our clients, staff, and communities during these uncertain times.

"Our updated strategy is underpinned by our desire to put forth winning propositions, widening financial inclusion, and providing transformative customer experiences through innovative and technology-led products and services.

Medium Term Plan 2021-2025

With our Vision 2020 strategic plan coming to an end, we completed a rigorous process to curate and refresh our strategic ambitions over the next five years to ensure we remain relevant to our customers in an industry which is evolving, driven by a core need for simpler, convenient, and more accessible services and products.

We refreshed our vision to be the preferred financial services partner and our mission to be the bank of choice, delivering innovative and transformative customer experience that promotes financial inclusion and well-being. Our refreshed vision and mission are linked to our updated core values of being customer-focused, compliance, integrity, teamwork, and innovation which provide principle guidance for staff conduct. Our updated strategy is underpinned by our desire to put forth winning propositions, widening financial inclusion, and providing transformative customer experiences through innovative and technology-led products and services which are relevant to their needs.

Our staff are fundamental to the delivery of our strategic ambitions. Employees and productivity are therefore key drivers of our business growth and sustainability. In line with our updated strategic direction, we launched an internal organizational transformation exercise to optimize engagement levels within the organization to provide an enabling environment for our staff to thrive and succeed. We are optimistic of the opportunities that lie ahead and remain committed to our goal of remaining relevant to our customers by providing a superior customer experience and becoming the benchmark for customer service, affordability and product offerings in the industry. We also look forward to further investments in the communities in which we operate as we strive to remain a catalyst for socio-economic development and change for our communities and stakeholders.

2021 Outlook

We are very pleased with the bank's performance and the very strong results that we achieved in 2020. Our aspirations remain to be the leading bank in the market. Through disciplined execution of our key strategic pillars and optimized investments in technology to enhance efficiency and productivity, we will continue to provide the best propositions for our customers and will continue to support key national development priorities for the country.

Though the global COVID-19 pandemic continues to impact our societies, we are encouraged by the actions being taken by the global community and by our government to ensure the gradual return of economic and social activities. We look to the future with cautious optimism and are cognizant that operating in the prevailing environment will require a heightened level of prudence. We are confident that the bank will continue to withstand the challenges that may arise and we remain committed to ensuring we provide excellent customer experience through products and services that address our customers' needs.

Word of Thanks

To conclude, I am grateful for the dedication and hard-work of the entire staff who showed great resilience throughout this year in driving the bank's strategy. I also wish to thank our valued customers, business partners and investors for their continued support throughout the year. We especially want to recognize Rabobank for their unwavering support and are very much looking forward to a continued positive relationship with our new majority shareholder, Arise B.V.

Lastly, I would like to express my sincere gratitude to the Board of Directors for their support, counsel, and guidance. Under the leadership of our Board Chairman Dr. Edwin Mhede, we confidently look forward to the journey that lies ahead as we aim to continue delivering innovative and transformative experiences for our customers, stakeholders, and communities.

Ruth Zaipuna
Chief Executive Officer

Benedicto M. Baragomwa, ACPA, CISA
Ag. Chief Financial Officer

Chief Financial Officer's Review

"A record-setting financial performance.

Summary of financial performance

The Bank delivered record-setting financial results in 2020 due to disciplined execution of our strategic priorities. The Bank's Profit before Tax increased by 40% to TZS 296 billion in 2020 from TZS 211 billion in 2019, driven by strong growth in both funded income and non-funded income.

Our Operating Income before impairment charge grew 16% YoY to TZS 837 billion from TZS 722 billion in 2019. This growth was driven by a 9% increase in net interest income, with both interest on loans and advances and interest on government securities growing by 8.5% and 13.9% YoY respectively. Further, the strong growth in non-funded income by 34% YoY also accelerated the revenue growth in 2020.

We continued to demonstrate strong operational efficiency during the year. Our Operating expenses marginally increased by 3% YoY, with the execution of our cost optimization initiatives continuing to yield positive results as demonstrated by our cost-to-income ratio of 51%, which is Industry leading. The Bank continues to invest in its strategic priorities whilst identifying opportunities for further cost savings.

Loan impairment charge grew by 19% YoY to TZS 119 billion from TZS 100 billion in 2019. Non-Performing Loans (NPL) ratio improved to 5% (within the Regulatory threshold) from 7% in 2019, reflecting robust management actions to improve asset quality.

The strong revenue growth, disciplined cost-optimization, and enhanced loan portfolio management resulted in impressive financial performance which saw the Profit After Tax (PAT) crossing the TZS 200 billion mark for the first time in the history of the Tanzanian banking sector.

Return on equity improved to 18% in 2020 from 15% in 2019, reflecting the increase in underlying profit.

A final ordinary dividend per share of TZS 137 has been proposed by the Board which would result to an increase of 43% dividend payout, YoY.

P&L Summary

	2020 TZS Millions	2019 TZS Millions	Change TZS Millions	Better/ (Worse) %
Net interest income	565,655	517,641	48,014	9
Net fees and commission income	226,400	169,153	57,247	34
Foreign exchange, trade and other income	44,879	35,256	9,623	27
Operating income before impairment	**836,934**	**722,050**	**114,884**	**16**
Impairment charge	(119,312)	(100,410)	(18,902)	(19)
Operating income after impairment	**717,622**	**621,640**	**95,980**	**15**
Operating expenses	421,879	(410,552)	(11,327)	(3)
Profit before tax	**295,743**	**211,088**	**84,655**	**40**
Income tax expense	(89,941)	(68,921)	(21,020)	(30)
Profit for the year	**205,802**	**142,167**	**63,635**	**45**

Return on equity (%)	18	15
Return on assets (%)	3	2
Cost to income ratio (%)	51	60
Non interest income to gross income (%)	31	28
Earnings per share (%)	412	284
Dividends per share (%)	137	96
Core Capital (%)	19	17
Total Capital (%)	21	19

Operating income by segments

	2020 TZS Millions	2019 TZS Millions	Change TZS Millions	Better/ (Worse) %
Retail	652,578	545,919	106,659	20
Wholesale	53,269	63,743	(10,474)	(16)
Treasury	130,451	112,388	18,063	16
Total	**836,298**	**722,049**	**114,247**	**16**

Retail Banking total income grew 19% YoY driven by increase in net interest income from growth of loans and advances and increase in non-funded income. Retail loans and advances increased by TZS 668 billion or 22% YoY, with significant growth in Personal loans which increased by TZS 560 billion or 24% YoY.

Wholesale Banking operating income decreased by 16% YoY, on the back of a 15% decrease in loans and advances due to a cleanup of legacy non-performing assets and slow traction on wholesale lending. Impairment was well managed with no new names in 2020 due to efficient portfolio management.

Treasury total income grew by 16% YoY to TZS 130.9 billion. Total trading income for Foreign Exchange and Bond Trading grew 24% YoY. Foreign Exchange income was up 17% YoY closing at TZS 28.6 billion.

Credit Risk Summary

	2020 TZS Millions	2019 TZS Millions	Change TZS Millions	Better/ (Worse) %
Wholesale banking	79,586	35,530	44,056	(124)
Retail banking	39,726	63,320	(23,594)	37
Off balance sheet items		1,560	(1,560)	100
Total impairment charge	**119,312**	**100,410**	**18,902**	**(19)**

Asset quality overall was broadly stable in the year with loan impairment rising during the year but remaining at historically low levels compared to previous years. We continue to exercise prudence through close client-relationship management and collections strategies of the existing names as well as a continued focus on better quality origination. Reviews and stress tests of the Bank's portfolio are carried out regularly to help identify and mitigate any risks that may arise.

Operating expenses summary

	2020 TZS Millions	2019 TZS Millions	Change TZS Millions	Better/ (Worse) %
Employee benefits expense	195,515	182,579	12,936	7
Other operating expenses	157,814	154,365	3,449	2
Depreciations and amortization	68,550	73,608	(5,058)	(7)
Total operating expenses	**421,879**	**410,552**	**10,692**	**3**

Number of staff FTE	3465	3450

Operating expenses slightly increased by 3% YoY, with tight control of costs generating a commendable improvement in cost-to-income ratio from 60% in 2019 to 51% in 2020, well below regulatory threshold of 55%.

Balance sheet and Capital

The bank maintains a strong balance sheet and capital base.

With our total balance sheet growing 8% YoY from TZS 6.5 trillion in 2019 to TZS 7 trillion in 2020, we are the biggest bank in Tanzania. The balance sheet growth was driven by strong and broad-based growth in total assets and in total liabilities.

During the reporting period, loans and advances to customers increased 14% to TZS 4.1 billion in 2020 compared to TZS 3.5 billion in the previous year, driven by strong growth in Personal Banking and Agri-Business loans.

Customer deposits also increased by 8% YoY to TZS 5.3 billion which reflects continued efforts by the bank to improve the quality and mix of its liabilities.

We remain adequately capitalized with the Tier I Capital Ratio of 19% and Tier II Capital Ratio of 21%, both being well above regulatory requirement. Our capital base provides sufficient headroom to support our bold growth aspirations and absorb any future regulatory changes.

Statement of Financial Position Summary

	2020 TZS Millions	*2019 TZS Millions*	*Change TZS Millions*	*Better/ (Worse) %*
Cash and balances with Bank of Tanzania	*1,047,488*	*1,341,140*	*(293,652)*	*(22)*
Placements and balances with other banks	*170,829*	*264,326*	*(93,497)*	*(35)*
Investment in Government Securities	*1,304,253*	*761,554*	*542,699*	*71*
Loans and Advances to customers	*4,109,260*	*3,595,688*	*513,572*	*14*
Other Assets	*466,267*	*593,307*	*(127,040)*	*(21)*
Total Assets	***7,098,097***	***6,556,015***	***542,082***	***8***
Liabilities				
Deposit due to other banks	*131,224*	*33,446*	*97,778*	*292*
Deposits from customers	*5,325,455*	*4,922,278*	*403,177*	*8*
Other liabilities	*511,484*	*627,902*	*(116,418)*	*(19)*
Total Liabilities	***5,968,163***	***5,583,626***	***384,537***	*7*
Total Equity	*1,129,934*	*972,389*	*157,545*	*16*
Total Equity and Liabilities	***7,098,097***	***6,556,015***	***542,082***	***8***

Gross loans and advances to deposits (%)	*79*	*72*
Core capital ratio	*19*	*17*
Total capital ratio	*21*	*19*
Risk weighted assets	*5,310,036*	*4,988,790*

Summary and Outlook

2020 was a milestone year for the Bank. The story of the past year is one of resilience, sustained growth, and disciplined execution of strategic initiatives. For the first time in our history, our balance sheet crossed the TZS 7 trillion mark. For the first time in the history of the sector, our Profit After Tax surpassed the TZS 200 billion level.

Our performance outlook is exciting. We continue to have a firm grip on levers of risk, cost, and investment, and are using our balance sheet to drive revenue momentum. We continue to take a prudent approach to managing the balance sheet, maintaining a strong liquidity position and asset quality.

We remain focused on consistent delivery against the framework of our three strategic priorities: growing revenue and balance sheet, driving operational efficiency, and delivering the best customer experience.

With the strong foundations we have set, in the coming years, we expect to enhance our market leadership position. We remain confident and committed to consistent financial delivery.

Benedicto M. Baragomwa, ACPA, CISA
Ag. Chief Financial Officer


2020
NMB
Close to you

BUSINESS & OPERATIONAL REVIEW


NOT VALID UNLESS SIGNED

Retail Banking

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Retail Banking maintained an upward trajectory in 2020 as it continued to be a market leading business in the country despite the COVID-19 impact on the broader operating environment. Retail Banking caters to economically viable individuals, including civil servants and groups, agri-clients, as well as Business Banking clients ranging from Micro to Small and Medium Sized enterprises. We enable our customers to adequately address their financial needs through a wide range of innovative products and services which are available conveniently from our digital channels and through our wide branch network.

In 2020, the Retail loan portfolio grew by 22% YoY to TZS 3,645 billion due to enhanced, client-focused relationship management. We also prioritized portfolio quality as a key area of focus in the year through the deployment of various initiatives. Our relationship management teams worked hand-in-hand with our business clients who were impacted by the global COVID-19 pandemic to extend support to them in line with the regulator's relief measures, as they dealt with challenges within the broader operating environment.

Retail deposits grew by 4% YoY to TZS 3,798 billion in 2020 due largely to the strong deposit mobilization efforts across the network and enriched client relationship management.

2020

Retail Loan Portfolio
TZS **3,645 BILLION** up **22%**

Retail Deposits
TZS **3,798 BILLION** up **4%**

In line with our commitment to providing the best value propositions for our customers, we launched a number of innovative and pioneering solutions to the market in 2020, including:

BANCASSURANCE

NMB was the first bank in the market to launch this solution. Through partnerships with ten insurance companies, the solution enables customers to conveniently access a wide range of insurance products including life, general, and health under one roof and through our wide network which spans the entire country.

CONSTRUCTION MORTGAGE

To complement our mortgage offering, we launched Construction Mortgage which enables customers to finance the construction of their houses.

ENHANCED PAMOJA ACCOUNT

The Enhanced Pamoja Account seeks to bridge the gap between the supply of formal financial services and informal savings groups by improving access to financial services. This innovative proposition enables groups ("vikundi") and group members to transact seamlessly, including transferring funds, making contributions, and opening group accounts from the convenience of their mobile devices. Savings groups are now able to access formal financial services for the first time through this safe and convenient platform, thereby widening financial inclusion.

DUNDULIZA

We teamed up with the National Health Insurance Fund (NHIF) to launch Dunduliza, a special scheme that enables Tanzanians to pay for their health insurance in installments. Through our wide network spanning the entire country and our range of digital channels, Tanzanians from across all corners of the country are now able to pay for their health insurance and gain wider access to quality health care.

JASIRI

We launched the Women's Proposition, "Jasiri", in recognition of the important role that women play in society. This solution aims to deepen women's access to formal financial services through awareness raising, financial literacy training, and through a tailored package of banking services designed to address their specific needs.

Other products that were launched include asset financing and insurance premium financing. Our digital transformation journey continued in the year as we expanded our suite of digital payments solutions.

- **Credit Cards, Prepaid Cards, UPI Acquiring** - *During the year, we launched credit cards, pre-paid cards (which support up to 15 currencies), and UPI acquiring.*
- **E-commerce payment gateway** – *We launched an e-commerce payment gateway which accepts all major card brands, to cater for the growing number of merchants who prefer managing business payments and transactions via a secure online platform.*
- **QR Codes** - *We scaled our QR payment solution to drive contactless payments at various service points, from small 'mom and pop' stores to boda boda drivers.*

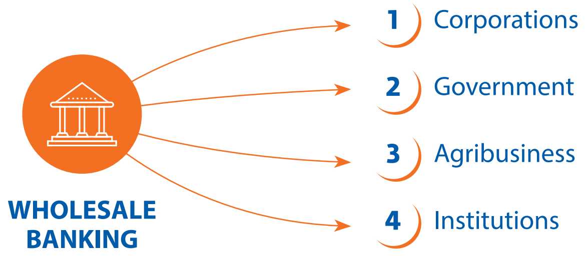
Our distribution network remains wide and deep as we ended the year 2020 with 226 branches to ensure wide accessibility to our banking services and reaching the unbanked. We also optimized our agency footprint during the year by accelerating the recruitment of agents to further widen financial inclusion. We closed the year with over 8,000 active agents in our network.

We continued to build capacity for our customers, particularly in the MSME segment, in order to address knowledge gaps on matters that impact their businesses. Though face to face engagements were subdued during the year to mitigate the spread of COVID-19, we were able to provide training on a range of topics to various small and medium sized businesses and knowledge sharing platforms via Business Club events.

We thank our valued customers for their support in 2020 and we look forward to providing an even better customer experience in 2021.

Wholesale Banking

Wholesale Banking supports clients ranging from large multinational corporations, the Government, and other institutions operating in Tanzania and trading across borders to address their financial needs. We leverage our deep local presence, strong digital capabilities, and the vast experience of our team to provide bespoke solutions to our clients across vast sectors. During the year, we continued to provide project financing support towards key areas of national development including in infrastructure, energy, and agriculture, ensuring that the bank maintains its strong position of being a key Government partner in the country's development agenda. We also continued to serve our clients through financing solutions to address their borrowing needs, transactional banking services, and trade finance solutions.



Our client coverage spans key sectors of the economy, including:

MANUFACTURING	OIL & GAS	ENERGY & MATERIALS
TELECOMMUNICATIONS	TOURISM	COMMODITIES
MINING	TRADING	HEALTHCARE

2020 Highlights

We continued to participate in big, key national economic development priorities during the year, ensuring that the bank remains a key partner for the Government's national development agenda. We supported infrastructure development and big construction projects including Standard Gauge Railway, water pipeline construction and rehabilitation of water treatment plants, as well as rural and urban roads projects. Other key projects in which we were involved include the expansion of power generation capacity and implementation of various rural electrification projects. We continued to support the development of the agricultural sector by financing key strategic crops including cotton, tobacco, coffee, sesame, cashewnuts, and pulses across all value-chains.

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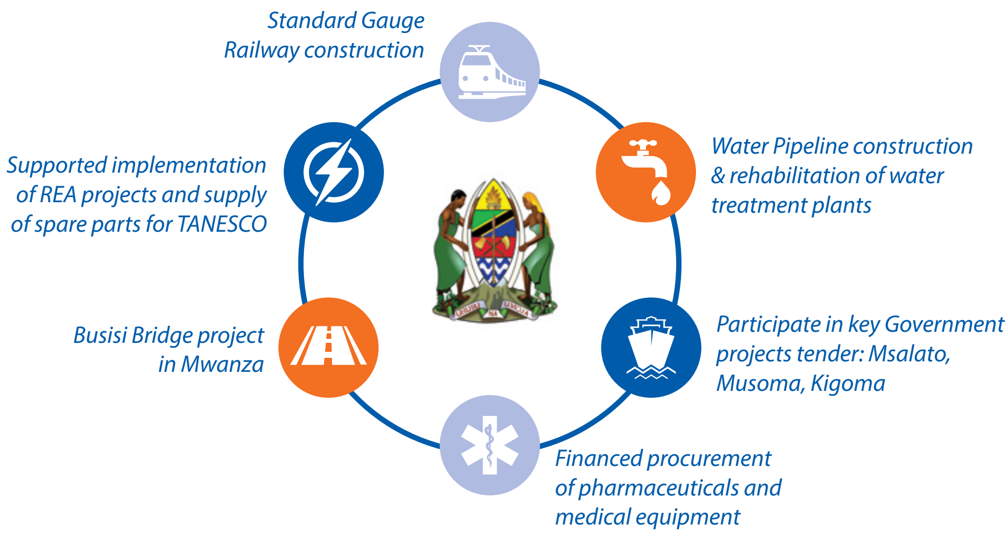

In 2020, Trade Finance played a pivotal role in facilitating transactions owing to its increased visibility in the market following full engagement in key areas such as SGR Lot 5 Bid, Oil Marketing Company (OMC) import loans, Contractors' initiatives, and Agribusiness Trade loans. To further support our clients, strategic trade limits were established with financial institutions in Turkey, China, and with other Global Banks which resulted in higher utilization of related solutions such as Import and Export Letters of Credit, Post Import Loans, Bank Guarantees, Documentary Collections, and Pre-Shipment Financing.

Enhancing our digital offerings was a key area of focus during the year in order to provide our clients with the best-in-market solutions and a better customer experience. Our transactional banking services had good growth in the number of institutions integrated through GePG, closing the year with over 650 institutions integrated. We also successfully completed integrations with MUSE, the Government payment platform, and launched new host-to-host integrations with a number of large public institutions. Our existing host-to-host integrations and the internet banking platform were also enhanced with richer, and more advance functionalities. We are keen to grow our digital offerings by increasing the number of integrations in order to provide our clients with secure and convenient digital channels and by expanding payment ecosystem solutions to provide our clients with value added services at all stages of their value chains.

Customer Deposits	Asset Book	Trade Asset
up **6**% from Dec 2019	cleaner portfolio, large ticket transactions	TZS **667** BILLION growth of LCs, Guarantees supporting ongoing infrastructure projects

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Customer deposits grew to TZS 1,527 billion in 2020 from TZS 1,444 billion in 2019, up 6% YoY, through enhanced client relationship management. The loans and advances book shrunk by 15% YoY to TZS 669 billion in 2020 from TZS 785 billion in 2019 due to cleanup of legacy non-performing assets and slow traction of wholesale lending. Maintaining a quality asset book was a key area of focus in the year and several strategies including enhanced client engagements were implemented in the year. As a result of the efforts, no new NPL names were registered during the year. We continue to work closely with our clients to ensure they are supported throughout the pandemic period.

We thank all our clients and the government for their support in 2020 and we look forward to an even better 2021. Wholesale Banking aims to deepen our client relationships and continue providing innovative solutions which are relevant to our clients' needs. We will further augment our project financing to deliver optimal structured solutions and trade finance to cater to our client's entire value chains. We will continue leveraging technology to provide a better experience for our clients through enhanced digital offerings and simpler processes.

Treasury

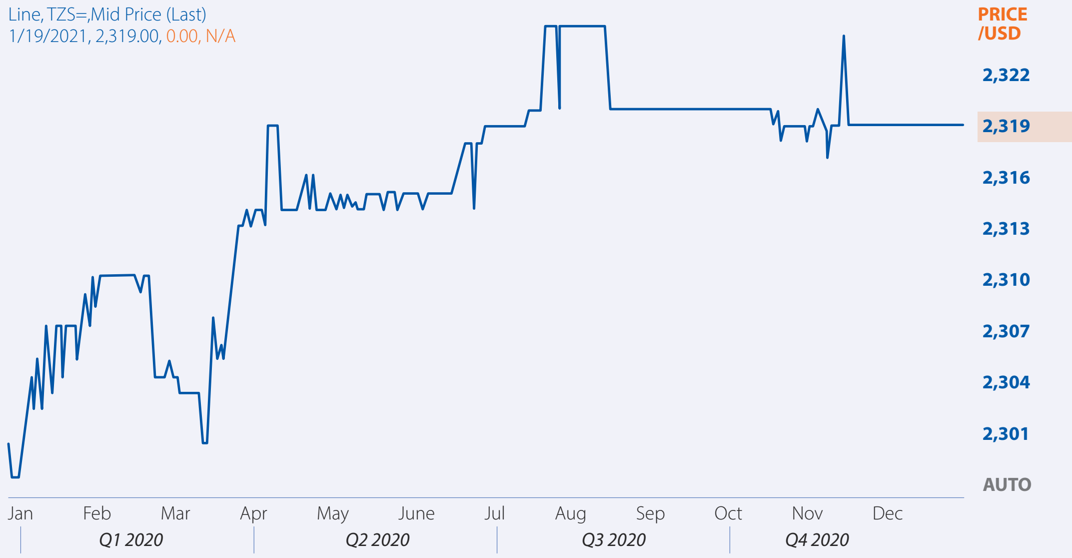
Revenue	Trading Income	Foreign Exchange
TZS 131.3 BILLION up 16%	up 24%	TZS 28.6 BILLION

2020 Highlights

In 2020, the Treasury function positively contributed to the bank's overall performance by generating TZS 131.3 billion in revenue, up 16% YoY. Trading income and strategic investments in Government securities, which grew 71% YoY, contributed to the strong year-on-year revenue performance. Total trading income grew 24% YoY, driven by strong performance in Foreign Exchange (FX) income which closed the year at TZS 28.64 billion, up 17% from 2019. Other Treasury services also had good traction in the year. Securities Services gained ground in 2020 through forged partnerships with Tanzania Cigarette Company (TCC) and Jatu Plc. for the maintenance of their shareholders' registers. The unit also continued to extend to retail investors BOT CDS account opening services to enable their participation in government securities auctions. Through Transaction Advisory Services, the bank continued to play an active role as a key stakeholder in the implementation of the Financial Sector Master Development Plan (FSMDP) 2020/21-2029/30 issued by the Ministry of Finance and Planning.

Despite the COVID-19 pandemic, the foreign exchange market remained largely stable with the local unit trading within a TZS 20 range. Throughout the year, the Central Bank introduced several measures to stabilize the market including by participating in the Interbank Foreign Exchange Market.

USD/TZS EXCHANGE RATE GRAPH FROM Q1 2020- Q4 2020

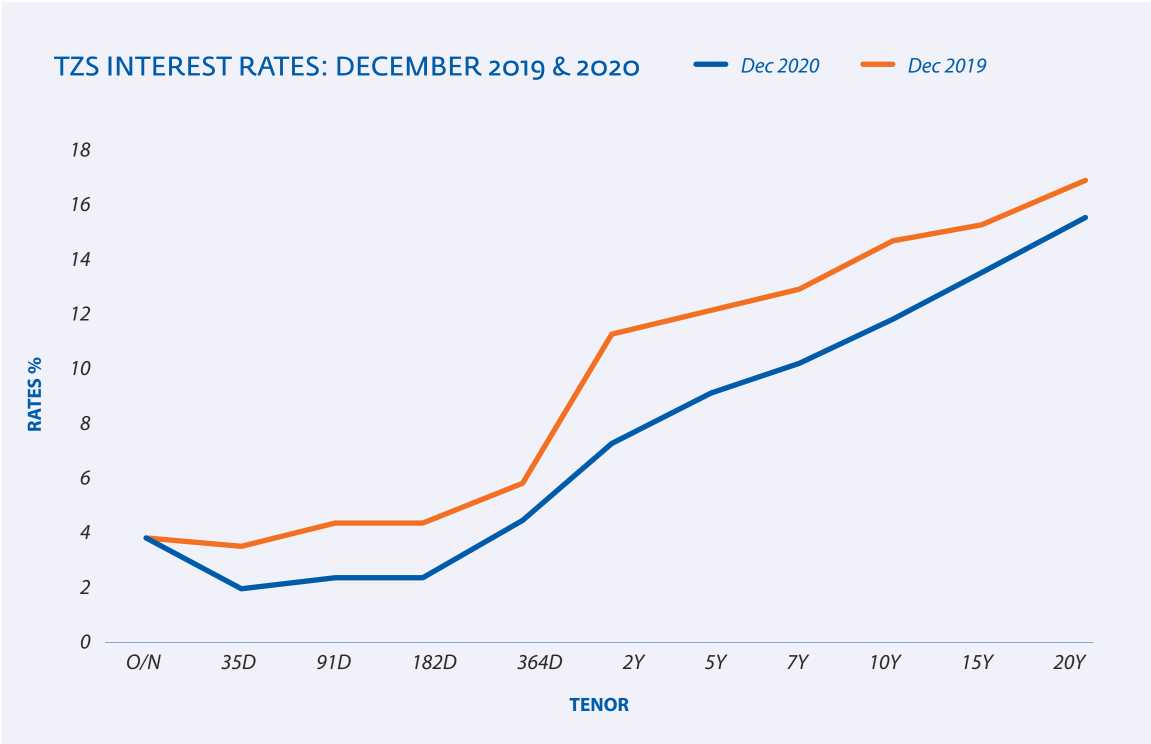


Source: Bank of Tanzania and Reuters

Despite an overall declining interest rate environment, Asset Liability Management (ALM) income for the year increased to TZS 99. 5 billion, up 14% YoY, due to strategic investments in Government securities which grew 71% YoY.

In 2020, the market remained broadly liquid for a large part of the year with domestic credit by the banking system recording an annual growth of 17.8% in December 2020 compared to 7.1% YoY growth in December 2019 (BOT Monthly Economic Report, January 2021).

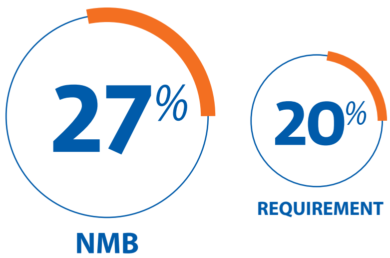
There was continued demand for long-term government securities during the year as Treasury bonds auctioned in 2020 were cumulatively oversubscribed by 98%. This increasingly put a downward pressure on all the T-bond yields leading them to decline YoY. However, auctioned Treasury bills were cumulatively undersubscribed by 15% during the year showing less demand for short-term papers from investors. Overnight lending rates remained stable at 3.8% levels in December 2020 similar to December 2019.



Source: Bank of Tanzania

Liquidity

The bank maintained strong liquidity position in 2020 closing the year at 27% LAR, well above the minimum regulatory requirement of 20%. The strong position provides the bank with a solid base to meet customers' needs in 2021 and beyond.



Technology & Digital Transformation

We continued to build on the successes of the on-going digital transformation of recent years to deliver transformative experiences for our customers through innovative and relevant products and services. By closely working with businesses and key internal stakeholders, we leveraged investments in technology and enhanced various platforms during the year to improve the overall customer experience, including;

USSD MOBILE DIGITAL PLATFORM - *150*68

The first internally developed USSD platform which provides customers with innovative solutions that can be easily accessed from the convenience of the mobile phone. The secure platform functions as a payment engine which generates a unique control number that is tied to a particular customer. The payment can be easily done through all mobile network channels, through other banks, and via all NMB channels.

PAMOJA – PLATFORM & USSD ACCESSIBILITY

Pamoja platform enables customers to perform a range of activities for their Group accounts remotely. Customers are able to open and manage their group accounts, make contributions, and view statements from the convenience of their mobile phones.

DUNDULIZA PLATFORM

We partnered with NHIF and pioneered the launch of the Dunduliza platform to the market to provide a convenient channel for our customers to contribute towards their health insurance plans. The mobile platform enables customers to register, access, and contribute towards their health insurance from their mobile devices.

FIRST FOREX KIOSK

We launched the Forex Kiosk machine to simplify customers' foreign exchange transaction needs. Requiring only their passports for KYC purposes, customers can easily exchange their foreign currency into Tanzanian shillings from the Forex machine at competitive rates.

HOST TO HOST – EXPANDED OFFERS TO NSSF (SUB-ACCOUNTS)

We implemented a host-to-host integration with NSSF to improve the efficiency of pension processing and account management. The integration now makes it easier for NSSF to process pension payments.

We continued to see good growth in transaction volumes and values across all our channels during the year which was supported by a stable technology infrastructure.

Our investments in technology continued to improve operational efficiency and staff productivity. We successfully digitized customer feedback channels by implementing IVR, customer queries on WhatsApp, and Sanduku La Maoni which transformed the way customers interact with the bank. We are positive that the digitization will enable us to continuously identify areas to enhance customer experience through granular insights and data analytics. We have also achieved cost saves as a result of increased digitization and are keen to accelerate more digitization of our processes in order to improve customer experience and productivity.

Technology Infrastructure and Cybersecurity

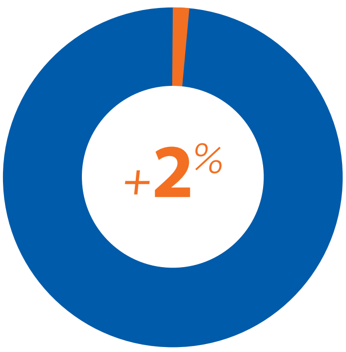
Amidst the COVID-19 pandemic, we seamlessly supported remote staff working through stable and secure technology systems. Security controls remain at the forefront of ensuring a good customer experience. During the year, we successfully achieved Payment Card Industry, PCI-PIN, certification for our payment cards to apply the highest standards of security customer card transactions.

Credit

A key area of focus in the year was to improve loan portfolio quality and operational efficiency to support the lending business. During the year, we increased collections and recoveries which were up 11% YoY, completed the collateral remediation exercise, and enhanced technology platforms by embedding IFRS 9 system and Collateral Management Tool. Collectively, our efforts led to improved performance of the NPL ratio which closed at 5% in 2020 compared to 7% in 2019. The improved performance was also due to enhanced client relationship management, early identification of distressed assets, and extending support to clients who were impacted by global challenges from COVID-19 through restructuring facilities in line with Central Bank guidelines. To foster operational efficiency, we began the process of digitizing the entire credit process, end-to-end, with the aim of simplifying the credit process for our customers.

Our 2021 focus is on capitalizing on the successes we've achieved in 2020 and building on the performance through continued enhancement of credit structuring, evaluation and monitoring, continued early identification of problem accounts, and increased collections in order to maintain the NPL ratio below the 5% regulatory threshold. We will continue to accelerate digitization through on-going implementation of various systems and re-engineering of processes where possible in order to enhance customer experience, improve loan portfolio quality, and increase collections and recoveries. We remain focused on ensuring operational efficiency and maintaining a quality portfolio.

NPL Ratio



2020: 5% | 2019: 7%

Human Resources

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The main people agenda in 2020 was to sustain a high-performance culture to cultivate high staff productivity. We reinforced this through continued staff capacity-building to enhance skills and to develop our talent pool and leadership pipeline, provided a supportive working environment through staff wellness program, and repurposed our operating model specifically in our retail business and technology teams to support our business and digitization ambitions.

Staff Capacity Building and Leadership Development

We are continuously building the capacity of our teams to develop the right skill sets to support our business ambitions, encourage continuous learning in an increasingly digitized world, and to ensure a healthy pipeline of leaders. During the year we conducted a Leadership Intervention Program for senior leaders across the bank as a means of continuous learning in order to equip them with the right skills. In an increasingly competitive talent market, we regularly review our employee value proposition to ensure we maintain a workplace environment that supports our staff's career growth aspirations from millennials and across all generations. In our pursuit to attract and retain the best talent, we on-boarded a new batch of Management Trainees to expand our healthy talent pool.

The Management Trainee program continues to be very successful and provides the bank with a team of bright talent to support the bank's core business. We have also added to the talent pipeline across all levels of the organization by implementing key HR frameworks in the year. Through this exercise, we identified critical roles and successors to ensure effective and smooth replacement of staff when the need arises. To place greater emphasis on talent succession, we introduced a Succession Planning and Talent Management Policy which took into account the most recent changes in labor laws and best practices. We also filled key leadership positions in the year, including for respective senior management to oversee the Human Resources, Wholesale Banking, and Credit functions.

Mrs. Margret Ikongo, NMB Board Member with the graduates of the 2018-2020 NMB Management Trainee Program on the graduation ceremony.

Repurposing of Teams

Delivering on our strategic ambitions requires that we have a fit-for-purpose operating model. In 2020, we reviewed and repurposed the Retail operating model to enhance productivity and ensure availability of the right-skill sets. The exercise involved the merging and re-allocation of roles to increase synergies in the Channels and Products teams and provide more streamlined support towards Retail operations. New roles were introduced across the zones to place greater emphasis on driving sales and enhancing customer relationship management. To support our digitization ambitions, we also reviewed the operating model within our technology department to align it to our digitization ambition. The outcome was a repurposed structure with highly specialized roles introduced to enhance internal development capabilities and support the rapid deployment of solutions to the market. The repurposing of the technology department also involved separating the cybersecurity team from the infrastructure team to enhance focus and effectiveness.

Staff Wellness

Ensuring staff-wellness was a key area of focus in 2020 amidst the COVID-19 pandemic. A number of sessions covering topics on mental and physical health were provided to staff through the Staff Wellness Program. The sessions helped to provide an opportunity for staff to share best practices to help them cope with difficulties faced during the pandemic. We are committed to ensuring a safe and supportive working environment for our teams and will continue to provide impactful sessions to ensure staff wellness.

Risk & Compliance

The Risk and Compliance Function supports management in achieving enhanced regulatory compliance and value creation for our stakeholders. The key 2020 agenda for the Risk and Compliance was to strengthen and ensure regulatory compliance in accordance with applicable laws, improving operational efficiency through digitization, and enhancing risk insights to strengthen the overall risk management framework.

Strengthening Regulatory Compliance

Regulatory Compliance is always a key agenda for the bank and 2020 was no different. We made good strides during the year in the implementation of the European Union General Data Protection Requirements (GDPR) to comply with data protection requirements. We also gained ground in the implementation of the Financial Consumer Protection Regulations of 2019 to safeguard the interests of our customers and will continue implementation until all requirements are satisfied. During the year, we also obtained recertification from our correspondent banking partners of fully compliant Volcker Rule status as per TOTUS exemption requirements. We continue to work very closely with relevant stakeholders to provide guidance on emerging changes in the regulatory landscape to maintain compliance.

To ensure continuous learning and awareness on the importance of complying to regulatory requirements and ethical conduct, we provided refresher training to staff on NMB Code of Conduct and refresher training on the Insider Trading policy and procedures, as well as annual AML training and Code of Conduct declarations which form part of the annual calendar of activities. We also held training clinics across the entire network to increase risk awareness and to further embed a conduct driven culture.

Driving Efficiency and Automation

We regularly explore opportunities to enhance efficiency through digitization to enable a stronger control environment. In the year, we successfully completed the implementation of a new Operational Risk System which will improve the way we manage the bank's operational risk framework. We also made good progress with the new ALM, Sanctions Screening, and Fraud Detection tool which we expect to implement in 2021. The system will further boost our ability of real time detection and interdiction of transactions which have been red-flagged. We also began upgrading our stress testing tool and expect to complete the upgrade in 2021 in order to provide deeper stress testing insights to optimize decision-making. We laid strong foundations that will pave way for the bank's Data Management Program. We continue to build on the good progress we've made in 2020 and will accelerate efforts in 2021 which will go a long way in supplementing the progress we've made on complying to regulations including GDPR and Financial Consumer Protection.

Enhanced Risk Insights

A key areas of focus in the year was on enhancing risk insights to optimize decision making. We revised the Risk Appetite Statement in 2020 after thorough review and close consultations with key stakeholders across the bank. The outcome of the exercise was an improvement in our risk acceptance, tolerance, and monitoring framework, as well as new sector limits. The revised Risk Appetite Statement is also attuned to the bank's refreshed Medium Term Plan 2021 - 2025. We also increased the frequency of our stress-testing to a quarterly basis. The revised approach will enable the bank to take stock of its capital and resiliency buffers more frequently, thereby optimizing decision making. The revised approach also supplements the efforts we are making to upgrade our stress-testing tool.

Internal Audit

Mission and Positioning of Internal Audit Function

The mission of NMB Internal Audit is to enhance and protect NMB Bank Plc. value by providing risk-based and objective assurance, advice, and insight.

The Internal Audit Function (IAF) has dual reporting; functionally it reports to the Board of Directors and administratively to the Chief Executive Officer (CEO). The Function is led by the Chief Internal Auditor (CIA) who is supported by a well-diversified team in terms of professional qualifications, age, and gender. The IAF helps NMB Bank Plc. to accomplish its objectives by independently bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, internal controls, and governance processes. The Function provides assurance and consulting activities to the Board and Senior Management based on the actual risk-based audit work, continuous business monitoring, and Data Analytics.

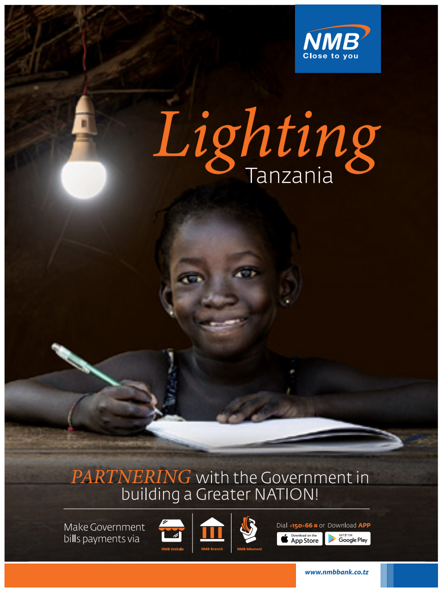
Internal Audit Process and 2020 Performance

The NMB Internal Audit Function has adopted a Risk-Based Audit approach where the Annual Audit Plan is driven by a robust risk assessment. The Annual Audit Plan takes into consideration the results of risk assessment, expectations of the key stakeholders, business strategy, emerging risks in the business and external environment, and regulatory requirements. In addition, the plan remains flexible to ensure that emerging risks are taken into consideration and incorporated into the assurance activities.

The IAF performed the audits in 2020 based on the Annual Audit Plan approved by the Board of Directors and in line with the International Professional Practice Framework (Standards) issued by the Institute of Internal Auditors (IIA). The IAF reported to the Board and the Bank of Tanzania (BOT) on the progress made on the execution of the audit plan and significant audit issues identified on a quarterly basis. The Internal Audit Function continued to utilize technology and Data Analytics in the audit process in order to remain relevant and provide more insight to the Board and Management. The Function continued to play a key role in the provision of assurance and improvement of control environment within the bank.

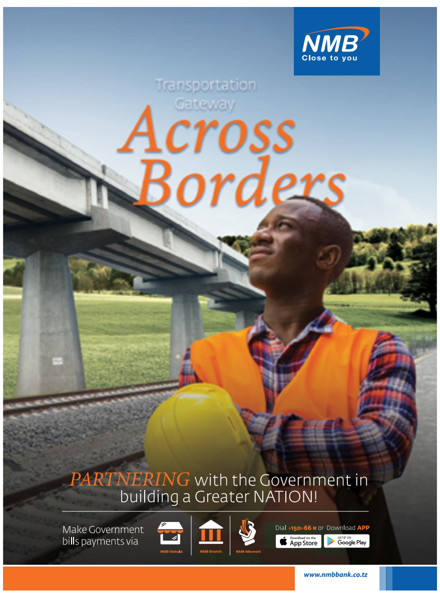
The audit plan execution took into consideration the impact of COVID-19 to the business and incorporated certain assurance activities in response to the new normal to support the business, specifically on the credit restructuring, credit assessment, customer experience, Business Continuity Management and Disaster Recovery, bank's strategy execution, and revenue assurance through Data Analytics in 2020.

In 2020, the IAF delivered 122 audits across the entire network and provided a range of Consulting/Advisory activities upon request from management, highlighting control issues and supporting management on designing the action plans to remediate the risks. The audits covered a range of areas including credit processes, ALM, cybersecurity, to mention but a few. Overall, Internal Audit covered all risks categories during the year, including Operational Risk, Credit Risk, Liquidity Risk, Compliance Risk, Strategy Risk, and Market Risk.



NMB
UMEBIMA?
BANCASSURANCE

Pamoja
Account



Marketing

Marketing's focus during the year was to support the bank's key business initiatives through creative marketing strategies aimed at maximizing brand visibility and awareness of our customer propositions. In line with the bank's key strategic pillars, a range of marketing campaigns were run in the year to drive customer awareness, sales, and adoption of our innovative products and services. We also hosted a number of customer events during the year albeit at a more subdued tone due to the COVID-19 pandemic, to engage with our customers and to provide a platform for knowledge exchange, networking, and capacity-building for a range of business clients, particularly within the MSME segment. Our marketing efforts are a key way in which we engage and position ourselves within the public to ensure we portray an image of the bank that is consistent with our ongoing transformation, increased digitization, and growing portfolio of products and services that are relevant to our customers' needs.

2020 Campaign Highlights

NYANYUA MJENGO (Construction Mortgage)
This loan facility provides customers with an opportunity to get a loan from 10m to 200m to construct a house. Such an arrangement provides our customers with the ability to construct a house(s) that match their own preference. This loan facility has repayment period of 1 to 15 years and is an addition to already existing mortgage which are construction mortgage, semi finish and refinancing.

UMEBIMA (Bancassurance)
NMB customers and non-customers (personal and business) to get insurance cover through all branches from six insurance companies - Reliance, Sanlam Life, Jubilee, National Insurance Company, Zanzibar Insurance Company and UAP Insurance all covering from Motor, Health Insurance, Property, Life, Education, bonds and Agriculture Insurance. Launched in Q1 2020, Umebima has played a key role in placing the Bank in the insurance space and creating convenience for our customers.

PAMOJA ACCOUNT REVAMPED
In partnership with Savings at the Frontier (SaTF) the newly revamped Pamoja Account targets more groups such as but not limited to VSLAs, Savings and Internal Lending Communities (SILC), Village Community Banks (VICOBA), Community Based Savings Groups (CBSG), Community Based Organizations (CBO), Family and Friends Groups.

PREPAID AND CREDIT CARDS

The bank launched a card campaign dubbed "Because you Can" ("kwasababu Unaweza") to introduce a prepaid card for the mass market and 3 credit cards targeting corporate companies and high net worth individuals. Prepaid cards ensures cheap deposits and new money for the Bank while credit cards ensures cash liquidity for corporates. Both cards are an important catalyst in introducing culture of online purchases instead of using hard cash.

DUNDULIZA (Health Scheme)

Campaign launched in partnership with NHIF that creates a virtual account for customers to contribute for their health scheme. Customers are able to make monthly payments and receive their health card once payments are completed easily through NMB Mkononi.

GOVERNMENT PARTNERSHIP

Awareness campaign to show case our support and various partnerships with the Government highlighting focus on transport (railway), health, education and agriculture. This is a strategic positioning campaign to show the strong relationship with the government through various Ministries, Municipals, Parastatals and other Government institutions.

UPI PARTNERSHIP

Launched acquiring platform that allows UPI card holders to use NMB ATMs and POS. This allows all travelers from China and across the world including customers from local Banks who have UPI enabled cards to access our POS and ATM services. This plays an important part in penetrating the Chinese market as well as increase revenues for the Bank.

E – COMMERCE

This is a platform that enables merchants to access our banking platforms in making and receiving payments. This platform is accessible through VISA, Mastercard and Union Pay enabled cards as long as the merchant has a valid and running website.

MASTABATA (Card usage)

This is 3 months promotional campaign that rewards customers for purchases paid through POS, MasterCard QR and e-commerce with the objective of increasing card usage. MastaBata targets both customers and NMB staff members with rewards ranging from cash prizes, electronics (phones, fridges, microwave, water dispensers, smart TV) as well as trips to Ngorongoro, Serengeti and Zanzibar depending on winner's preference.

NMB BIMA MARATHON

We held the BIMA Marathon in 2020 where we successfully raised TZS 100 million in funds towards supporting children cancer patients who were being treated at Muhimbili National Hospital.

CORPORATE SOCIAL RESPONSIBILITY

Overview

NMB Bank Plc. firmly believes in acting as a responsible corporate citizen by supporting the communities in which we operate to foster socio-economic development. Through the bank's Corporate Social Responsibility (CSR) arm, the bank has been consistently supporting the communities we serve through with the overall aim of improving the livelihoods of our stakeholders. Our CSR agenda is underpinned by the key pillars of education, health, financial capability, and disaster recovery. We set aside a 1% of the after tax profit every year and allocate the funds towards implementation of various initiatives to support our communities in line with our CSR pillars.

Education

Our overall goal with the Education pillar is to help children realize their dreams by creating a conducive learning environment for them to study and grow. To realize this goal, we provide support to both primary and secondary schools by purchasing equipment including classroom desks and associated furniture, lab equipment, as well as computer equipment. The tools enable a supportive learning environment for school children to study. In 2020, we provided over TZS 1 billion in education support which benefited 41,800 school children across 209 schools. We also provided roofing materials to schools during the year to enable a more conducive learning environment.

Hon. Sulemani Jafo Minister of state in President Office, Regional Administration and local Government clapping hands after receiving iron sheets for Kisarawe schools from NMB

Education support	School children	Schools
over TZS **1BILLION**	**41,800** benefited	**209**

Health

We recognize the importance of a healthy society in fostering socio-economic development. Within our Health pillar, **our main aim is to enable the well-being of our communities by providing support to health centers and health facilities across the country**. We have placed emphasis on supporting the country's health facilities as a means of improving the well-being of our communities by plugging shortages in medical equipment. In 2020, we spent over TZS 240 million to support 48 health facilities across the country with complete sets of hospital beds, delivery beds, bedsheets, and delivery kits that benefited over 200,000 people in our communities. We supported the newly established Uhuru Hospital in Chamwino (Dodoma) by allocating TZS 51 million towards medical equipment and hospital benches.

Professor Lawrence Museru, Executive Director of Muhimbili Hospital receiving a check to support childhood cancer treatment from NMB.

Through our BIMA Marathon held in the year, we successfully raised TZS 100 million and allocated the funds to support children cancer patients who were being treated at Muhimbili National Hospital. We also pledged over TZS 200 million to help mitigate the impact of COVID-19 in both mainland Tanzania and in Zanzibar.

Health support	Health facilities	Medical equipment
TZS **240 MILLION+**	**48** across Tanzania	TZS **51 MILLION** at Uhuru Hospital

Financial Capability

Within our Financial Capability pillar, **we aim to develop our beneficiaries through a broad range of educational resources in order to support their future development and to build a more inclusive economy**.

Financial education sessions

Financial capability is a key national priority as stipulated in the National Financial Education Framework (2018-2022) with the overall objective to boost industrialization, improve people's wellbeing, increase investment opportunities, and grow the economy. In support of this national priority, NMB imparts financial knowledge and skills-training to both youth and adults to increase their access to financial services, enhance their ability to manage their personal finances and make informed financial decisions. In 2020, we launched the NMB Women Proposition dubbed "Mwanamke Jasiri" which provides an important platform for knowledge exchange and financial education. Over 3,000 youth and adults were reached during the launch event. The platform was also used to provide financial literacy training to over 600 women with similar events planned for rollout in regions across the country.

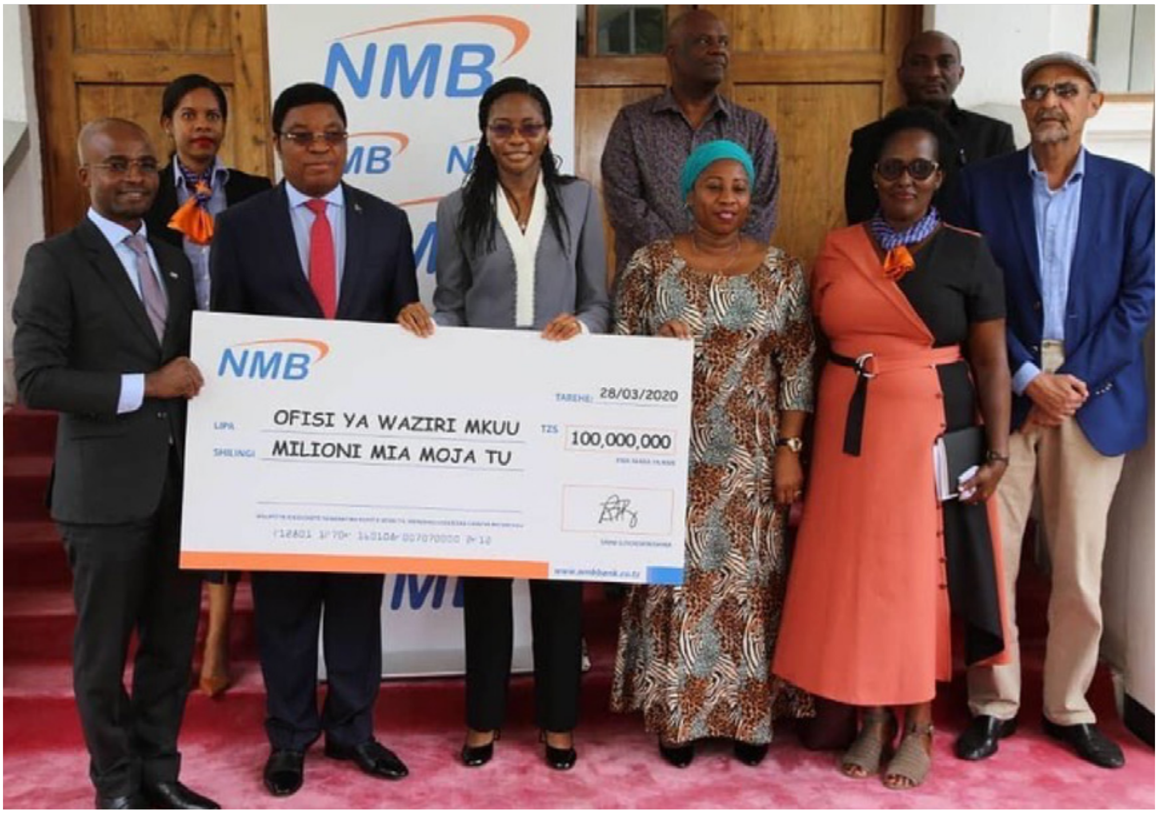
Financial education sessions

To enable young people to prosper in the future, we participated in various youth-focused events in the year including the YUNA conference, where we leveraged the platform to impart financial-skills training and product awareness-raising to over 200 participants. The Wajibu Program which aims to help young people aim towards a better financial future continues to be successfully implemented. Since its inception, over 100,000 young people have been trained on a wide range of financial topics designed to improve their capacity to manage their finances, build a savings culture, and accelerate financial inclusion among the youth. In commemoration of the 2020 International Day of the African Child, we also supported 10 schools in Dar es Salaam with hand-washing machines to support efforts to mitigate against COVID-19.

Natural Disaster Recovery

Supporting National Covid-19 Response

In 2020, we focused our efforts on supporting communities across the country to manage the COVID-19 pandemic by providing in-kind support to help mitigate the spread of the virus in communities and moral support to help people cope with challenges. We collaborated with national and local authorities and provided over TZS 200 million in financial support to help mitigate the pandemic in both mainland Tanzania and in Zanzibar. Our staff also mobilized themselves to support the communities in which we serve by donating personal protective equipment including face masks, hand sanitizers, and soap dispensers to protect the most vulnerable groups in our communities, including orphans.



NMB Bank Plc. CEO Ms. Ruth Zaipuna presenting a dummy cheque for TZS 100 million to Hon. Kassim Majaliwa Majaliwa, Prime Minister of the United Republic of Tanzania as contribution towards Government initiatives to mitigate the spread of COVID – 19 Pandemic.

Employee Engagement

Our staff community initiative program enables our staff to directly engage with the communities in which we operate. The program continues to be successful in both mobilizing resources to support those in need through a matching program and in helping our staff feel more connected to the communities being supported. Different groups within our communities, including orphans, hospital patients, and the elderly to name but a few, have been supported and benefited through the program. In 2020, a total of TZS 300 million in matched-funds touched about 5,000 people across the country. We are proud of the impact we have made in our communities and look forward to further improving the well-being of our communities.

Matched funds

TZS **300 MILLION**

People reached

5,000
across Tanzania

NMB staff donating blood

NMB Foundation

To effectively position the NMB corporate social investment agenda and maximize the impact to our communities, we are working on establishing an NMB Foundation as a vehicle that can expand Corporate Social Investment (CSI) strategic pillars to support community development projects focusing on agriculture, education, health, entrepreneurship, financial capability, and disaster relief. Our goal is to broaden the impact we bring to communities across the country through implementation of the CSI programs and to further support socio-economic development.

CORPORATE GOVERNANCE

Risk Management

The bank's Risk and Compliance Management Framework is geared towards four key objectives, namely:

1. To safeguard the bank's identity, reputation, and sustainability.
2. To protect profits and growth.
3. To maintaining solid balance sheet ratios.
4. To ensure compliance with all regulatory requirements, both local and international.

Despite the ripple effects of the COVID-19 pandemic in the global economy, the bank's Profit after Tax (PAT) was significantly higher in 2020 than in 2019. The bank also had solid liquidity and solvency ratios in excess of regulatory requirements and internal limits during the year. Key performance ratios are generally ahead of or in line with industry averages in Tanzania. Asset quality ratios also improved in 2020 with the NPL ratio closing at 5% as at end of 2020 compared to 7% as at end of 2019.

NMB adopts an Enterprise Risk Management (ERM) framework to help the bank deliver on its key objectives while ensuring that risk tolerance does not exceed the limits stipulated in the bank's Risk Appetite Statement. The Risk Appetite Statement serves as a lower and upper guardrail to ensure that the actions of Management and staff at all times during the course of the bank's operations do not exceed allowable levels of downside risk that could result in material losses to the bank. The ERM process gives reasonable, not absolute, assurance against material loss. The Chief Risk and Compliance Officer of the bank is overall responsible for establishing and overseeing the bank's ERM framework.

NMB Risk Profile

The bank defines risk as a potentially negative impact on the bank's value that can arise due to internal processes or future internal or external events. The concept of risk includes the probability that an event will occur and the impact it could have on the bank's results, equity or value. The Principal Risk categories for NMB correspond to those defined by the Bank of Tanzania's Risk Management Guidelines and consist of ***Operational Risk***, ***Credit Risk***, ***Liquidity and Solvency Risk***, ***Market Risk***, ***Compliance Ris***k, and ***Strategic Risk***.

Principal Risk Description	*NMB Risk Profile in 2020*	*Risk Management Measures*
Credit Risk The risk that a borrower will fail to meet their contractual obligations to NMB and the risk that pledged collateral will not cover the claim. Credit risk also includes counterparty risk, concentration risk, and settlement risk.	During the year, there were improvements in asset quality with the NPL ratio dropping to 5% as at end of 2020 compared to a ratio of 7% as of close of the previous year. The bank's Risk Appetite Statement and sector concentration limits were also revised in 2020 in line with the refreshed Medium Term Plan, with the overall objective of sustaining growth of a well-diversified balance sheet while limiting concentration risk exposure to any one sector.	Responsible lending is critical to a well-functioning bank. This means taking into consideration each customer's long-term financing needs, ability to repay and resilience. A range of tools and measures are used during the course of business to manage credit risk. From a governance perspective, the apex credit decision-making committee is the Board Credit Committee which works with other Management committees to review credit applications, loan-related controls, as well as asset quality. Branches also have some discretion to autonomously approve certain credits up to closely monitored internal limits. Stress-testing is regularly done to monitor the bank's liquidity and solvency risks. Two comprehensive rounds of stress-testing were performed in 2020 incorporating stress scenarios for all key risk factors (liquidity, solvency, market, credit, operational risk as well as a black swan combined stress scenario), with measures to deal with all stress outcomes ranging from mild to severe in place. A dedicated Special Assets department, which works closely with customers who are facing financial difficulties, implements proactive strategies within the bounds of the bank's internal guidelines and regulatory requirements to turn around performance. The bank has implemented a number of initiatives to enhance its loan origination and disbursement processes, including through the automation of credit scoring and centralization of the disbursement process which have improved efficiency. The Risk Appetite Statement was also revised in 2020 with new sector limits as well as a strong credit governance framework with various levels of approvals needed for loans of different sizes and complexity. The bank's credit administration structure has also been strengthened for a more optimized support model.

Principal Risk Description	*NMB Risk Profile in 2020*	*Risk Management Measures*
Operational Risk The risk of losses resulting from inadequate or failed internal processes or routines, human error, system error or external events. Operational risk also includes legal risk and information risk (i.e. the risk of losses due to insufficient protection of information in terms of confidentiality, accuracy, and accessibility).	The bank's Operational Risk profile is stable. NMB's goal is to minimize the risks given the nature of its operations, strategy, risk appetite and market. Though large operational losses from severe risk events are rare, the bank works actively to avoid such losses. In the event that the risk events do materialize, the bank always strives to ensure that it has adequate insurance protection to deal with losses above a certain threshold. As the world become increasingly digitized, NMB recognizes the value of having a strong cyber-security environment to protect against cybercrime. Measures are routinely taken to raise awareness to staff and customers about cybersecurity threats to supplement the investments made in strengthening security around IT processes and controls. Security policies are also regularly reviewed and updated to align to changes in the overall operating environment and to address emerging threats.	Various measures to mitigate operational risk are implemented in line with the bank's ERM framework. People Talent retention, succession planning, and career development are key tools used to mitigate operational risks related to our human capital. These tools are used to ensure the availability of the right skills, roles, and resources to support business operations. The bank has a code of ethics and business conduct policies which guide staff behavior to ensure they conduct themselves with integrity. Additional policies and processes are also in place to mitigate against fraud related events, both internal and external. Process The bank has internal policies to manage operational risk and works diligently to prevent incidents and losses from occurring. A variety of tools and measures are deployed as part of the bank's ERM framework, including the use of Risk Control Self Assessments (RCSA), control testing and conformance reviews by the Second Line of Defense, as well as risk analyses and reporting with a focus on control improvement. Risk-events and mitigating measures are discussed in a number of Management committees, including the Risk and Compliance Committee (RCC), which is the bank's highest risk governance forum. Control evaluations are performed on a continuous basis and in connection with major changes in operations and product offerings to ensure effectiveness. Through Business Continuity Planning (BCP) the bank is prepared to minimize the effects of incidents, including crises and disasters, as quickly as possible as and when they occur. By adopting international-best practice to support our own risk and threat analysis, we define adequate levels of protection for various categories of information and systems through our internal policies which guide the protection of information assets. Systems The bank continues to automate its various risk management processes and procedures for better efficiency. Through continued investments in new technology platforms, the bank continues to gain new efficiencies in term of risk reporting, aggregation and visibility for optimized decision-making.

Principal Risk Description	NMB Risk Profile in 2020	Risk Management Measures
Compliancel Risk Compliance risk is the current or prospective risk to earnings, capital and reputation arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from incorrect interpretation of relevant laws or regulations. Institutions are exposed to Compliance risk due to relations with various stakeholders, e.g. regulators, customers, counter parties, as well as, tax authorities, local authorities and other authorized agencies.	Being a market leader in the Tanzanian banking industry, NMB cannot afford to be perceived as a bank with sub optimally-managed Compliance and Regulatory risks. As per the bank's Risk Appetite Statement, NMB will always act in an exemplary manner and actively manage threats to its reputation by complying with all applicable local and international laws. NMB always strives to maintain good relations with the full spectrum of its various stakeholders, including customers, counter parties, tax authorities, local authorities and other authorized agencies. Measures taken by Management and the Board of Directors on any given matter will always be aligned with NMB's values. There were no serious breaches of any regulations during the course of 2020 which could have exposed the bank to material penalties and other measures. Management continues to stress the importance of timely and effective implementation of all regulatory requirements, with zero tolerance for non-adherence.	Compliance Risk is managed in accordance with the bank's Enterprise Risk Management (ERM) framework. The bank's New Product Approval (NPA) process ensures the availability of a thorough review of Conduct Risk and monitoring mechanisms at all stages of the product life-cycle. Compliance Risk is also an integral part of the customer onboarding and due diligence processes (KYC and CDD). Compliance-related issues and escalations are typically referred to the bank's Risk and Compliance Committee (RCC) and other Management Committees as appropriate for full and timely resolution. NMB has a robust Compliance Function, overseen by a Head of Compliance who also serves as the bank's Money Laundering Reporting Officer (MLRO). NMB uses a range of tools and processes to review and interdict transactions of a suspicious nature related to fraud and money laundering. Screening of all transactions as well as all persons and entities who deal with the bank are continually performed. The bank also regularly invests in technology to enhance operational efficiency and plans are already underway to implement a more enhanced AML, Sanctions Screening, and Fraud Detection systems.

Principal Risk Description	NMB Risk Profile in 2020	Risk Management Measures
Liquidity and Solvency Risk Liquidity Risk is the risk that the bank cannot fulfill its payment commitments at maturity. Liquidity risk arises because the maturity structures on the asset and liability sides of the balance sheet do not coincide. Solvency Risk is the risk that the bank cannot meet minimum capital holding requirements when weighted against its various Risk Weighted Assets, as required by the Bank of Tanzania and other international banking rules and regulations.	In general, the bank maintains liquidity reserves to ensure its resilience in the event of any disruptions. The reserve consists of balances with the central bank and securities with a high level of creditworthiness that can be pledged to the central bank or divested on very short notice. NMB also closely monitors the gap between the maturities in its liabilities with the corresponding maturities in its assets. A number of COVID-19 pandemic relief measures announced by the Bank of Tanzania were successful in terms of injecting much-needed liquidity into the banking system at a critical time. These included lower SMR requirements, among other measures. The continued brisk growth in terms of the bank's asset book during the course of the year, coupled with challenges in the broader operating environment due to the pandemic meant slight liquidity pressure towards the end of 2020. The situation remains closely monitored and is already being addressed through various initiatives. The Solvency Risk profile at NMB is low, with capitalization levels for the bank's various Risk Weighted Asset classes well-within the regulatory minimum of 14.5%. The bank's Tier 1 Capital Ratio stood at 19%, while the bank's total capital ratio (Tier 1 and Tier II) was 21% as at end of 2020.	Liquidity risk at NMB is overseen day-to-day by the Treasury function in close consultation with the Middle Office (Market Risk team). A number of tools are used to control this risk, including system limits, dealer mandates, to mention but a few. Close monitoring and tracking of liquidity risk issues is done via the monthly Assets and Liabilities Committee (ALCO) forum. Solvency Risk is monitored and overseen by ALCO, in addition to other key Management Committees. Stress-testing is another tool used to monitor the bank's liquidity and solvency risks. Two comprehensive rounds of stress-testing were performed in 2020 incorporating stress scenarios for all key risk factors (liquidity, solvency, market, credit, operational risk as well as a black swan combined stress scenario).

Principal Risk Description	*NMB Risk Profile in 2020*	*Risk Management Measures*
Market Risk Market risk is the risk of losses in on and off-balance sheet positions as a result of adverse changes in market prices i.e. interest rates, foreign exchange rates, equity prices, and commodity prices. Market risk exists in both trading and banking book. A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book.	NMB's Market Risk profile is low. The predominant risks are interest rate and foreign currency risk that arise from the bank's core business.	Market risk at NMB is overseen day-to-day by the Treasury function in close collaboration with the Middle Office (Market Risk team). A number of tools are used to control this risk e.g. system limits, dealer mandates etc. There is also close monitoring and tracking of market risk issues in the monthly Assets and Liabilities Committee (ALCO) and other key Management Committees.
Strategic Risk Strategic risk is the current and prospective impact on earnings, capital, reputation or good standing of an institution arising from poor business decisions, improper implementation of decisions or lack of response to industry, economic, or technological changes. This risk is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve these goals, the resources deployed to meet these goals, and the quality of implementation.	Strategic Risk at the bank is viewed from the vantage points of positioning and execution. In 2020, NMB refreshed and updated the Medium Term Plan (2021-2025). The plan will be monitored and periodically revisited in line with changing market trends and developments, with recalibrations done where necessary.	The bank is focused on executing the Medium Term Plan. Periodic recalibrations are performed based on market developments.

Corporate Governance

We believe in adopting the best practices in Corporate Governance. The Board, Management and NMB employees are committed to upholding the core values of transparency, integrity, honesty and accountability, which are fundamental to the attainment of good governance and excellent performance in any organisation.

Good corporate governance principles are accepted as the drivers of improved corporate performance throughout the world. Responsibility for overseeing the proper implementation of good corporate governance rests with the directors.

The Board of Directors

FUNCTIONS

The Board is responsible and accountable for providing effective corporate governance, direction and control of the company. The directors have a duty to exercise leadership, enterprise, integrity and judgment based on transparency, fairness, accountability and responsibility.

The Board is responsible for appointing Management, adopting a corporate strategy, policies, procedures and monitoring operational performance including identifying risks impacting the company. It is also responsible for managing good relationships with all stakeholders.

COMPOSITION

In 2020 the Board of Directors was made up of nine non-executive directors with a mix of skills, experience, and diversity.

APPOINTMENT

The appointment of directors is regulated by the Memorandum and Articles of Association of the Company, as well as the guidelines issued by the Bank of Tanzania (BOT) and the Capital Markets and Securities Authority, pursuant to the Banking and Financial Institutions Act 2006 and the Capital Markets and Securities Act 1994, respectively. Shareholders with more than a 10% stake in the share capital of NMB are entitled to nominate one director for every 10% of the shares held by them. The names are presented to the AGM for ratification and appointments are submitted to BOT for approval.

All non-executive directors are subject to retirement by rotation and re-election by shareholders periodically in accordance with the articles of association. Rotation is staggered to ensure continuity of experience and knowledge. The number of terms an individual may serve is not limited. The Companies Act 2002 requires that directors retire at the age of 70 years, however there is a provision in the law for re-election.

RESIGNATIONS

In the year 2020, the former Board Chairman, Prof. Joseph Semboja retired from the Board. Directors Dr. Edwin P. Mhede and Juma Kisaame were appointed and Director Margaret Ikongo re-appointed to the Board at the 2020 AGM. Dr. Edwin P. Mhede was also unanimously elected by the Board as Board Chairman and replaced Prof. Semboja.

BOARD MEETINGS

The Board meets quarterly, with additional meetings convened as and when necessary.

During 2020, the Board and its committees met to discuss and decide on the business activities. The Board Committees act on behalf of the Board to direct the bank effectively and accelerate the decision-making process. The four Board committees are: the Board Executive Committee (BEC), the Board Audit, Risk and Compliance Committee (BARCC), the Board Human Resources and Remuneration Committee (BHRRC) and the Board Credit Committee (BCC).

The number of meetings held over the course of the year is given in brackets:

- Board of Directors (9)
- Board Executive Committee (4)
- Board Audit Risk and Compliance Committee (10)
- Board Human Resources and Remuneration Committee (4)
- Board Credit Committee (14)

The following table shows the number of Board and Committee meetings held during the year 2020 and the attendance by directors:

Directors	*Board (9)*	*BARCC (10)*	*BCC (14)*	*BHR&RC (4)*	*BEC (4)*
Dr. Edwin P. Mhede *	5	n/a	n/a	n/a	2
Juma Kisaame *	6	3	n/a	n/a	1
George Mandepo	7	n/a	10	3	1
Margaret Ikongo	9	n/a	14	4	4
Mathias Magwanya	9	10	n/a	n/a	n/a
Dr. George Mulamula	9	10	n/a	n/a	n/a
Leonard Mususa	9	10	14	n/a	n/a
Christine Glover	9	n/a	13	3	4
Hendrik Reisinger	9	n/a	14	4	n/a

n/a – not applicable
** Appointed on 05 June 2020*

Directors Payments Made in 2020

Directors	*Directors' Remuneration*
Dr. Edwin P. Mhede	*25,355,962*
Juma Kisaame	*16,693,808*
George Mandepo	*36,613,966*
Margaret Ikongo	*45,307,185*
Mathias Magwanya	*37,159,052*
Dr. George Mulamula	*37,761,738*
Leonard Mususa	*41,744,504*
Christine Glover	*37,366,474*
Hendrik Reisinger	*37,435,611*
Total	***315,438,301***

DIRECTORS EVALUATION

The Board itself regularly undergoes self-assessment and evaluation in order to improve the internal Governance of the Board and its Committees.

TRAINING

Training is provided in order to ensure that the Board keeps abreast with current developments in the market. In 2020, a number of trainings were held for the Directors. These included Board Leadership and Corporate Governance, Directors duties and the changing role of the Board of Directors during unprecedented times.

RELATIONSHIP WITH AUDITORS

The Board Audit, Risk and Compliance Committee and the full Board held meetings with the external auditors to discuss auditors' terms of engagement, duties and various other issues during the year under review.

Board Committees

BOARD EXECUTIVE COMMITTEE

The Committee assists the Board in fulfilling its oversight responsibilities in accordance with the Articles of Association of the Company. The Committee exercises the powers of the Board in managing the business and affairs of the Company during the intervals between Board meetings, when action by the Board is necessary or desirable but convening a special Board meeting is not warranted or practical.

BOARD AUDIT, RISK AND COMPLIANCE COMMITTEE

The Committee assists the Board in fulfilling its oversight responsibility relating to the integrity of the bank's financial statements and financial reporting process, systems of accounting and financial controls; the annual external audit of financial statements; performance of the Internal Audit, Risk and Compliance Functions; compliance with legal and regulatory requirements; and compliance with International Financial Reporting Standards and applicable laws, rules and regulations.

BOARD HUMAN RESOURCES & REMUNERATION COMMITTEE

The primary function of the Committee is to assist the Board of Directors in fulfilling its oversight responsibility to shareholders by ensuring that the bank has coherent remuneration policies and practices that fairly and responsibly reward executives and staff having regard to performance, the law and the highest standards of governance.

BOARD CREDIT COMMITTEE

The Committee assists the full Board in providing oversight in the management of credit risk in line with best global practice and in compliance with BOT regulatory requirements. Specifically, the Committee is responsible for reviewing and approving the credit policy of the Bank as well as reviewing and approving credit applications above a set threshold upon the recommendation of management. It also monitors and considers matters that may affect the present and future quality of the Bank's credit risk management.

COMPANY SECRETARY

The company secretary is Mrs. Lilian Komwihangiro and she provides support and guidance to the Board in matters relating to governance and ethical practices. She is also responsible for induction programs of new directors, keeping board members abreast of relevant changes in legislation and governance principles.

COMMUNICATION WITH SHAREHOLDERS

The company recognizes that effective communication with stakeholders is essential to good governance. Following the publication of its financial results, it engages with investors to present the results and answer questions accordingly.

Shareholders are encouraged to attend the Annual General Meeting to be held on Friday, 4th June 2021 and participate in the affairs of the company.

Board of Directors

Dr. Edwin P. Mhede | Board Chairman

Dr. Mhede was elected Board Chairman, after being appointed to join the Board of Directors of NMB Bank Plc, on 5th June 2020. He is a development economist by training and professional practice, with over 15 years work experience in the Government, private sector development, and the banking industry, specifically in the areas of trade, economic policy analysis and management, international negotiations, industrial research and investments, and tax and customs administration.

Before assuming his current position of leadership service in NMB, Dr. Mhede held various technical and management roles in the Government to the level of Commissioner General of Tanzania Revenue Authority (TRA) and the Deputy Permanent Secretary of Trade and Investment at the Ministry of Industry, Trade and Investments (MITI). Dr. Mhede, who previously worked as Consultant for the World Bank Group, in the project of African Competitiveness in Light Simple Manufactured Products, and briefly researched and provided advisory input therefrom to Tanzania Agricultural Development Bank (TADB), is highly recognized for leading multifaceted economic programs for the growth of public and private sectors in Tanzania.

Dr. Mhede has published empirical economics papers in reputable scholarly journals. He earned his Ph.D. and M.A in Development Economics from the National Graduate Institute for Policy Studies (GRIPS) in Tokyo, Japan. He also holds a Bachelor of Science degree in Agricultural Economics and Agribusiness from Sokoine University of Agriculture (SUA) in Morogoro, Tanzania.

Margaret Ikongo | Non-executive Director

Mrs. Ikongo is an independent consultant in Insurance and Risk Management. She previously worked at the National Insurance Corporation (NIC) as Managing Director and at Tanzanian Insurance Regulatory Authority (TIRA) where she served as a special advisor to the Commissioner of Insurance.

She is an Associate Member of the Chartered Insurance Institute, UK and a Graduate Member of the Institute of Risk Management, UK. Mrs. Ikongo also holds an International Diploma in Enterprise Risk Management, an Advanced Diploma in Insurance, a postgraduate Diploma in Finance Management and an MBA (Finance) from the Open University of Tanzania. She serves as a director in various boards in Tanzania and Africa.

Christine Glover | Non-executive Director

Ms. Glover was appointed to join the NMB Board of Directors in June 2018. With over 30 years' strategic and operational experience in housing and development finance, she has held several leadership roles in the reputable firms where she was responsible for among other things designing financial housing products for the low-income sector, project managing housing development and structuring institutions such as banks and investment vehicles. Until November 2017, Ms. Glover was the head of development impact funds, a position she had held since October 2007.

Ms. Glover holds a Masters in City and Regional Planning from the University of Cape Town and a Honours degree in Art and Architectural History from the University of South Africa.

George N. Mandepo | Non-executive Director

Mr. Mandepo has over 17 years of experience in Tanzania's legal sector and has successfully undertaken several advisory assignments in the field of business operations, primarily in litigation and arbitration, as well as other forms of alternative disputes resolutions (ADR). He currently works as Director of Arbitration in the Office of the Solicitor General where he heads a Division that is responsible for handling arbitration both domestically and internationally. He has participated in various sector committees for research, review and or formulation of various legislation and mainly in agricultural and mining sectors.

Mr. Mandepo has also rendered legal advice in the institutional restructuring and reformation of a number of public institutions. Regionally and internationally, he has been involved in various working groups and consultancies for the preparation of several legal instruments and rendering implementation advice.

Mr. Mandepo holds a Masters' Degree in Construction Law (LLM) from the University of Strathclyde and a Bachelor of Laws (LLB) from the University of Dar Es Salaam where he specialized in Company and Banking Laws.

Mathias Magwanya | Non-executive Director

Mr. Magwanya was appointed to join the NMB Board of Directors in June 2018. He has over twenty years' experience in auditing and has carried out various due diligence assignments. He currently works as Chief Internal Auditor of TANROADS and is a member of the Institute of Internal Auditors - Tanzania.

Mr. Magwanya holds a Bachelor of Commerce Degree in Accounting from the University of Dar es Salaam and Masters of Business Administration (MBA) in Corporate Management from Mzumbe University.

Dr. George Mulamula | Non-executive Director

Dr. George Mulamula is currently the CEO and founder of Technovate Advisory Services (TAS) which is dedicated to building the entrepreneurship ecosystem to foster knowledge transfer, skills capacity-building, and to catalyse job creation in Tanzania, with financial inclusion for the bottom of the pyramid. He also founded Dar Teknohama (ICT) Business Incubator which grew to be the largest technology incubator in East Africa.

Dr. Mulamula has wide experience in the private and public sectors within the areas of ICT, technology, entrepreneurship and Fin Tech support. He has held various advisory roles within the region and internationally, including being the Senior Government Advisor on ICT, Entrepreneurship in Tanzania. He also served as the Principal Deputy Chief Executive Officer of the Rwanda Development Board (RDB) and as Senior Advisor in the Ministry of Commerce and Industry in Rwanda. He was also the lead advisor for the Tanzania ICT Policy and Rwanda's NICI policy, and helped draft ICT policies in the SADC region.

He has taught at various Higher Learning Institutions in the region and consulted with international and regional organizations. Dr. Mulamula has also written extensively on ICT, Technology Transfer for Sustainable Development.

Dr. Mulamula holds a PhD. in ICT Technology Transfer and a Masters in Computer Science from the City University of New York.

Juma Kisaame | Non-executive Director

Mr. Juma Kisaame was appointed to join the NMB Board of Directors in June 2020. He is the Chairman, Board of Directors of Uganda Revenue Authority and has wide experience across the financial sector, including in development financing (leasing, mortgages, and term finance), commercial banking, venture capital, debt recovery and asset management, and treasury management and reporting. He has also held other various board position.

Prior to his retirement in 2018, he was the Managing Director of dfcu Bank Ltd. since 2007, during which time he transformed the bank from a niche development Financial Institution into a robust retail operation. Mr. Kisaame also successfully turned-around the Eurafrican Bank from loss making into a sustainable profit-making institution. Among his other key achievements, Mr. Kisaame founded the Uganda Leasing Association in 2002 and currently holds the Presidency of the African Leasing Association.

Mr. Kisaame also pioneered the publications Lease Link and Afrolease News journals which are at the forefront of advocating lease development in Uganda and Africa at large.

Leonard C. Mususa | Non-executive Director

Mr. Mususa was appointed to join the NMB Board of Directors in June 2015. He is an Accountant by profession, registered with the National Board of Accountants and Auditors as a Fellow Certified Public Accountant (Tanzania) and a Fellow of the Association of Chartered Certified Accountants (UK).

Mr. Mususa retired from PricewaterhouseCoopers (PwC) in June 2014, where he worked in various areas spanning 36 years, including transaction services, corporate governance, financial reporting, risk management and control. He served as Country Senior Partner of PwC (Tanzania) for 14 years. He also served in other roles as Head of Assurance Risk and Quality in the PwC Africa Central region (covering 9 countries) and Head of Risk, Independence and Quality in the East Africa Market Area (covering 6 countries).

Mr. Mususa also holds directorships in diverse companies in the financial, manufacturing, commerce and media sectors, including Tanzania Breweries Plc., Nation Media Group, Reliance Insurance Tanzania Limited and AutoXpress Tanzania Limited.

Hendrik Reisinger | Non-executive Director

Mr. Reisinger was appointed to join NMB Bank's Board of Directors in June 2019. He is an economist and has over 25 years of experience in fields of banking and risk management, business analysis, and investment management.

In 1990, he joined Rabo International and has held positions in Area Management, Food & Agribusiness Research and Corporate Finance. In 2005, he was appointed as Senior Investment Manager, and in 2016 as Head of Investments, a position he held until 2018. As such he was responsible for negotiating and structuring the acquisition of minority equity participations in leading retail banks in China, Mozambique, Zambia, Rwanda and Uganda.

In 2018 Mr. Reisinger established his own private company providing financial advisory services and board room services. He is an experienced non-executive director with relevant experience in both Africa and Europe.

Mr. Reisinger holds a Master of Science Degree in Economic History from the University of Groningen and a Master of Science Degree in Business Economics from the University of Groningen.

Lilian Komwihangiro | Company Secretary and Head of Legal

Mrs. Lilian R. Komwihangiro is the Company Secretary and Head of Legal of NMB. She holds a Bachelor of Laws degree and Master of Laws in commercial and business law, both from the University of Dar es Salaam. She also holds an MBA in Executive Management from the Eastern and Southern African Management Institute (ESAMI) and is an Advocate of the High Court of Tanzania. Before joining NMB, Lilian worked as Legal Counsel in a number of law firms including the former Maajar, Rwechungura & Kameja Advocates, FK Law Chambers and as a Legal Consultant at PricewaterhouseCoopers.

Executive Management

Ruth Zaipuna | Chief Executive Officer

Ruth Zaipuna is the Chief Executive Officer of NMB Bank Plc, responsible for driving the Bank's corporate strategy to deliver sustainable business growth.

She started her career in 2002 at PricewaterhouseCoopers (PwC) where for a decade she specialized in the audit of banks and other financial institutions. At PwC, Ruth rose through the ranks to the level of Associate Director. Ruth demonstrated great professionalism and technical ability in her work and she was entrusted to lead some of the firm's most complex assignments.

Ruth left the firm in August 2011 to take up the position of the Executive Director Finance and Chief Financial Officer at Standard Chartered Bank. In July 2017, she took on additional responsibilities combining her role in Tanzania with that of Business Finance Lead for the East African cluster, overseeing and leading the Bank's business finance activities in Tanzania, Kenya, and Uganda.

Ruth joined NMB Bank from Standard Chartered Bank as Chief Financial Officer in June 2018. She was appointed to act in the CEO role in October 2019 and was confirmed in the position in August 2020.

Ruth is also an Independent Non-Executive Director for Tanzania Portland Cement Company Limited (TPCC), the leading cement producing company in Tanzania and listed on the Dar es Salaam Stock Exchange.

Ruth is an Associate Certified Public Accountant (ACPA (T)). She holds a Master of Business Administration (MBA) in Finance and a Bachelor of Commerce (B.Com) degree in Accounting, both from the University of Dar es Salaam.

Benedicto Baragomwa | Ag. Chief Financial Officer

Mr. Baragomwa is Acting Chief Financial Officer for NMB Bank Plc. He is a seasoned banker boasting over 13 years' experience. He joined NMB Bank in 2014 as a Senior Audit Manager, where he played a major role in the transformation of the function to be the leading audit function in the market until November 2017, when he was appointed as the Acting Chief Internal Auditor. He was then promoted to Head Internal Audit in June 2018. In November 2019, management and the Board appointed him as the Acting Chief Financial Officer. He is a beneficiary of NMB's talents development program that is in partnership with Rabobank whereby he was attached at Rabobank Netherlands in 2016.

He started his career in 2008 with KPMG East Africa as an Auditor specialized in financial services assurance, where he grew through to Senior Auditor. In 2012, he joined Barclays Bank (Absa) as a Risk & Control Assurance Manager responsible for risk management and controls.

Benedicto is an Associate Certified Public Accountant (ACPA) (T) and Certified Information Systems Auditor (CISA). He holds a MSc. Economics and Finance from University of Bradford (UK) and a First Class Bachelor's degree in Accounting & Finance from Mzumbe University. He is a professional member of the National Board of Accountants and Auditors Tanzania (NBAA), The Institute of Internal Auditors (IIA) and ISACA.

Aziz Chacha | Treasurer

Mr. Chacha joined NMB as the bank's Treasurer in September 2011 from Barclays Bank Tanzania where he had worked as the Country Treasurer. He holds an MBA from Manchester Business School of the University of Manchester, United Kingdom and currently serves in the Tanzania Bankers Association (TBA) financial markets technical committee. He has a wealth of experience in Treasury risk management, Treasury technology, capital markets/ corporate finance, capital planning and balance sheet management and is a certified member of ACI-Financial Markets headquartered in France.

Nenyuata Mejooli | Chief Shared Services

Nenyuata Olekambaine Mejooli was appointed Chief Shared Services of NMB Bank in June 2019. She is a seasoned banker with 20 years' experience in Banking Operations, Operations risk, Quality assurance, and Business Process improvement and reengineering.

Nenyuata joined NMB from Standard Chartered Bank in 2007 as Manager Business Process and has since held several roles including Senior Operations Manager, Senior Manager Banking Operations, and Head of Banking Operations. She was also Head of Branch Network at NMB Bank Plc. prior her current role.

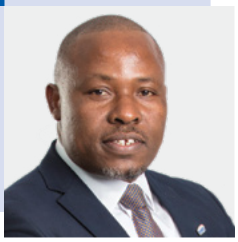
Nenyuata holds a Bachelors of Science Degree in Electronics from Bangalore University India and an MBA from Dublin City University Ireland. Nenyuata is also PRINCE 2 Practitioner and holds a leadership certificate from Gordon Institute of Business Science (GIBS), South Africa. She is Female Future Program Tanzania, cohort 1 Alumni, a program which aims at preparing Tanzanian women to take higher leadership position.

Kwame Makundi | Ag. Chief Technology and Digital Transformation

Kwame Makundi is acting Chief Technology and Digital Transformation. He joined NMB Bank Plc. in 2014 as Senior Manager Service Management. He was promoted to Head of Service Management in 2017, responsible for managing Service Desk, Network Operations Centre (NOC), Branch Technology, Product Lifecycle Management, and Core Banking Applications. In 2019, he was given additional responsiblites of overseeing the entire Channels Technologies and Services.

Kwame has extensive experience across various domains of IT operations, product development, and service management. Prior to joining NMB, he worked in the telecommunications industry for eight years in various managerial roles at Vodacom Tanzania, Sasatel, and Millicom Tanzania (Tigo).

Kwame earned his Bachelor of Computer Engineering and Information Technology degree from the University of Dar es Salaam and holds several advanced IT certifications including Technology Service Management, Solaris UNIX Operating Systems, Intelligent Networks, and VAS systems. He is currently pursuing his MBA at Stellenbosch University Business School.



Juma Kimori | Chief Internal Auditor

Juma Kimori joined NMB Bank Plc. as the Chief Internal Auditor (CIA) in May 2018 reporting to the Board Audit, Risk and Compliance Committee (BARCC) functionally and administratively to the Chief Executive Officer (CEO). He has accumulated more than 14 years' experience in banking, leadership, enterprise risk management, strategy formulation and execution, change management, Corporate governance and reporting.

Prior to joining NMB Bank, Kimori worked with Barclays Bank Tanzania as Chief Internal Auditor and Barclays Africa as Regional Director of Internal Audit for 7 years. He started his career with PricewaterhouseCoopers in 2006 prior to joining African Banking Corporation (BancABC) as the Country Head of Internal Audit.

Kimori holds a Bachelor of Commerce in Accounting from the University of Dar es Salaam. He is a member of the National Board of Accountants and Auditors Tanzania (NBAA) as an Associate Certified Public Accountant (ACPA). He is also a member of the Institute of Internal Auditors (IIA) and a Certified Facilitator for the IIA and has experience in delivering professional papers both within and outside Tanzania. Kimori is a Certified Director by the Institute of Directors Tanzania (IoDT) and a Board Member of the IIA Tanzania since 2015.

Victor Rugeiyamu | Chief Risk and Compliance

Mr. Rugeiyamu was appointed to the position of Chief Risk and Compliance Officer in April 2018. Prior to this appointment he acted in the capacity of the bank's Head of Risk, managing the Risk Department of the bank, a responsibility he had since he first joined NMB in 2009. In his capacity as the Chief Risk and Compliance Officer, Victor is responsible for oversight of the bank's Enterprise Risk Management (ERM) framework as well as the management of the bank's overall risk posture and appetite. He is also responsible for overseeing NMB's Compliance, Market Risk, Enterprise Risk, Operational Risk, IT Risk and Credit Risk teams as well as its Forensics Department.

With almost 20 years' worth of experience working in the financial services industry, Victor has held a number of positions in the brokerage and banking industries, on the commercial side as well as in Compliance and Risk. A native of Tanzania, he began his career in the United States immediately after completing his undergraduate degree where he served as a trader for DLJ/Credit Suisse First Boston Direct before later moving to banking at Wachovia Bank N.A.

Victor holds a Bachelor of Arts Degree (Honors) in Economics from Belmont Abbey College in North Carolina U.S.A. and an MBA in Finance and Banking from the University of North Carolina at Charlotte U.S.A. He is also a Prince 2 Certified Practitioner and a graduate of the Leadership Program at the University of Pretoria's Gordon Institute of Business Studies.

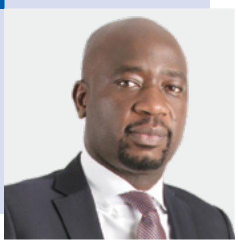
Emmanuel Akonaay | Chief Human Resources

Emmanuel Akonaay was appointed Chief Human Resources Officer in July 2020. He has extensive knowledge and expertise in Human Resources with exposure across diverse sectors including advisory, manufacturing, mining, and banking. He is responsible for development and execution of Human Resource strategy in support of the overall business plan and strategic direction of the bank and providing the necessary guidance to the HR team in strategy implementation.

Emmanuel joined NMB Bank Plc. in 2014. Prior to his current role, Emmanuel was Head of HR Shared Services where he was overall responsible for designing and implementing staff welfare policies and employee relations in addition to leading optimal HR support functions.

Before joining NMB, Emmanuel worked at Ernst & Young as the country Head of Human Resources function where he was responsible to drive the HR agenda in strategic talent acquisition, development, and retention. Emmanuel has also worked at Absa Bank - formerly known as Barclays Bank Tanzania - as HR Business Partner and Reward Manager responsible for overseeing employee compensation and benefits and has also held various managerial positions at Bulyanhulu Gold Mine and Serengeti Breweries Limited.

Emmanuel is a certified Reward & HR practitioner and holds a Bachelor of Arts Degree from the University of Dar es Salaam. He is a certified Director by the Institute of Directors Tanzania (IoDT). Emmanuel is also currently pursuing his Masters of Business Administration (MBA) from ESAMI.



Filbert Mponzi | Chief Retail Banking

Mr. Mponzi was appointed as Chief Retail Banking in June 2019 and has over 17 years of banking experience. He rejoined NMB Bank Plc in June 2018 as Business Head Wholesale Banking from NBC limited, a member of Barclays Africa Group and recently ABSA Group, where he served as Retail Banking Director and successfully drove the strategy to include Personal and Mass segments and pioneered the Distribution Optimization (Branches, ATMs and introduction of Agency Banking).

Prior to joining NBC Limited, he held different senior positions within NMB Bank including Head of MSME, Business Banking, and Head of Corporate Banking (Large local, MNCs and Emerging Corporates). He brought in a wealth of experience in Retail Banking, MSME, Corporate, and Agri Business.

Filbert is also a member of the Board of Trustees of Social Action Trust Fund (SATF) an NGO helping Most Vulnerable Children to become productive members of the society. He is also a board member of Tanzania Mortgage Refinancing Company (TMRC).

Filbert is an Associate Certified Public Accountant (ACPA (T)) and holds an MBA from Eastern and Southern African Management Institute (ESAMI) and a Bachelor of Commerce in Accounting (Hons.) from University of Dar es Salaam. Filbert also attended senior leadership courses in Harvard Business School (HBS) (USA) and Gordon Institute of Business Science (GIBS) in South Africa.

Alfred Shao | Chief Wholesale Banking

Alfred Shao joined NMB as Chief Wholesale Banking in February 2020. He has over 17 years' experience in Tanzania's banking and professional services spanning the areas of auditing, risk assessment, asset portfolio management, development of a bank's growth strategy, and building a motivated team.

Alfred started his professional career in 2003 as an audit trainee at Ernst & Young and quickly rose through the ranks to the position of senior auditor.

Between February 2006 and January 2020, he held various senior positions at Standard Chartered Bank and Stanbic Bank, including as Head of Internal Audit, Executive Director & Head of Commercial Banking, as well as Head of Business Banking.

Alfred is a certified accountant and holds a professional certificate from the Association of Chartered Certified Accountants (ACCA).

Alfred holds a Masters of Business Administration (MBA) and Bachelor of Commerce Degree in Corporate Finance, both from the University of Dar es Salaam.

Daniel Mbotto | Chief Credit Officer

Daniel is a seasoned banker with a wealth of experience spanning over 21 years holding various senior positions within local, international and regional banks, including assignments in the Seychelles and South Africa.

He joined NMB Bank in November 2020 as Chief Credit Officer. Prior to his current role, he held similar positions at Stanbic Bank, National Bank of Commerce (NBC), and ABSA Bank Tanzania, formerly Barclays Bank. Throughout his career, he has accumulated a deep understanding of the Tanzanian market and attained strong requisites as a credit expert.

He is a certified lender with advanced certified credit skills recognized by Omega CSA. Daniel holds a Bachelor's Degree in Business Management from the University of Mysore, India.

Company Secretary

Lilian R. Komwihangiro

Registered Office

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

Auditor

PricewaterhouseCoopers
Certified Public Accountants (Tanzania)
369 Toure Drive,
Oysterbay
P.O. Box 45
Dar es Salaam

Lawyers

CSB Law Chambers
P.O.Box 375
Morogoro

Josephat Rweyemamu Advocates
P.O. Box 1746,
Bukoba

AMMIC Advocates
P.O.Box 718
Kahama

Maleta & Ndumbaro Advocates
P.O.Box 79944
Dar es Salaam

Galati Law Chambers Advocates
P.O.Box 11317
Mwanza

Vertex Law Chambers
P.O. Box 31985
Dar es Salaam

Vigilance Attorneys
P.O. Box 785
Arusha

Derost Attorneys & Law Counsellors
P.O. Box 1481
Mtwara

Law Associates
P.O. Box 11133
Dar es Salaam

Goldmark Attorneys
P.O. Box 1605
Dodoma

K & M Advocates
P.O. Box 71394
Dar es Salaam

Baisatar Advocates
P.O.Box 1854
Mbeya

Whistle-blowing Channels

NMB is committed to the highest standards of openness, probity, accountability, integrity, honesty, and transparency which are expressed in the Bank's Code of Conduct. In line with this commitment, the bank encourages customers, staff, or stakeholders to raise any concerns regarding inappropriate conduct through the following whistle blowing reporting channels:

1 By Phone

Tip Offs Anonymous Hotline
0808 11 00 88 (Toll Free)

Any of the following numbers (all Toll Free)
0658 751 000 (Tigo)
0800 751 000 (Vodacom)
0685 751 000 (Airtel)
0779 751 000 (Zantel)

2 By Email

whistleblowing@nmbtz.com

Tip Offs Anonymous Hotline
nmb@tip_offs.com

3 By Post

Confidentially send your concerns via the following physical mailing address:

Attention: *Chief Executive Officer*
(mark envelop "strictly private and confidential")

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

FINANCIAL STATEMENTS

REPORT OF THE DIRECTORS

1 The Directors present their report together with the audited financial statements for the year ended 31 December 2020, which disclose the state of affairs of NMB Bank Plc (the "Bank" or "NMB") and its subsidiary, Upanga Joint Venture Company Limited (together, the 'Group').

2 INCORPORATION

The Bank is incorporated in Tanzania under the Companies Act, No.12 of 2002 as a public limited liability company.

3 VISION

To be the preferred financial services partner.

4 MISSION

To be the Bank of choice, delivering innovative and transformative customer experience that promotes financial inclusion and wellbeing.

5 PRINCIPAL ACTIVITIES

The Bank is a full service commercial bank incorporated in the United Republic of Tanzania, and licensed under the Banking and Financial Institutions Act, 2006 to conduct banking business in Tanzania. The Bank is regulated by the Bank of Tanzania and is subject to the provisions of the Banking and Financial Institutions Act, 2006 and its regulations.

It is engaged in taking customer deposits, providing credit facilities and offering other commercial banking services. Through its three main business divisions: Retail, Wholesale and Treasury, the Bank provides a suite of financial services and products to retail customers, farmers, small businesses, corporates, institutions and the Government. The Bank has 226 branches, 753 ATMs, 33 cash collection points, 2 stand alone Bureau de change outlets and 8,410 active agents across the country. The Bank is listed on the Dar es Salaam Stock Exchange in Tanzania.

The Bank's subsidiary Upanga Joint Venture Company Limited (UJVC) is specialized in property development.

REPORT OF THE DIRECTORS *(CONTINUED)*

6 DIRECTORS

The Directors of the Bank who were in the office since 1 January 2020 to the date of this report are:

No	Name	Position	Date of Birth	Nationality	Qualification/ discipline	Date of Appointment/ Retired
1	Dr. Edwin P. Mhede	Chairman	05 December 1978	Tanzanian	Economist	Appointed on 05 June 2020
2	Juma Kisaame	Member	10 May 1963	Ugandan	Banker	Appointed on 05 June 2020
3	Leonard Mususa	Member	25 September 1953	Tanzanian	Certified Public Accountant	Re-appointed on 15 June 2019
4	Margaret Ikongo*	Member	08 June 1957	Tanzanian	Chartered Insurer	Re-appointed on 05 June 2020
5	Mathias Magwanya	Member	03 January 1968	Tanzanian	Auditor	Appointed on 02 June 2018
6	Dr. George Mulamula	Member	04 April 1956	Tanzanian	Computer Scientist	Appointed on 02 June 2018
7	Christine Glover	Member	29 November 1952	South African	Investment Manager	Appointed on 02 June 2018
8	Hendrik Reisinger	Member	27 March 1964	Dutch	Economist/ Banker	Appointed on 15 June 2019
9	George Mandepo	Member	29 December 1975	Tanzanian	Lawyer	Appointed on 15 June 2019
10	Prof. Joseph Semboja	Member	24 April 1951	Tanzanian	Economist	Resigned on 4 February 2020

**Mrs. Margaret Ikongo was the interim chairperson of the Board from February to June 2020.*

7 COMPANY SECRETARY

The Bank's secretary as at 31 December 2020 and during the year was Lilian R. Komwihangiro.

8 CORPORATE GOVERNANCE

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

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Chief Executive Officer assisted by the Management Team. The Management Team is 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 units of the Bank.

REPORT OF THE DIRECTORS *(CONTINUED)*

8 CORPORATE GOVERNANCE (CONTINUED)

The Bank is committed to the principles of effective corporate governance, and recognizes the importance of integrity, transparency and accountability. During the year, the Board had the following board sub-committees to ensure a high standard of corporate governance throughout the Bank.

i. Board Executive Committee (BEC)

ii. Board Audit, Risk and Compliance Committee (BARCC)

iii. Board Human Resources and Remuneration Committee (BHR&RC)

iv. Board Credit Committee (BCC)

During the year, there were 9 board meetings (5 of which were special). There were also 14 Board Credit Committee meetings, 4 Board Human Resources and Remuneration Committee meetings, 10 Board Audit, Risk and Compliance Committee meetings (6 of which were special) and 4 Board Executive Committee meetings.

The following table shows the number of Board and Committee meetings held during the year and the attendance by directors:

DIRECTORS	*Board (9)*	*BARCC (10)*	*BCC (14)*	*BHR&RC (4)*	*BEC (4)*
Dr Edwin P. Mhede*	5	n/a	n/a	n/a	2
Juma Kisaame*	6	3	n/a	n/a	1
George Mandepo	7	n/a	10	3	1
Margaret Ikongo	9	n/a	14	4	4
Mathias Magwanya	9	10	n/a	n/a	n/a
Dr. George Mulamula	9	10	n/a	n/a	n/a
Leonard Mususa	9	10	14	n/a	n/a
Christine Glover	9	n/a	13	3	4
Hendrik Reisinger	9	n/a	14	4	n/a

n/a – not applicable
**Appointed on 05 June 2020*

9 REMUNERATION POLICIES

The Bank has in place processes and procedures for determining remuneration paid to its Directors. Management normally prepares a proposal of fees and other emoluments paid to directors, after conducting a market survey, which is brought to the Board for review before being presented to the Annual General Meeting (AGM) for approval.

10 ACCOUNTING POLICIES

The accounting policies of the Bank disclosed in Note 3 to the financial statements have been approved by the Board. The accounting policies have been updated to reflect the new and revised International Financial Reporting Standards (IFRSs) in Note 2.

REPORT OF THE DIRECTORS *(CONTINUED)*

11 MANAGEMENT TEAM

The Management of the Bank is led by the Chief Executive Officer (CEO) assisted by the Management Team. The Management of the Bank at the date of the report consisted of the following: -

- Chief Executive Officer
- Chief Retail Banking
- Chief Wholesale Banking
- Chief Financial Officer
- Chief Credit Officer
- Chief Technology and Digital Transformation
- Chief Shared Services
- Chief Human Resources Officer
- Chief Risk and Compliance Officer
- Treasurer

12 INTERNAL AUDIT FUNCTION

The Bank has an independent Internal Audit function reporting to the Board Audit Risk and Compliance Committee.

13 STOCK EXCHANGE INFORMATION

In 2008 the Bank was listed at the Dar es Salaam Stock Exchange. The price per share as at year-end date was TZS 2,340 (2019: TZS 2,340). Market capitalisation as at 31 December 2020 was TZS 1,170 billion (2019: TZS 1,170 billion).

Stock price changes are affected by the demand and supply of shares in the stock market. Changes in economic conditions, regulations and accounting standards can have an impact on corporate profits, which may cause stock price changes on at least a temporary basis.

14 CAPITAL STRUCTURE

The Bank's capital structure for the year under review is disclosed in note 35 to the financial statements.

Details of the capital management and regulatory capital are disclosed in Note 6.6.

15 SHAREHOLDERS OF THE BANK

The total number of shareholders as at 31 December 2020 is estimated to be 17,512 (2019: 17,608). None of the Directors is holding a significant number of shares at the Bank. The following is a list of shareholders who individually own 0.5% or more of the shares of the Bank.

REPORT OF THE DIRECTORS *(CONTINUED)*

15 SHAREHOLDERS OF THE BANK (CONTINUED)

Name of the Shareholder	*2020*		*2019*	
	%	**number of shares**	**%**	**number of shares**
Cooperatieve Centrale Raiffeisen - Boerenleenbank B.A. "Rabobank Nederland" (Rabobank)	-	-	34.9	174,500,000
Arise B.V	34.9	174,500,000	-	-
The Treasury Registrar	31.8	158,901,800	31.8	158,901,800
National Investment Company Limited (NICOL)	6.6	33,049,520	31.8	158,901,800
Mr Aunali F Rajabali and Sajjad F Rajabali	5.0	25,000,000	5.0	25,000,000
National Social Security Fund (NSSF Uganda)	4.7	23,400,000	0.0	-
Public Service Social Security Fund (PSSSF)	1.6	7,790,451	1.0	4,831,636
Banque Pictet and Cie Sa A/C Patrick Schegg	1.0	4,972,700	1.0	4,972,700
Duet Africa Opportunities Master Fund	0.9	4,498,923	0.6	3,150,000
Kuwait Investment Authority	0.7	3,500,000	0.7	3,500,000
Umoja Unit Trust Scheme	0.6	2,811,280	0.0	-
TCCIA Investment Company Limited	0.5	2,611,886	0.5	2,611,886
Orbit Securities Co. Ltd ITF WWB Capital Partners, LP.	0.5	2,372,044	0.5	2,372,044
BNYM Re SQM Frontier Africa Master Fund Ltd - SQM1	-	-	1.9	9,566,432
Morgan Stanley Institutional Fund, Inc - Frontier Markets Portfolio-MGGQ	-	-	1.3	6,718,721
Morgan Stanley Galaxy Fund	-	-	1.3	6,427,232
Sanlam Centre Sub Saharan Africa Equity Master Fund Class E	-	-	0.7	3,400,000
Stanbic Nominees Limited	-	-	0.6	3,115,338
General Public	11.3	56,591,396	11.6	57,882,691
Total	**100.0**	**500,000,000**	**100.0**	**500,000,000**

Completion of transfer of Rabobank stake in NMB Bank Plc. to Arise B.V

Arise B.V (Arise) is a leading African investment company that partners with sustainable, locally owned Financial Services Providers in Sub-Saharan Africa. The company was founded by several cornerstone investors namely Rabobank, Norfund, NorFinance, and FMO and currently manages assets worth more than USD 950 million in over 10 countries.

Arise's vision is to contribute to the economic growth in Africa and the prosperity of its people by increasing financial inclusion and employment, strengthening rural development, and poverty alleviation.

REPORT OF THE DIRECTORS *(CONTINUED)*

15 SHAREHOLDERS OF THE BANK (CONTINUED)

Arise acquired a 34.9% shareholding previously owned by Rabobank in NMB Bank Plc. On 28th December 2020, The Capital Market and Securities Authority (CMSA) in Tanzania approved the transfer of 174,500,000 NMB Bank Plc. shares owned by Rabobank to Arise. The share transfer process was successfully completed on 31 December 2020. Rabobank continues to be part of NMB Bank Plc. shareholders through its shareholding in Arise.

Arise's long-term investment will support NMB's future growth aspirations and spur economic growth and the prosperity of Tanzanians through increased financial inclusion and the growth of Retail, Small Medium Enterprises (SMEs) and Agriculture sectors. Arise will support the growth and development of NMB by providing amongst others, access to international best practices and expertise across an array of business areas. This exciting partnership between Arise and NMB is envisaged to deliver substantial operational, commercial, organizational, and financial benefits with strong long-term market returns.

16 STRATEGIC OBJECTIVES

The Bank's objectives that drive its long-term strategic focus is to maintain its leadership in profitability while maintaining its stronghold in the retail and wholesale market. The Bank has re-imagined its Medium-Term Plan focusing on three pillars namely winning propositions, operational efficiency and innovation for the future, with its strategic objectives focusing on:

- Deepening penetration within wholesale banking;
- Government projects financing;
- Maintain a high quality and diversified loan book with non-performing loans below 5% to secure a LDR below 75%.
- Lower costs to achieve Cost to Income ratio of 50%;
- Maintain Return on Equity circa 18% in the medium term; and
- Create a performance and customer-oriented culture.

17 FUTURE STRATEGIC PLANS

Over the next 5 years, the Bank's strategy is anchored on desire to provide transformative customer experience via innovation, putting forward winning propositions, and promoting financial inclusion and customers' well being. To deliver this, the Bank already invests in world class technology and infrastructure, which allows it to provide convenience and accessibility to customers. These investments have enabled us to significantly expand our reach through our different channels including NMB Mkononi and Agency Banking. With over 8,000 active agencies as at December 2020, in addition to the other channels, the Bank serves over 4 million customers.

The Bank remains committed to serving and remaining relevant to its customers. It will achieve this by continuously reviewing and enhancing its products and services, as well as reengineering and where possible automating the processes that are used in their delivery. This should ultimately increase operational efficiency, reduce operating costs and increase profitability. The goal is to provide our customers with a superior customer experience and become the benchmark for customer service, affordability and product offerings.

REPORT OF THE DIRECTORS *(CONTINUED)*

17 FUTURE STRATEGIC PLANS (CONTINUED)

The Bank remains committed to serving and remaining relevant to its customers. It will achieve this by reviewing and enhancing its products and services, as well as reengineering and where possible automating the processes that are used in their delivery. This should ultimately increase operational efficiency, reduce operating costs and increase profitability. The goal is to provide our customers with a superior customer experience and become the benchmark for customer service, affordability and product offerings.

The Bank is invested in the communities in which it operates. It is for this reason that we continuously promote the essence of shared growth with our customers and other stakeholders. We truly want our staff, shareholders and customers to thrive, as we believe that it is only through their success that the Bank can symbiotically continue to prosper as well.

18 MARKET OVERVIEW

The coronavirus pandemic still dominates the global economic outlook heading into 2021, with the second wave of the virus prompting renewed national lockdowns in Europe and tighter restrictions in the US. This is expected to compress economic activity in the immediate months ahead, although economists say the impact will be much less than what was observed in April 2020. Global economy is projected to expand by 4% in 2021 assuming an initial COVID-19 vaccine rollout becomes widespread throughout the year (The World Bank Report 2021).

According to the African Development Bank (AfDB), the East African region maintained a strong economic growth despite the COVID-19 setbacks in 2020. The region's real GDP growth stood at an estimate of 1.2% in 2020 and is projected to recover and remain well within the range of 3.0 percent to 4.0 percent in 2021. The Services sector plays a major role in the region's economic growth on the supply side, while on the demand side growth is driven by private consumption and investment.

Real GDP growth in Tanzania will benefit from increased prices of gold as investors are opting to use precious metal as a store of value. On the other hand, the decline in oil prices significantly reduced the adverse impact of COVID-19 on the domestic economy, by reducing pressure on the exchange rate and cost of production. According to the National Bureau of Statistics (NBS), inflation remained low and below the country's medium-term target to stand at 3.2% in December 2020. This is attributed to adequate food supply, stable exchange rate and sustained prudent monetary and fiscal policies.

Tanzania's real GDP declined to an estimate of 5.5 percent in the financial year ended 30 June 2020, compared to a 7.0 percent growth recorded in the preceeding financial year, the decline is attributed to, amongst other things, the COVID-19 pandemic. Although GDP growth declined, the deceleration was not severe due to the government's strong fiscal and monetary measures against COVID-19 including encouraging citizens to continue working while taking precautions as advised by health professionals as well as the anticipated recovery of the regional and world economy. The World Bank promoted Tanzania to a lower-middle income category, which means that the country's GNI per capita is between $1,006 and $3,955 per World Bank 2018 classification.

The Bank of Tanzania took various measures to combat the impact of COVID-19 to the economy, some of those measures include, the reduction of discount rate from 7 percent to 5 percent and reduced collateral haircut requirements on government securities when accessing funding from BOT. Statutory Minimum Reserves requirement was also reduced from 7 percent to 6 percent. The central bank also provided regulatory flexibility to banks and other financial institutions to carry

REPORT OF THE DIRECTORS *(CONTINUED)*

18 MARKET OVERVIEW (CONTINUED)

out loan restructuring operations on a case-by-case basis for businesses adversely affected by the COVID-19 pandemic.

NMB in particular, took proactive measures by engaging customers in affected sectors with a view to restructuring their respective facilities. The move has provided relief to our clients as they recover from the economic impact of the pandemic. Furthermore, NMB was able to ensure appropriate precautions and provisions were made available to staff all across our network while leveraging on investment in IT infrustructe to support colleagues whose roles made it possible to work from home.

19 PERFORMANCE FOR THE YEAR

2020 Financial Highlights

Statement of financial position

- Total assets of the Group increased to TZS 7 trillion (2019: TZS 6.4 trillion), this represents a yearly growth of 8%.
- The Bank's net loans and advances grew by TZS 513 billion (14%) year on year, driven by an increase in retail loans particularly personal loans. Government securities increased by TZS 543 billion (71%) attributed to yield improvement and deposits growth. Placements and balances with banks decreased by TZS 93 billion (35%) while cash and balances with Bank of Tanzania decreased by TZS 294 billion (22%) as the Bank focused in growing its loan and government securities portifolio. This asset growth was funded by customer deposits; which grew by TZS 403 billion (8%) and additional borrowing of TZS 50 billion from International Finance Corporation (IFC).
- There was a decrease in Bank's non-earning assets by 23% year on year mainly attributable to decrease in Right-of-use assets resulting from downward revision of lease terms, while Property and Equipment decreased by TZS 23.5 billion (10%) as they continue to depreciate.

Statement of profit or loss and other comprehensive income

- During the year, the Group recorded a net profit after tax of TZS 210 billion (2019: TZS 145 billion), while the Bank earned a net profit of TZS 205.8 billion (2019: TZS 142 billion), an increase of 45% year-on-year. This increase in profit was mainly attributed to growth in net interest income and net fees and commission income by TZS 49 billion and TZS 57 billion, respectively.
- The Bank's total operating income grew 15% year on year to TZS 716.7 billion (2019: TZS 621.6 billion). The growth is from the Bank's net interest income which increased by 15% following growth in loans and advances while net fees and other income increased by 19% mainly attributed to increase in transaction volumes in Agency Banking and Mobile Network Operators (MNO).
- The Bank's operating expenses increased slightly by 2.6% during the year due to cost efficiency initiatives deployed by the Bank during the year on operating and capital expenditure.

REPORT OF THE DIRECTORS *(CONTINUED)*

19 PERFORMANCE FOR THE YEAR (CONTINUED)

2020 Financial Highlights (continued)

Statement of profit or loss and other comprehensive income (continued)

- The Bank's subsidiary, Upanga Joint Venture Company (UJVC) Limited made a profit after tax of TZS 2.4 billion (2019: TZS 2 billion). The increase in profit is attributable to a reduction in finance cost by TZS 329 million year-on-year. As at 31 December 2020, its total assets were TZS 39.9 billion (2019: TZS 48 billion); the decrease was due to decrease in cash and bank balances and depreciation of investment properties.
- The audited financial statements for the year are set out on pages 111 to 240.

20 CASH FLOW

During the year, the Group used TZS 175 billion (2019 generated: TZS 580 billion) in its operating activities.This was attributed to net cash out flow in investments in government securities of TZS 536 billion (2019: TZS 18 billion) and in loans and advances to customers of TZS 519 billion (2019: TZS 348 billion) which was netted of by the growth of deposits from customers by TZS 409 billion (2019: TZS 601 billion).

Other major use of the cash flow was servicing of borrowings by TZS 106 billion (2019: TZS 147 billion), payment of corpotate taxes amounting to TZS 123 billion (2019: TZS 60 billion), investment in property plant and equipment of TZS 19 billion (2019: TZS 13 billion), investment in software of TZS 4 billion (2019: TZS 11 billion) and payment of dividend of TZS 48 billion (2019: TZS 33 billion).

The Group's cash projections indicate that future cash flows will mostly be generated from deposits. The Bank will continue to implement different strategies to mobilise deposits by targeting individual depositors but also offering competitive rates for fixed deposits and improving cash collection solutions for big corporate customers, government institutions, Non-Government Organisations and other agencies.

21 DIVIDEND

The Directors propose payment of a dividend of TZS 137 per share, amounting to TZS 68.5 billion. In 2020, a dividend of TZS 96 per share amounting to TZS 48 billion was approved and paid.

REPORT OF THE DIRECTORS *(CONTINUED)*

22 KEY PERFORMANCE INDICATORS FOR BANK

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

		NMB ratios	
Performance indicator	*Definition and calculation method*	*2020*	*2019*
Return on equity	Net profit/Total equity	*18%*	*15%*
Return on assets	Net profit/Total assets	*3%*	*2%*
Cost to income ratio	Total costs/Net income	*51%*	*60%*
Interest margin on earning assets	Total interest income/ Interest earning assets	*13%*	*14%*
Non - interest income ratio	Non - interest income/Total income.	*31%*	*28%*
Gross loans to customers' deposits	Total loans to customers/Total deposits from customers	*78%*	*73%*
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	*5%*	*7%*
Earning assets to total assets	Earning assets/Total assets	*79%*	*71%*
Growth on total assets	Increase in assets for the year/Total asset opening balance	*8%*	*15%*
Growth on loans and advances to customers	Increase in Loans and advances / Opening balance of loans and advances	*15%*	*11%*
Growth on customer deposits	Increase in customer deposits/Opening balance of customer deposits	*8%*	*14%*
Capital adequacy			
Tier 1 Capital	Core Capital /Risk weighted assets including off balance sheet items	*19.3%*	*17.1%*
Tier 1+Tier 2 Capital	Total Capital /Risk Weighted assets including off balance sheet items	*20.6%*	*18.5%*

23 TREASURY POLICY

The Bank maintains a well-documented treasury policy that outlines approved Treasury activities in the Bank and how various risks that arise from such dealings together with other banking activities are identified, measured and managed. These, among others, include liquidity risk, foreign exchange risk and interest rate risk.

Regulatory ratios and internal limits on the above stated risks are stipulated in the policy to enable an efficient monitoring of compliance. Moreover, to combat any losses that may result from dealing activities, the policy allows for establishment of dealer limits, counterparty limits and stop-loss limits that must be reviewed regularly and kept up to-date. In addition to this, roles and responsibilities of Treasury staff, Market Risk unit, senior management and Assets and Liabilities Committee (ALCO) members in complying with the policy are stated.

REPORT OF THE DIRECTORS *(CONTINUED)*

23 TREASURY POLICY (CONTINUED)

Assets and Liabilities Management (ALM) team in conjunction with Market risk unit provide monthly reports to ALCO to evidence compliance with the policy. Any incident where a guideline has been breached is reported by the treasury functions to the Treasurer who then escalates the breach to ALCO members and Bank Management for immediate actions. The following sections are covered in the Treasury policy:

(i) Liquidity Management

Liquidity management evaluates the Bank's ability to meet its commitments as they fall due and whilst maintaining confidence in the market so as to be able to replace funds when they are withdrawn.

The Bank's sound and robust liquidity management process, as carried out within the Bank and monitored by ALCO, encompasses the following:

- Day-to-day funding, managed by monitoring future cash flows to ensure that daily obligations can be met. This includes replenishment of funds as they mature or borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly liquid and marketable securities that can easily be liquidated as protection against any unforeseen interruption to cash flows;
- Monitoring balance sheet liquidity ratios, i.e., Liquid Asset Ratio (LAR), Loan to Deposit Ratio (LDR) and Long-term Funding Ratio (LTFR) against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Diversification of depositor base;
- Performing liquidity stress and scenario tests; and
- Maintaining a robust and effective contingency funding plan.

It is vital to know that changes in interest rates impact the overall profit of the Bank. Hence, in addition to liquidity management, the Bank manages its interest expenses through regular review of the fixed deposit rates and other savings accounts rates, together with striving to obtain reasonable and fair borrowing rates from the interbank and multilateral lenders.

(ii) Foreign Exchange risk

Foreign Exchange risk is a current or prospective exposure to earnings and capital arising from adverse movement in currency exchange rate. The Treasury policy mainly focuses on foreign exchange risk that arises from trading activities whose management principles are as outlined below;

- Identification of foreign exchange risks in the trading and banking book
- Risk appetite specification in the form of limits and triggers
- Breach management
- Price validation and profit recognition
- Sign off of positions and profit or loss
- Reporting and management of foreign exchange risk.

The policy further outlines the roles and responsibilities of ALCO, Market risk unit and foreign exchange traders in managing this risk for the Bank.

REPORT OF THE DIRECTORS *(CONTINUED)*

23 TREASURY POLICY (CONTINUED)

(iii) Interest Rate risk

Interest rate risk is the risk that arises from mismatches between the re-pricing dates on interest rate sensitive assets and liabilities in the normal course of business activities. Treasury policy explains the types of interest rate risk together with methods for measuring and managing it. The policy additionally outlines the roles and responsibilities of ALCO and Treasury in their involvement with managing the risk. All these are disclosed both internally via reports to ALCO (monthly) and Board Audit Risk and Compliance Committee (BARCC) on a quarterly basis and publicly through annual financial reports.

All borrowings have been disclosed under note 32 and 33 to the financial statements. Interest rate sensitivity analysis is disclosed under note 6.2.2.

(iv) Contingency Funding Plan

Treasury policy puts together a contingency funding plan that is aimed at providing a framework within which an effective plan of action can be put in place in response to an adverse liquidity event. The plan stipulates:

- The points that will trigger implementation of the plan;
- Roles and responsibilities of Management;
- Team members during impending crisis likely to happen (phase 1) situation and crisis situation likely to lead into default within next to 48 hours (phase 2); and
- An updated communication channel during the liquidity crisis.

24 PRINCIPAL RISKS AND UNCERTAINTIES

The key risks that may significantly impact the Bank's short-to-medium term strategy are mainly Credit, Operational, Compliance, Information and Communication Technology (ICT), Market, Liquidity, Strategic and Reputational risk.

In addition to risks described in the foregoing section, the Bank also faces:

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including the legal risk.

Fraud, whether internal or external, is also a subset of operational risk. The number and value of fraud cases within the Bank is quite low when compared to overall customer numbers, balances and transaction volumes. This is due to the Bank being able to implement a number of stringent controls including preventive and detective measures.

Compliance risk

The risk to earnings and capital arising from violations of, or non-compliance with laws, rules, regulations, internal Bank policies and authority levels, prescribed practices and ethical standards. Management continually and robustly ensures that the Bank complies with relevant laws, rules, regulatory requirements and other internal procedures via a number of stringent controls.

REPORT OF THE DIRECTORS *(CONTINUED)*

24 PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Credit risk

This is the risk resulting from the possibility that an asset in the form of a monetary claim against a counter party may not result in a cash receipt (or equivalent) as per the terms of the contract. The Bank has robust controls in place to manage exposure to credit risk, including approval limits, disbursement controls, continuous monitoring and a robust risk appetite statement.

ICT risk

Risk associated with the use of Information and Communication Technology to support business processes/standards. ICT risk results from inadequate or failed ICT Strategy, ICT Project and Program or ICT Operations. The Bank has robust checks in place to limit its exposure to ICT risk and performs regular monitoring to validate the efficacy of its ICT risk controls.

Market risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three type of risk: currency risk, interest rate risk and other price risk. The Bank has stringent controls and monitoring mechanisms in place to limit its exposure to market risk.

Liquidity risk

Risk that the bank will encounter difficulity in meeting obligations associated with financial liabilities that are settled by delivering cash or other financial asset. The Bank has stringent controls and monitoring mechanisms in place to limit its exposure to liquidity risk.

Strategic risk

Strategic risk concerns the consequences that occur when the environment in which decisions that are hard to implement quickly or reverse quickly result in an unattractive or adverse impact. Strategic risk ultimately has two elements: one is doing the right thing at the right time (positioning) and the other is doing it well (execution). Strategic risk includes the risk that the Bank's strategy may be inappropriate to support sustainable future growth. The Bank has strong controls in place to mitigate strategic risk, including regular strategic risk reviews at Board and Management levels.

Reputational risk

The risk that an activity, action or stance taken by the Bank's officials will impair its image in the community and/or the long-term trust placed in the Bank by its stakeholders resulting in the loss of business or legal actions against the Bank. The Bank has stringent reputation risk controls in place including very tight controls on corporate communications and messaging.

25 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:

REPORT OF THE DIRECTORS *(CONTINUED)*

25 RISK MANAGEMENT AND INTERNAL CONTROL (CONTINUED)

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

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

The Board carries out risk and internal control assessment through the Board Audit, Risk and Compliance Committee. The Board assessed the internal control systems throughout the financial year ended 31 December 2020 and is of the opinion that they met the accepted criteria.

26 SERIOUS PREJUDICIAL MATTERS

In the opinion of the Directors, there are no serious unfavorable matters that can affect the Bank (2019: None).

27 SOLVENCY

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.

28 MAJOR FINANCING TRANSACTIONS

During the year, the Bank obtained additional unsecured loan of TZS 50 billion from International Finance Corporation (IFC). The loan is repayable semi-annually within five to six years and carries a fixed interest rate of 10.5%. Borrowings were taken to facilitate lending in MSME in the Retail Space.

29 RESOURCES

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

REPORT OF THE DIRECTORS *(CONTINUED)*

30 EMPLOYEES' WELFARE

Management and employees' relationship

The employee relations climate across the Bank network has continued to be very stable evidenced by healthy relations between management and trade unions with regular interactions and engagements between the parties.

The establishment of the Employee Engagement Forum (SIKIKA) in June 2019 has proved to be an important means to connect management to staff, champion employee engagement, receive new business ideas from staff and find best ways to resolve staff and business matters proactively. In that regard, there was no major unresolved grievance(s) from staff.

The Bank has continued to be an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind.

Training facilities

During the year, the Bank spent TZS 1,806 million (2019: TZS 2,996 million) on staff training in order to improve employees' technical skills and hence effectiveness. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development.

Medical assistance

All staff and their dependents (spouse and up to four children) are availed medical services by the Bank through an external service provider. From March 2018 (after moving to NHIF), staff's parents and their inlaws are accepted under medical insurance.

Financial assistance to staff

Loans are available to all confirmed employees depending on assessment, and discretion of Management as to the need and circumstances. Loans provided to employees include personal loans, vehicle loans, mortgage loans and other advances.

Persons with disabilities

Applications for employment by disabled persons are always considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Bank continues and appropriate training is arranged. It is the policy of the Bank that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employees benefit plan

The Bank pays contributions to publicly administered pension plans on mandatory basis, which qualify to be defined contribution plans.

31 GENDER PARITY

At 31 December 2020, the Bank had 3,465 employees (2019: 3,450); out of which 1,801 (52%) were male and 1,664 (48%) were female (2019: male 1,793 (52%), female 1,657 (48%)).

REPORT OF THE DIRECTORS *(CONTINUED)*

32 RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 41 to the financial statements.

33 POLITICAL DONATIONS

The Bank did not make any political donations during the year (2019: NIL)

34 RELATIONSHIP WITH STAKEHOLDERS

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

The Bank also recognizes that effective communication with stakeholders is essential to good governance. Following the publication of its financial results, the Bank engages with investors to present the results and answer questions accordingly. Shareholders are encouraged to attend Annual General Meeting and participate in the affairs of the Bank.

35 COVID -19 PANDEMIC

COVID-19 pandemic is still impacting some borrowing and International Trade customers. The Bank has been vigilant to support customers case by case through credit modification, price review and offering grace period to allow customers to stabilize and to strategize into better ways to combat covid-19 challenges.

36 CORPORATE SOCIAL RESPONSIBILITY (CSR)

NMB Bank CSR contributes positively in spearheading community socio economic development with focus on the value of the business, creating loyalty and social bond with consumers. We have achieved many of our Corporate Social Investment milestones through allocating a budget of 1% of the Bank's previous year's profit after tax amounting to TZS 1,421 million (2019: TZS 977 million) and using our reach, market influence and resources to help address pressing social issues.

Education

Our education support lies in the essence of transforming lives through creation of good learning environment for generation of knowledge and empowerment. We support public primary and secondary schools in the country with desks, lab stool, and shelves to ensure students study comfortably.

Health

NMB Bank as the development partner in the country prioritized the health sector support by significantly addressing shortage of medical health facilities. During the year, the Bank extended support to 48 health facilities with hospital benches, complete set of hospital beds, delivery beds, bedsheets and delivery kits that benefits approximately over 200,000 people in the community.

Financial Capability

NMB as a pioneer of financial education continued to impart financial knowledge and skills to both youth and adults to ensure they get access to usage, enhance personal finance management and

REPORT OF THE DIRECTORS *(CONTINUED)*

36 CORPORATE SOCIAL RESPONSIBILITY (CSR) (CONTINUED)

Financial Capability (continued)

making informed financial decisions. The Wajibu school program conducted in different zones and the financial education awareness during the NMB Women Proposition "Mwanamke Jasiri" launch event are among the example of platforms used to reach out over 3,000 youth and adults with financial education.

Natural Disaster Recovery

In 2020, NMB Bank supported recovery efforts amid COVID-19 pandemic and helped victims of floods in Kilosa, Kilwa and Iringa.

Bank's Response to COVID-19 (National and Local Level)

The COVID-19 pandemic required an emergency response to prevent the spread. As a Bank, we collaborated with the national and local authorities to help preventing and protecting the community from the spread of COVID-19. We supported the Government initiative both nationally and locally to mitigate the spread of this pandemic. Over TZS 200 million was spent as part of CSR response to this pandemic.

Bank's support to Staff and Customers in Response to COVID-19

To ensure business continuity and wellness of the people, deliberate efforts were put in place to support internal and external stakeholders' response to COVID 19. The Bank used various tactics including use of emailers, internal web and electronic channels such as use of ZOOM and Teams for meetings to minimize physical contact. Strategic initiatives targeted to staff and customers included constantly communicating COVID-19 tips, emphasize importance of social distancing, washing hands, wearing masks, use of sanitizers and body temperature checkup (safety gears) to ensure safety. Staff had an opportunity to work from home just to empathize on self-protection and mitigate the spread of this pandemic.

Employee Volunteerism and Engagement

CSR Staff Initiatives continue to be strong and boost morale that help both employees and employers to feel more connected with the community around us. Our staff volunteering practices have truly reflected our commitment to making a positive impact across the country from effectively responding to COVID 19 pandemic to supporting local communities on the usual strands for CSR activities. These transformative initiatives contribute in restoring the lost hope among the needy groups in the community through provision of health insurance,toys and food stuff.

REPORT OF THE DIRECTORS *(CONTINUED)*

37 AUDITORS

PricewaterhouseCoopers was the auditor of the Bank for the year ended 31 December 2020 and have expressed their willingness to continue in office in accordance with Section 170(2) of the Companies Act, No.12 of 2002. Appointment of auditors for the year ending 31 December 2021 will be done at the Annual General Meeting and the process will comply with the requirements of Section 6 of the Banking and Financial Institutions (External Auditors) Regulations, 2014.

BY ORDER OF THE BOARD

Dr. Edwin P. Mhede
Chairman
30th March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002.

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 Group and of the profit in accordance with International Financial Reporting Standards (IFRS). The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Nothing has come to the attention of the Directors to indicate that the Bank and its subsidiary will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Board of Directors by:

Dr. Edwin P. Mhede
Chairman
30th March 2021

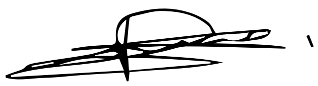
DECLARATION OF THE CHIEF FINANCIAL OFFICER

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/Accounting 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 a true and fair view of the entity's financial position and performance in accordance with applicable International Financial Reporting Standards (IFRS) and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors' as per the Statement of Directors' Responsibility on page 20.

I, Benedicto M. Baragomwa, being the Acting Chief Financial Officer of NMB Bank Plc hereby acknowledge my responsibility of ensuring that the consolidated and the Bank's financial statements for the year ended 31 December 2020 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002 and Banking and Financial Institutions Act (BFIA), 2006 and its regulations.

I thus confirm that the financial statements give a true and fair view of the financial performance of NMB Bank Plc and its subsidiary for the year ended on 31 December 2020 and its financial position as on that date and that they have been prepared based on properly maintained financial records.



CPA Benedicto M. Baragomwa
Acting Chief Financial Officer

NBAA Membership number: ACPA 2317
30th March 2021

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF NMB BANK PLC

Report on the audit of the Consolidated and Bank financial statements

Our opinion

In our opinion, the Consolidated and Bank financial statements give a true and fair view of the Consolidated and Bank financial position of NMB Bank Plc (the Bank) and its subsidiaries (together the Group) as at 31 December 2020, and of the Consolidated and Bank financial performance and Consolidated and Bank cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002.

What we have audited

NMB Bank Plc's Consolidated and Bank financial statements as set out on pages 111 to 240 comprise:

- the Consolidated and Bank statements of financial position as at 31 December 2020;
- the Consolidated and Bank statements of profit or loss and other comprehensive income for the year then ended;
- the Consolidated and Bank statements of changes in equity for the year then ended;
- the Consolidated and Bank statements of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

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 Consolidated and Bank financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the National Board of Accountants and Auditors (NBAA) that are relevant to our audit of the financial statements in Tanzania. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the NBAA.

Key audit matter

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NMB BANK PLC *(CONTINUED)*

Report on the audit of the Consolidated and Bank financial statements (continued)

Key audit matter (continued)

Key audit matter	*How our audit addressed the key audit matter*
Impairment of loans and advances to customers Management exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment. The Bank applies IFRS 9 in estimating the expected credit loss. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provisions in the following areas: • Quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default; • Determination of the probability of defaults (PD); • Determination of exposure at default (EAD); • Determination of the forward-looking parameters to be incorporated in the estimation of expected credit losses; and • Determination of the loss given default (LGD) which include estimation of the expected cash flows and recovery rates. The value of the loans and advances to customers is also significant. The detailed disclosures are included in Note 3(f), Note 4(a), Note 6.1 and Note 20 of the financial statements	• We tested the reasonableness of the quantitative and qualitative criteria used in the classification of loans and advances. • As the quantitative basis of classification of loans and advances is reliant on information systems, we understood and tested key information technology general and application controls including the calculation of the number of days past due. • We tested management's application of the qualitative criteria in the classification of loans and advances. • We tested reasonableness of portfolio segmentation in view of portfolio characteristics and associated credit risks for purposes of PD and LGD. • We tested the reliability, accuracy and reasonableness of information used for estimating the exposure at default, probability of default and loss given default. • We tested the reasonableness of the forward-looking parameters considered by management in establishing projected probabilities of default, including considering how COVID-19 implications were considered. • We challenged management's basis for establishing the correlation between forward looking parameters and the Bank's non-performing loan trends. • We tested management's use of scenarios in development of forward-looking estimates. • We tested accuracy of the loss given default for the secured and unsecured loan portfolio. • We tested the reasonableness of the expected cash flows and challenged management's assumptions of recovery estimates for unsecured facilities. • We tested recovery costs and recovery periods used to estimate the recoverable amount of collateral for secured facilities.

Other information

The directors are responsible for the other information. The other information comprises Index to the notes, List of Abbreviations, Corporate Information, Report of the Directors, Statement of Directors' responsibilities and Declaration of the Chief Financial Officer (but does not include the financial statements and our auditor's

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF NMB BANK PLC *(CONTINUED)*

Report on the audit of the Consolidated and Bank financial statements (continued)

Other information (continued)

report thereon), which we obtained prior to the date of this auditor's report, and other information that will be included in the Annual Report which is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information that will be included in the Annual Report which is expected to be made available to us after the date of this auditor's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the directors for the Consolidated and Bank financial statements

The directors are responsible for the preparation of the Consolidated and Bank financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002, and for such internal control as the directors determine is necessary to enable the preparation of Consolidated and Bank financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the Consolidated and Bank financial statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Bank 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 Consolidated and Bank financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NMB BANK PLC *(CONTINUED)*

Report on the audit of the Consolidated and Bank financial statements (continued)

Auditor's responsibilities for the audit of the Consolidated and Bank financial statements (continued)

- Identify and assess the risks of material misstatement of the Consolidated and Bank 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 Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and 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 Consolidated and Bank 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 Group and / or Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated and Bank financial statements, including the disclosures, and whether the Consolidated and Bank financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, action taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Consolidated and Bank financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NMB BANK PLC *(CONTINUED)*

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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, No. 12 of 2002 and for no other purposes.

As required by the Companies Act, No. 12 of 2002, we are also required to report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements, if the Bank has not kept proper accounting records, if the financial statements are not in agreement with the accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Bank is not disclosed. In respect of the foregoing requirements, we have no matter to report.

Patrick M Kiambi - TACPA
For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam

31st March 2021

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2020 TZS Millions	2019 TZS Millions
Interest income	7(a)	712,648	653,195
Interest expense	8(a)	(141,483)	(130,820)
Net interest income		**571,165**	**522,375**
Impairment charge – loans and advances	20(b)	(125,800)	(98,850)
Impairment charge – off-balance sheet exposures	6.1.5 (e)	6,488	(1,560)
Total impairment charge		**(119,312)**	**(100,410)**
Net interest income after impairment		**451,853**	**421,965**
Fee and commission income	10	284,812	215,816
Fee and commission expense	10	(58,412)	(46,663)
Net fee and commission income		**226,400**	**169,153**
Trading income		3,107	1,100
Foreign exchange income	9	27,377	24,454
Other income	11	14,395	9,702
Total operating income		**723,132**	**626,374**
Employee benefits expense	12	(195,515)	(182,579)
Other operating expenses	13(a)	(158,029)	(154,567)
Depreciation and amortization	14(a)	(68,308)	(73,367)
Total operating expenses		**(421,852)**	**(410,513)**
Profit before income tax		**301,280**	**215,861**
Income tax expense	15(a)	(90,980)	(71,122)
Profit for the year		**210,300**	**144,739**
Attributable to			
Owners of the Bank		209,969	144,619
Non-controlling interests		331	120
Profit for the year		**210,300**	**144,739**
Other comprehensive income, net of tax Items that may be subsequently be reclassified to profit or loss:			
Fair value (loss)/gain on debt instruments at FVOCI – net of tax	35 (iv)	(257)	168
Total comprehensive income for the year		**210,043**	**144,907**
Attributable to			
Owners of the Bank		209,712	144,787
Non-controlling interests		331	120
Total comprehensive income for the year		**210,043**	**144,907**
Basic and diluted earnings per share (TZS)	16(a)	**419.94**	**289.24**

FINANCIAL STATEMENTS *(CONTINUED)*

BANK'S STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	2020 TZS Millions	2019 TZS Millions
Interest income	7(b)	712,977	653,974
Interest expense	8(b)	(147,322)	(136,333)
Net interest income		**565,655**	**517,641**
Impairment charge – loans and advances	20(b)	(125,800)	(98,850)
Impairment charge – off-balance sheet exposures	6.1.5 (e)	6,488	(1,560)
Total impairment charge		**(119,312)**	**(100,410)**
Net interest income after impairment		**446,343**	**417,231**
Fee and commission income	10	284,812	215,816
Fee and commission expense	10	(58,412)	(46,663)
Net fee and commission income		**226,400**	**169,153**
Trading income		3,107	1,100
Foreign exchange income	9	27,377	24,454
Other income	11	14,395	9,702
Total operating income		**717,622**	**621,640**
Employee benefits expense	12	(195,515)	(182,579)
Other operating expenses	13(b)	(157,814)	(154,365)
Depreciation and amortization	14(b)	(68,550)	(73,608)
Total operating expenses		**(421,879)**	**(410,552)**
Profit before tax		**295,743**	**211,088**
Income tax expense	15(b)	(89,941)	(68,921)
Profit for the year		**205,802**	**142,167**
Other comprehensive income, net of tax Items that may be subsequently be reclassified to profit or loss:			
Fair value gain on debt instruments at FVOCI – net of tax	35 (iv)	(257)	168
Total comprehensive income for the year		**205,545**	**142,335**
Basic and diluted earnings per share (TZS)	16(b)	**411.60**	**284.33**

FINANCIAL STATEMENTS *(CONTINUED)*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	Note	2020 TZS Millions	2019 TZS Millions
Assets			
Cash and balances with Bank of Tanzania	18	1,047,488	1,341,140
Placements and balances with other banks	19	170,829	264,326
Loans and advances to customers	20(a)	4,108,789	3,590,006
Investment in government securities			
- At amortised cost	21(a)	1,275,291	744,527
- At FVOCI	21(b)	28,962	17,027
Equity investment at FVOCI	22(a)	2,920	2,920
Other assets	23(a)	68,744	91,3246
Current tax assets	15(c)	11,536	-
Property and equipment	24(a)	215,715	239,167
Intangible assets	25	13,898	20,779
Right-of-use assets	26(a)	28,850	29,421
Deferred tax assets	27(a)	85,314	76,788
Total assets		**7,058,336**	**6,417,427**
Liabilities			
Deposits due to other banks	29	131,224	33,446
Deposits from customers	28(a)	5,325,450	4,916,551
Other liabilities	30(a)	116,879	108,304
Lease liabilities	26(c)	28,927	27,985
Provisions	31	971	2,230
Borrowings	32	5,327,154	276,445
Current tax liabilities	15(c)	-	12,366
Subordinated debt	33	71,025	70,998
Total liabilities		**5,927,191**	**5,448,325**
Capital and reserves			
Share capital	35 (i)	20,000	20,000
Retained earnings		1,106,441	944,472
Fair valuation reserve	35 (iv)	792	1,049
Capital and reserves attributable to owners of the parent		**1,127,233**	**965,521**
Non-controlling interest		**3,912**	**3,581**
Total equity		**1,131,145**	**969,102**
Total equity and liabilities		**7,058,336**	**6,417,427**

The financial statements on pages 111 to 240 were approved and authorised for issue by the Board of directors and were signed on its behalf by:

Dr. Edwin P. Mhede *Chairman*

30th March 2021

WHO WE ARE
STRATEGY REVIEW
BUSINESS & OPERATIONAL REVIEW
CORPORATE SOCIAL RESPONSIBILITY
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COMPANY CONTACTS

FINANCIAL STATEMENTS *(CONTINUED)*

BANK'S STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER

	Note	2020 TZS Millions	2019 TZS Millions
Assets			
Cash and balances with Bank of Tanzania	18	1,047,488	1,341,140
Placements and balances with other banks	19	170,829	264,326
Loans and advances to customers	20(b)	4,109,260	3,595,688
Investment in government securities			
- At amortised cost	21(a)	1,275,291	744,527
- At FVOCI	21(b)	28,962	17,027
Equity investment at FVOCI	22(a)	2,920	2,920
Investment in subsidiary	22(b)	39,639	39,639
Other assets	23(b)	64,024	87,657
Current tax assets	15(d)	8,587	-
Property and equipment	24(b)	181,562	203,044
Intangible assets	25	13,898	20,779
Right-of-use assets	26(b)	70,027	162,184
Deferred tax assets	27(b)	85,610	77,084
Total assets		**7,098,097**	**6,556,015**
Liabilities			
Deposits due to other banks	29	131,224	33,446
Deposits from customers	28(b)	5,325,455	4,922,278
Other liabilities	30(b)	116,669	106,896
Lease liabilities	26(d)	70,104	156,030
Provisions	31	971	2,230
Borrowings	32	252,715	276,445
Current tax liabilities	15(d)	-	15,303
Subordinated debt	33	71,025	70,998
Total liabilities		**5,968,163**	**5,583,626**
Capital and reserves			
Share capital	35 (i)	20,000	20,000
Retained earnings		1,109,142	951,340
Fair valuation reserve	35 (iv)	792	1,049
Total equity		**1,129,934**	**972,389**
Total equity and liabilities		**7,098,097**	**6,556,015**

The financial statements on pages 111 to 240 were approved and authorised for issue by the Board of directors and were signed on its behalf by:

Dr. Edwin P. Mhede *Chairman* **30th March 2021**

FINANCIAL STATEMENTS *(CONTINUED)*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the parent					
	Share capital TZS Millions	*Retained earnings TZS Millions*	*Fair valuation reserve TZS Millions*	*Total TZS Millions*	*Non-controlling interest TZS Millions*	*Total equity TZS Millions*
At 1 January 2020	20,000	944,472	1,049	965,521	3,581	969,102
Profit for the year	-	209,969	-	209,969	331	210,300
Other comprehensive income (OCI)						
Gain/(loss) of fair valuation	-	-	(525)	(525)	-	(525)
Deferred tax on OCI	-	-	268	268	-	268
Total comprehensive income	-	209,969	(257)	209,712	331	210,043
Transactions with owners						
Dividends paid for the year 2019	-	(48,000)	-	(48,000)	-	(48,000)
At 31 December 2020	**20,000**	**1,106,441**	**792**	**1,127,233**	**3,912**	**1,131,145**

FINANCIAL STATEMENTS *(CONTINUED)*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the parent						
	Share capital TZS Millions	Retained earnings TZS Millions	Fair valuation reserve TZS Millions	*General reserve TZS Millions	Total TZS Millions	Non-controlling interest TZS Millions	Total equity TZS Millions
At 1 January 2019	20,000	799,128	881	33,725	853,734	3,461	857,195
Profit for the year	-	144,619	-	-	144,619	120	144,739
Other comprehensive income (OCI)							
Gain of fair valuation	-	-	240	-	240	-	240
Deferred tax on OCI	-	-	(72)	-	(72)	-	(72)
Total comprehensive income	20,000	144,619	168	-	144,787	120	144,907
Transfer to General Reserve	-	33,725	-	(33,725)	-	-	-
Transactions with owners							
Dividends paid for the year 2018	-	(33,000)	-	(33,000)	(33,000)	-	(33,000)
At 31 December 2019	**20,000**	**944,472**	**1,049**	**-**	**965,521**	**3,581**	**969,102**

*General Reserve represents 1% provision charged on all current credit accommodation and other risk assets as required by the Bank of Tanzania regulations. The requirement to maintain this reserve was abolished from 1 July 2019 through a BOT circular.

FINANCIAL STATEMENTS *(CONTINUED)*

BANK'S STATEMENT OF CHANGES IN EQUITY

	Share capital TZS Millions	Retained earnings TZS Millions	Fair valuation reserve TZS Millions	*General reserve TZS Millions	Total TZS Millions
At 1 January 2020	20,000	951,340	1,049	-	972,389
Comprehensive income					
Profit for the year	-	205,802	-	-	205,802
Other comprehensive income (OCI)					
Gain/(loss) of fair valuation	-	-	(525)	-	(525)
Deferred tax on OCI	-	-	268	-	268
Total comprehensive income	-	205,802	(257)	-	205,545
Transactions with owners					
Dividends paid for the year 2019	-	(48,000)	-	-	(48,000)
At 31 December 2020	**20,000**	**1,109,142**	**792**	**-**	**1,129,934**
At 1 January 2019	20,000	808,448	881	33,725	863,054
Comprehensive income					
Profit for the year	-	142,167	-	-	142,167
Other comprehensive income (OCI)					
Gain of fair valuation	-	-	240	-	240
Deferred tax on OCI	-	-	(72)	-	(72)
Total comprehensive income	-	142,167	168	-	142,335
Transfer to General Reserve	-	33,725	-	(33,725)	-
Transactions with owners					
Dividends paid for the year 2019	-	(33,000)	-	-	(33,000)
At 31 December 2019	**20,000**	**951,340**	**1,049**	**-**	**972,389**

** General Reserve represents 1% provision charged on all current credit accommodation and other risk assets as required by the Bank of Tanzania regulations. The requirement to maintain this reserve was abolished from 1 July 2019 through a BOT circular.*

FINANCIAL STATEMENTS *(CONTINUED)*

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2020 TZS Millions	2019 TZS Millions
Cash (used in)/generated from operations	37(a)	(52,229)	561,708
Tax paid	15(c)	(123,140)	(60,418)
Net cash (used in)/generated from operations		**(175,369)**	**501,290**
Cash flows from investing activities			
Purchase of property and equipment	24(a)	(18,755)	(12,649)
Purchase of intangible assets	25	(4,325)	(10,967)
Proceeds on disposal of property and equipment		174	292
Net cash used in investing activities		**(22,906)**	**(23,324)**
Cash flows from financing activities			
Proceeds received from borrowings		50,000	88,349
Principal repaid on borrowings	32	(73,857)	(113,426)
Interest paid on borrowings	32	(32,582)	(33,782)
Dividends paid	17	(48,000)	(33,000)
Repayment of lease liabilities	26(c)	(10,858)	(12,243)
Net cash used in financing activities		**(115,297)**	**(104,102)**
Net (decrease) / increase in cash and cash equivalents		**(313,572)**	**373,872**
Cash and cash equivalents at beginning of the year		1,232,544	858,732
Effect of movement in foreign exchange		(11,944)	(60)
Cash and cash equivalents at end of the year	36	**907,029**	**1,232,544**
Analysis of cash and cash equivalents at end of the year:			
Cash in hand		661,689	498,231
Balances with Bank of Tanzania (excluding SMR)		57,781	450,813
Deposits and balances due from banking institutions		170,829	264,326
Balance with mobile network operators		16,730	19,174
		907,029	**1,232,544**

FINANCIAL STATEMENTS *(CONTINUED)*

BANK'S STATEMENT OF CASH FLOWS

	Note	2020 TZS Millions	2019 TZS Millions
Cash (used in)/generated from operations	37(b	(53,283)	558,195
Tax paid	15(d)	(122,089)	(56,357)
Net cash (used in)/generated from operations		**(175,372)**	**501,838**
Cash flows from investing activities			
Purchase of property and equipment	24(b)	(18,755)	(12,649)
Purchase of intangible assets	25	(4,325)	(10,967)
Proceeds on disposal of property and equipment		174	292
Net cash used in investing activities		**(22,906)**	**(23,324)**
Cash flows from financing activities			
Proceeds from borrowings		50,000	88,349
Principal paid on borrowings		(73,857)	(113,426)
Interest paid on borrowings		(32,582)	(33,782)
Dividends paid	17	(48,000)	(33,000)
Repayment of lease liabilities	26(d)	(10,858)	(12,243)
Net cash used in financing activities		**(115,297)**	**(104,102)**
Net (decrease) / increase in cash and cash equivalents		**(313,571)**	**373,872**
Cash and cash equivalents at the beginning of the year		1,232,544	858,732
Effect of movement in foreign exchange		(11,944)	(60)
Cash and cash equivalents at end of the year	36	**907,029**	**1,232,544**
Analysis of cash and cash equivalents at end of the year:			
Cash in hand		661,689	498,231
Balances with Bank of Tanzania (excluding SMR)		57,781	450,813
Deposits and balances due from banking institutions		170,829	264,326
Balance with mobile network operators		16,730	19,174
		907,029	**1,232,544**

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

NMB Bank Plc (the "Bank) is a public limited liability company and is incorporated and domiciled in the United Republic of Tanzania. The address of its registered office is as disclosed under corporate information.

The Bank is listed on the Dar es Salaam Stock Exchange (DSE). The Bank has equity investments in Tanzania Mortgage Refinance Company Limited (TMRC) and a subsidiary company named Upanga Joint Venture Company (UJVC) Limited.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

(a) Basis of preparation

The Consolidated and Bank financial statements of NMB Bank Plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and intepretations issued by IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The Consolidated and Bank financial statements have been prepared under the historical cost convention, as modified by the revaluation of debt and equity instruments designated at fair value through other comprehensive income.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated and Bank financial statements are disclosed in Note 4.

(b) Changes in accounting policy and disclosures

(i) New standards amendments and interpretations adopted by the Group and Bank

The following standards and interpretations became effective in the current year and were relevant to the Group and had material impact on the amounts reported in these financial statements.

Definition of Material – Amendments to IAS 1 and IAS 8

The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information.

In particular, the amendments clarify:

- that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

(i) New standards amendments and interpretations adopted by the Group and Bank (continued)

Definition of Material – Amendments to IAS 1 and IAS 8 (continued)

- the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The amendment had no impact on the financial statements of the Group and Bank.

Definition of a Business – Amendments to IFRS 3

The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

The amendment had no impact on the financial statements of the Group and Bank.

Interest Rate Benchmark Reform – Amendments to IFRS 7, IFRS 9 and IAS 39

The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms.

The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the profit or loss. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

The Group and Bank does not have hedging accounting therefore adoption of the amendments did not have an impact to their financial statements.

Revised Conceptual Framework for Financial Reporting

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

(i) New standards amendments and interpretations adopted by the Group and Bank (continued)

Revised Conceptual Framework for Financial Reporting (continued)

The revision had no impact on the financial statements of the Group and Bank.

(ii) New standards and interpretations that are not yet effective and have not been early adopted

Title	*Key requirements*	*Effective date*
IFRS 17 Insurance Contracts	IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured in each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.	1 January 2023
COVID-19-related Rent Concessions – Amendments to IFRS 16	As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted. Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.	1 June 2020

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations that are not yet effective and have not been early adopted (continued).

Title	*Key requirements*	*Effective date*
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	The narrow-scope amendments to IAS 1 ***Presentation of Financial Statements*** clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 ***Accounting Policies, Changes in Accounting Estimates and Errors.***	1 January 2022 [possibly deferred to 1 January 2023]
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	1 January 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

(b) Changes in accounting policy and disclosures (continued)

(ii) New standards and interpretations that are not yet effective and have not been early adopted (continued).

Title	*Key requirements*	*Effective date*
Annual Improvements to IFRS Standards 2018–2020	The following improvements were finalised in May 2020: • IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. • IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives. • IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. • IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.	1 January 2022

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Team, which is the chief operating decision maker. Information about segment operations is provided under Note 5.

(b) Principles of consolidation and equity accounting

The consolidated financial statements incorporate the financial statements of the Bank and an entity controlled by the Bank (its subsidiary). The financial statements of the Bank and its subsidiary are made up to 31 December 2020.

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Principles of consolidation and equity accounting (continued)

(i) Subsidiaries (continued)

entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

(ii) Changes in ownership interests in subsidiaries without change of control

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

(iii) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iv) Separate financial statements

In the separate financial statements, investment in subsidiary is accounted for at cost less impairment.

(c) Interest income and expense

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(i) Purchased or originated credit-impaired (POCI) financial assets, for which the original credit – adjusted effective interest rate is applied to the amortised cost of the financial asset.

(ii) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Interest income and expense (continued)

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' or 'interest expense' in 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.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(d) Fee and commission income and expense

Fees integral to the effective interest rate include origination fees received or paid by the entity relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and for processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit or loss.

Fee and commission income is recognised 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. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party - such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses - are recognised on completion of the underlying transaction.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Group and the Bank are measured using the currency of the primary economic environment in which the Group and the Bank operate ("the functional currency"). The financial statements are presented in Tanzania Shillings (TZS) rounded to the nearest million, which is the Group and Bank's functional currency.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into Tanzania Shillings using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. All other foreign exchange gains and losses are presented in the statement of profit or loss and other comprehensive income on a net basis within other income or other expenses.

(f) Financial assets and financial liabilities

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instruments. Regular way purchases and sales of financial assets are recognised on trade – date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus in the case of a financial asset or financial liability not a fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debts instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss in other comprehensive income.

(b) In all other cases, the difference is deferred and the timing or recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement

FINANCIAL ASSETS

(i) Classification and subsequent measurement

The Group classifies its financial assets in the following measurement categories:

- Fair Value through profit or loss (FVPL);
- Fair Value through other comprehensive income (FVOCI); and
- Amortised cost.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

FINANCIAL ASSETS (CONTINUED)

(i) Classification and subsequent measurement (continued)

The classification requirements for debts and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

(i) The Group's business model for managing the asset; and

(ii) The cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 6. Interest income from these financial assets is included in 'Interest income' using effective interest rate method.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principals and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit and loss. When the financial asset is derecognised, interest income from these financial assets is included in 'interest income' using the effective interest rate method.
- Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in interest income' using the effective interest rate method.
- Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

FINANCIAL ASSETS (CONTINUED)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

arising from the sale of the assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Group in determining the business model for group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Group's business model for the mortgage loan book is to hold to collect contractual cash flows, with sales of loans only being made internally to a consolidated SPV for the purpose of collateralising notes issued, with no resulting derecognition by the Group. Another example is the liquidity portfolio of assets, which are held by the Group as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purposes of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. These securities are classified in the 'other' business model and measured at FVPL.

- SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principals and interest (the SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposures to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets are classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payments of principal and interest.

The Group reclassifies debts investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Example of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

FINANCIAL ASSETS (CONTINUED)

(i) Classification and subsequent measurement (continued)

Equity instruments (continued)

equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Gains and losses on equity investments at FVPL are included in the 'Net trading income' line in the statement or profit or loss.

(ii) Impairment

The Group assesses on a forward looking basis the expected credit losses ('ECL') associated with its debt instruments assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability – weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or efforts at the reporting date about past events, current conditions and forecast of future economic conditions.

Details of the Group's impairment policy and disclosures are provided under Note 6.1.3 and 6.1.5.

(iii) Modifications of Loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantially new terms are introduced, such as a profit share/equity- based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant changes in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affects the credit risk associated with the loan.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

FINANCIAL ASSETS (CONTINUED)

(iii) Modifications of Loans (continued)

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of the initial recognition for impairment calculation purposes, including for the purposes of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as gains or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). The loan will remain in its original stage until it meets the criteria as described in Note 3 (f) (iv) on the next page.

(iv) Curing of non-performing financial assets including restructured facilities

An instrument is considered to no longer have SICR or be in default (i.e. to have cured) when it has been established that the obligor is able to meet the requirements of the agreed terms and conditions.

IFRS 9 allows credit exposures to migrate from higher credit risk categories to lower credit risk categories, that is, from stage 3 to stage 2 and from stage 2 to stage 1.

Under migration from stage 3 to stage 2, the Bank shall consider criteria for upgrade of credit accommodations as follows:

(i) In the case of overdraft facilities, the account has satisfactorily performed for a minimum period of two consecutive quarters; and

(ii) In the case of term loans, the obligor has timely paid four consecutive installments.

On the other hand, credit exposures may migrate from stage 2 to stage 1 when there is a significant improvement of the credit exposure. In determining whether an exposure should shift backward from stage 2 to stage 1, The Bank shall consider the following;

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NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

FINANCIAL ASSETS (CONTINUED)

(iv) Curing of non-performing financial assets including restructured facilities (continued)

(i) All outstanding payments on the credit facility are made on time and there are no payments in arrears.

(ii) There is improvement of the quantitative and qualitative factors that caused significant increase of the credit risk.

Upgrade from stage 2 to stage 1 shall be subject to a monitoring period of 90 days for conventional loans and 30 days for Microfinance loans to confirm if the risk of default has decreased sufficiently before upgrading such exposure.

(v) Derecognition other than on a modification

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

The Group 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 Group:

(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

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

FINANCIAL LIABILITIES

(i) Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

FINANCIAL LIABILITIES (CONTINUED)

(i) Classification and subsequent measurement (continued)

is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to Changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS

Financial guarantee contracts are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debts instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdraft and other banking facilities.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

FINANCIAL GUARANTEE CONTRACTS AND LOAN COMMITMENTS (CONTINUED)

Loan commitments provided by the Group are measured as the amount of the loss allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Group cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as provision.

OFFSETTING FINANCIAL INSTRUMENTS

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

Financial guarantees

Financial guarantees are initially recognised in the consolidated and Bank financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation.

Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

Undrawn commitments

These are commitments the Bank has made to extend credit to customers and are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(g) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; the difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Current and deferred income taxes

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate in accordance with the Income Tax Act, 2004 adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in Tanzania where the Bank and its subsidiary operate and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with the Income Tax Act, 2004 interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Non-financial assets

(i) Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is provided on the straight-line basis so as to write down the cost of assets to their residual values over their useful economic lives, at the following rates:

	%
Building	5
Leasehold Improvements	5-50
Motor vehicles	25
Furniture, fittings and equipment	20
Computer equipment	33.3

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount.These are included in other operating income in the statement of profit or loss.

(ii) 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 initially measured at amount of lease liability and subsequently adjusted with accumulated amortization and impairment losses, and any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are subject to impairment in line with the Bank's policy as described in Note 3(l).

(iii) Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.These costs are amortised over their stimated useful lives (three to five years). Costs associated with maintaining computer software programs are recognised as an expense when incurred.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period. No indicators of impairment were identified therefore no non-financial assets were impaired in 2020 (2019: Nil).

(m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less. For the Bank, cash and cash equivalents include: cash and non-restricted balances with Bank of Tanzania, Investment securities and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Bank of Tanzania. Cash and cash equivalents are carried at amortised cost.

(n) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the statement of financial position.

(ii) Other long-term employee benefit obligations

The liabilities for gratuity payments to employees on contract employment basis is not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

(iii) Post-employment obligations

The Bank operates a defined contribution pension plans. The Bank has a statutory requirement to contribute to the Public Service Social Security Fund (PSSSF) and National Social Security Fund (NSSF), which are defined contribution schemes.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (continued)

(iii) Post-employment obligations (continued)

Bank contributes 15% of the required 20% of gross emoluments to the scheme and the contributions are recognised as an expense in the period to which they relate. The remaining 5% is deducted from employees.The subsidiary of the Bank does not have any employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(o) Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(p) Dividend

Dividend distribution to the Bank's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Bank's shareholders.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) in the Consolidated and Bank financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential ordinary shares.

(r) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The policy on recognition and measurement of right-of-use assets is presented on note 3(k).

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), 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 recognised as expenses in the period in which the event or condition that triggers the payment occurs.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Contingencies and commitments

Transactions are classified as contingencies where the Bank and its subsidiary obligations depend on uncertain future events. Items are classified as commitments where the Bank and its subsidiary commit themselves to future transactions if the items will result in the acquisition of assets.

(t) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

a) Measurement of the expected credit loss allowance

The Group measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses). The Group uses several significant judgements in applying the accounting requirements for measuring ECL, such as:

- Determination criteria for significant increase in credit risk;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Estimating Probability of default, Exposure at Default and Loss Given Default

Detailed information about the judgement and estimates made by the Group are explained under note 6.

b) Property and equipment, leased premises refurbishments and intangible assets

Critical estimates are made by the Directors in determining the useful lives of property and equipment, leased premises refurbishment and intangible assets as well as their residual values.

c) Business model assessment

The business model reflects how the Group manages the financial assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

c) Business model assessment (continued)

by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

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

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the `SPPI test'). In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

e) Taxes

The Group is subjected to several taxes and levies by various government and quasi- government regulatory bodies. As a rule of thumb, the Group recognizes liabilities for the anticipated tax /levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes /levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

The recognition of deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profit, future reversals of existing taxable temporary differences and ongoing tax planning and strategies. The deferred tax recognised in the Group's statement of financial position as at 31 December 2020 was TZS 85,314 million (2019: TZS 76,788 million). The judgment takes 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.

f) Provisions

The Bank and Group have provided for the liabilities arising out of contractual obligations. The closing balance of provisions on litigations amounted to TZS 971 million (2019: TZS 2,230 million). Professional expert advice is taken on establishing litigation provisions. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgements than other types of provisions. When cases are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists because of past event, estimating the probability of outflows and making estimates of the amount of any outflows that may arise. As matters progress through various stages of the cases, Management together with legal advisers evaluate on an ongoing basis whether provisions should be recognised,

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

f) Provisions (continued)

and the estimated amounts of any such provisions, revising previous judgements and estimates as appropriate.

g) Fair valuation of financial instruments

The fair value of financial instruments traded in active markets at the financial reporting date is based on their quoted bid market price or dealer price quotations without any deductions for transaction costs. For all other financial assets not listed in an active market, the fair value is determined by using appropriate valuation techniques.

In determining the fair value of government securities that are designated as fair value through other comprehensive income, the Bank uses yields of similar instruments traded in Bank of Tanzania's auctions. Changes in valuation assumptions could affect the reported fair value of financial instruments. For example, to the extent that the directors increased the yield rate by 10 basis point, the fair values would be estimated at TZS 28,946 million (2019: TZS 16,703 million) as compared to their reported fair value of TZS 28,962 million at 31 December 2020 (2019: TZS 17,027 million). If the yield rate had decreased by 10 basis points the fair value would be estimated at TZS 28,978 million (2019: TZS 16,670 million).

In determining the fair value of unquoted equity investment in TMRC, the Bank used a price of recent transaction of the shares of the Company. If the price of the shares would have increased/decreased by 10% the fair value of the investments would have been increased/decreased by TZS 292 million (2019:TZS 292 million).

(h) Leases - Estimating the incremental borrowing rate

The Group 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 Group 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. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available. If the discount rate used would have increased by 10%, the lease liability would have decreased by TZS 2,668 million (2019: TZS 10,305 million). If the discount rate used would have decreased by 10%, the lease liability would have decreased by TZS 6,587 million (2019: TZS 11,743 million).

5. SEGMENT REPORTING

The Group has the following business segments: Treasury, Retail, Wholesale banking and UJVC (the Bank's subsidiary). The operating segments are reported in a manner consistent with the internal reporting provided to the Bank's Management Team (The Chief Operating Decision-Maker), which is responsible for allocating resources to the reportable segments and assessing their performances. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

5. SEGMENT REPORTING (CONTINUED)

Operating segments

The Group comprises the following main operating segments:

(i) Wholesale Banking - includes loans, deposits and other transactions and balances with corporate customers and borrowing from abroad that are used to lend to corporate customers.

(ii) Retail Banking - includes loans, deposits and other transactions and balances with retail customers, Retail bond and Borrowing from TMRC

(iii) Treasury - undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities. The segment includes cash and balances with Bank of Tanzania, placements and balances with other banks, investments in equity, government and debt securities and subdordinated debt.

(iv) UJVC – includes operations of Upanga Joint Venture Company, a subsidiary of the Bank.

Assets and liabilities that don't fall under these categories are classified as unallocated balances.

Revenue and assets reported to the Bank's Management Team are measured in a manner consistent with that of the financial statements.

In arriving to segmented net interest income, an internal allocation of interest income and interest expenses between businesses has been done to recognise and measure how much each source of funding and each user of funding is contributing to overall profitability of the Bank. Operating expenses for the Bank has also been allocated to the business using an internally agreed allocation ratio.

All customers are based in Tanzania, except for interbank placements with corresponding banks. There was no income deriving from transactions with a single external customer that amounted to 10 % or more of the Group's total income.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

5. SEGMENT REPORTING (CONTINUED)

The segment information provided to the Group's Management Team for the reportable segments for the year ended 31 December 2020 is as follows; (all amounts in TZS million):

GROUP

2020	*Treasury*	*Wholesale banking*	*Retail banking*	*UJVC*	*(Eliminations)/ consolidation*	*Total*
Interest income	*109,409*	*73,396*	*530,172*	-	*(329)*	*712,648*
Interest expense	*(9,104)*	*(55,300)*	*(82,918)*	*(329)*	*6,168*	*(141,483)*
Net Interest Income	***100,305***	***18,096***	***447,254***	***(329)***	***5,839***	***571,165***
Impairment charges-off and on balance sheet items	-	*(79,586)*	*(39,726)*	-	-	*(119,312)*
Net fees and commission, trading, foreign exchange and other income	*30,146*	*35,173*	*205,324*	*5,977*	*(5,977)*	*270,643*
Employee benefits expense	*(18,988)*	*(39,967)*	*(151,326)*	-	-	*(210,281)*
General and administrative expenses	*(15,432)*	*(32,128)*	*(108,052)*	*(215)*		*(155,827)*
Depreciation and amortization	*(4,979)*	*(10,617)*	*(39,755)*	*(1,971)*	*2,213*	*(55,108)*
Profit /(loss) before tax	***91,052***	***(109,028)***	***313,719***	***3,462***	***2,0765***	***301,280***
Income tax provision	*(27,691)*	*33,158*	*(95,408)*	*(1,039)*	-	*(90,980)*
Profit after tax	***63,362***	***(75,871)***	***218,312***	***2,423***	***2,075***	***210,300***
Segment assets	*2,481,095*	*669,248*	*3,644,822*	*39,971*	*(79,437)*	*6,755,698*
Unallocated assets	-	-	-	-	-	*302,638*
Total assets	***2,481,095***	***669,248***	***3,644,822***	***39,971***	***(79,437)***	***7,058,3367***
Segment liabilities	*198,190*	*1,526,657*	*3,600,608*	*2,735*	*(79,437)*	*5,328,190*
Unallocated liabilities	-	-	-	-	-	*600,212*
Equity	-	-	-	*37,236*	-	*1,129,934*
Total liabilities and equity	***198,190***	***1,526,657***	***3,600,608***	***39,971***	***(79,437)***	***7,058,3367***

There were no non-current asset additions to individual segments.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

5. SEGMENT REPORTING (CONTINUED)

The segment information provided to the Group's Management Team for the reportable segments for the year ended 31 December 2019 is as follows; (all amounts in TZS million):

GROUP (CONTINUED)

2019	*Treasury*	*Wholesale banking*	*Retail banking*	*UJVC*	*(Eliminations)/ consolidation*	*Total*
Interest income	97,230	74,005	482,739	-	(779)	653,195
Interest expense	(10,396)	(44,401)	(81,536)	(779)	6,292	(130,820)
Net Interest Income	**86,834**	**29,604**	**401,203**	**(779)**	**5,513**	**522,375**
Impairment charges-off and on balance sheet items	-	(37,090)	(63,320)	-	-	(100,410)
Net fees and commission, trading, foreign exchange and other income	25,554	34,139	144,716	6,033	(6,033)	204,409
Employee benefits expense	(16,432)	(34,690)	(131,457)	-	-	(182,579)
General and administrative expenses	(13,893)	(29,330)	(111,142)	(202)	-	(154,567)
Depreciation and amortization	(6,625)	(13,986)	(52,997)	(1,971)	2,212	(73,367)
Profit /(loss) before tax	**75,438**	**(51,353)**	**187,001**	**3,081**	**1,692**	**215,859**
Income tax provision	(24,631)	16,766	(61,057)	(1,056)	-	(69,978)
Profit after tax	**50,807**	**(34,587)**	**125,946**	**2,025**	**1,692**	**145,885**
Segment assets	2,367,020	784,607	2,977,041	47,648	(182,945)	5,993,371
Unallocated assets	-	-	-	-	-	288,759
Total assets	**2,367,020**	**784,607**	**2,977,041**	**47,648**	**(182,945)**	**6,282,130**
Segment liabilities	68,190	1,443,715	3,410,373	47,648	(182,945)	4,786,981
Unallocated liabilities	-	-	-	-	-	522,760
Equity	-	-	-	-	-	972,389
Total liabilities and equity	**68,190**	**1,443,715**	**3,410,373**	**47,648**	**(182,945)**	**6,282,130**

There were no additions of non-current assets to the segments during the year.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

5. SEGMENT REPORTING (CONTINUED)

The segment information provided to the Bank's Management Team for the reportable segments for the year ended 31 December 2020 is as follows; (all amounts in TZS million):

BANK

2020	Treasury	Wholesale banking	Retail banking	Total
Interest income	109,409	73,396	530,172	712,977
Interest expense	(9,104)	(55,300)	(82,918)	(147,322)
Net Interest Income	**100,305**	**18,096**	**447,254**	**565,655**
Impairment charges-off and on balance sheet items	-	(79,586)	(39,726)	(119,312)
Net fees and commission, trading, foreign exchange and other income	30,146	35,173	205,324	270,643
Employee benefits expense	(18,988)	(39,967)	(151,326)	(210,281)
General and administrative expenses	(15,432)	(32,128)	(108,052)	(155,612)
Depreciation and amortization	(4,979)	(10,617)	(39,755)	(55,350)
Profit /(loss) before tax	**91,052**	**(109,028)**	**313,719**	**295,743**
Income tax provision	(27,691)	33,158	(95,408)	(89,941)
Profit after tax	**63,362**	**(75,871)**	**218,312**	**205,802**
Segment assets	2,481,095	669,248	3,644,822	6,795,164
Unallocated assets	-	-	-	302,933
Total assets	**2,481,095**	**669,248**	**3,644,822**	**7,098,097**
Segment liabilities	198,190	1,526,657	3,600,608	5,325,455
Unallocated liabilities	-	-	-	642,708
Equity	-	-	-	1,129,934
Total liabilities and equity	**198,190**	**1,526,657**	**3,600,608**	**7,098,097**

There were no non-curent asset additions to individual segments.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

5. SEGMENT REPORTING (CONTINUED)

BANK (CONTINUED)

2019	*Treasury*	*Wholesale banking*	*Retail banking*	*Total*
Interest income	*97,230*	*74,005*	*482,739*	*653,974*
Interest expense	*(10,396)*	*(44,401)*	*(81,536)*	*(136,333)*
Net Interest Income	***86,834***	***29,604***	***401,203***	***517,641***
Impairment charges-off and on balance sheet items	-	*(37,090)*	*(63,320)*	*(100,410)*
Net fees and commission, trading, foreign exchange and other income	*25,554*	*34,139*	*144,716*	*204,409*
Employee benefits expense	*(16,432)*	*(34,690)*	*(131,457)*	*(182,579)*
General and administrative expenses	*(13,893)*	*(29,330)*	*(111,142)*	*(154,365)*
Depreciation and amortization	*(6,625)*	*(13,986)*	*(52,997)*	*(73,608)*
Profit /(loss) before tax	***75,438***	***(51,353)***	***187,001***	***211,088***
Income tax provision	*(24,631)*	*16,766*	*(61,057)*	*(68,921)*
Profit after tax	***50,807***	***(34,587)***	***125,946***	***142,167***
Segment assets	*2,367,020*	*784,607*	*2,977,041*	*6,128,668*
Unallocated assets	-	-	-	*427,347*
Total assets	***2,367,020***	***784,607***	***2,977,041***	***6,556,015***
Segment liabilities	*68,190*	*1,443,715*	*3,410,373*	*4,922,278*
Unallocated liabilities	-	-	-	*661,348*
Equity	-	-	-	*972,389*
Total liabilities and equity	***68,190***	***1,443,715***	***3,410,373***	***6,556,015***

There were no non-curent asset additions to individual segments.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT

The Bank's subsidiary does not have significant operations (Note 22 (b)). The financial assets and liabilities of the Bank's subsidiary mainly consist of loans from related parties that are eliminated on consolidation and other assets and liabilities that are not material to the Group. Consequently, the financial risk management information presented below relates only to the Bank.

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Risk management is carried out by the Risk Department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as credit risk, market risk (foreign exchange risk, interest risk and price risk) and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

6.1 CREDIT RISK

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business. Management, therefore, carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances and investment activities that bring debt securities and other bills into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. The credit risk management and control are centralised in the credit risk management team of the Bank and reported to the Board of Directors and heads of department regularly.

6.1.1 CREDIT RISK MEASUREMENT

Loans and advances

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

The Bank considers a term loan to be in default if the repayment of the loan installment (principal and accrued interest) is more than 90 days past due for all product types. A revolving facility is in default if the facility is drawn above the limit for more than 90 consecutive days during the lifetime of the facility or if the drawn amount is still outstanding 90 days after maturity of the facility or if a related term loan is in default.

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NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.1 CREDIT RISK MEASUREMENT (CONTINUED)

The Bank estimates the Loss Given Default for unsecured term loans based on recoveries on loans that defaulted and were written off and collections from loans that defaulted but were not written off while for secured term loans and overdraft facilities which are all secured, the Bank considers collateral value discounted using an effective interest rate. For off balance sheet items, the probability of default has been estimated at 0.05% based on available historical data on performance of off-balance sheet items and loss given default estimated using collateral value discounted using an effective interest rate.

Exposure at Default for term loans is estimated as contractual rundown on the loans. This is estimated as the outstanding balance on the facility while for the off-balance sheet items exposure at default is estimated as the outstanding balance multiplied by the credit conversion factor (CCF).

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

Bank's rating	*Number of days past due*	*IFRS Stagging*
Current	*0 - 30*	*Stage 1*
Especially mentioned	*31 - 90*	*Stage 2*
Sub-standard	*91 -180*	*Stage 3*
Doubtful	*181 - 360*	*Stage 3*
Loss	*361 and more*	*Stage 3*

For internal monitoring of balances with other banks, banks are rated into three categories based on their financial position. Additionally, qualitative characteristics are taken into consideration when scoring a counterparty. Counterparts with history of default are usually rated as Medium to High risk and dealing limits are cancelled.

Bank's rating	*Score*	*Staging*
Defaulted	*Any*	*Stage 3*
High	*2.51 - 3*	*Stage 2*
Medium	*1.51 – 2.5*	*Stage 1*
Low	*1 -1.51*	*Stage 1*

The Bank's balances with other banks as at 31 December 2020, are all low risk.

6.1.2 RISK LIMIT CONTROL AND MITIGATION POLICIES

(a) Lending limits

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.2 RISK LIMIT CONTROL AND MITIGATION POLICIES (CONTINUED)

(a) Lending limits (continued)

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

(b) Collateral

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

- Mortgages over residential and commercial properties;
- Cash collaterals;
- Charges over business assets such as inventory and accounts receivable;
- Guarantees from government and financial institutions; and
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown on the following page:

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.2 RISK LIMIT CONTROL AND MITIGATION POLICIES (CONTINUED)

(b) Collateral (continued)

Credit impaired assets

	Gross exposure TZS Millions	*Impairment allowance TZS Millions*	*Carrying amount TZS Millions*	*Market Value of Collateral TZS Millions*
At 31 December 2020				
Secured	*92,110*	*36,772*	*55,338*	*103,873*
Unsecured	36,429	18,853	17,576	-
Overdraft	*36,539*	*17,153*	*19,386*	*94,930*
Agribusiness	*66,209*	*40,478*	*25,731*	*49,155*
Total	***231,287***	***113,256***	***118,031***	***247,958***
At 31 December 2019				
Secured	*136,044*	*65,305*	*70,739*	*222,614*
Unsecured	*22,473*	*12,682*	*9,791*	-
Overdraft	*47,143*	*19,841*	*27,302*	*119,322*
Agribusiness	*48,290*	*25,943*	*22,347*	*55,804*
Total	***253,950***	***123,771***	***130,179***	***397,740***

(c) Credit-related commitments

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

Undrawn commitments represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on undrawn commitments, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most undrawn commitments are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

6.1.3 EXPECTED CREDIT LOSS MEASUREMENT

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.3 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Refer to note 6.1.3.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 6.1.3.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 6.1.3.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 6.1.3.4 includes an explanation of how the Bank has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Grouping of instruments for losses measured on a collective basis

For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous.

In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Bank has considered benchmarking internal/external supplementary data to use for modelling purposes. The characteristics and any supplementary data used to determine groupings are outlined below:

- Product type (e.g. Overdraft, Term loans, Letter of credit e.t.c)
- Repayment type (e.g. Repayment/Interest only)
- LTV ratio for retail mortgages
- Credit risk grading
- Industry – Agribusiness loans are assessed independently in their own model
- Collateral type – whether secured or unsecured

The following exposures are assessed individually:

- Stage 3 loans; secured loans and overdraft facilities
- Properties in repossession proceedings

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.3 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

The Bank groups its exposures based on product type and has specified the following default product segments under the 'product type' criteria where each product is identified by a specific product code.

Secured term loans group - This group comprises all term loan products secured by collateral i.e. legal mortgage, guarantee or cash cover. Products in this group consist of Corporate, MSE, Special Asset Loan, Invoice Financing loans, Personal loans with cash cover, SME, Staff mortgage and Car loans.

Unsecured term loans - This comprises all unsecured facilities. Products in this group consist of Staff loans, Salaries Workers' Loans, Advances to NMB Wakala agents, and salary advance.

Agribusiness loans – This group comprises all term loans and overdraft facility advances to customers engaged in agriculture operations. It comprises customers classified as SME and Corporates.

Overdrafts – This group comprises all overdraft advances to customers issued to SME and Corporate customers other than those included in Agribusiness.

Off balance sheet items – This group comprises all financial guarantees, letter of credit and unutilized loan commitments.

6.1.3.1 SIGNIFICANT INCREASE IN CREDIT RISK (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Qualitative criteria

Loans and advances to customers

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

- Direct debit cancellation;
- Extension to the terms granted;
- Previous arrears within the last 12 months;
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default;

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.3 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

6.1.3.1 SIGNIFICANT INCREASE IN CREDIT RISK (SICR) (CONTINUED)

Loans and advances to customers (continued)

- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans; and
- Identified fraudulent activities in issuing the loan

The assessment of SICR incorporates forward-looking information and is performed on an annual basis at a portfolio level. A watch list is used to monitor credit risk on a monthly basis through Loan Portfolio Quality (LPQ) committee. This assessment is performed at the counterparty level. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Loans and advances to banks

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

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

6.1.3.2 DEFINITION OF DEFAULT AND CREDIT IMPAIRED ASSETS

Government securities

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

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

Quantitative criteria

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

Low credit risk exemption

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.3 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

6.1.3.2 DEFINITION OF DEFAULT AND CREDIT IMPAIRED ASSETS (CONTINUED)

Loans and advances to customers

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

Quantitative

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

Qualitative

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

- the borrower is in long-term forbearance;
- the borrower is deceased;
- the borrower is insolvent;
- the borrower is in breach of financial covenant(s);
- an active market for that financial asset has disappeared because of financial difficulties;
- concessions have been made by the lender relating to the borrower's financial difficulty;
- fraudulent activities were conducted in issuance of the loan;
- it is becoming probable that the borrower will enter bankruptcy; and
- financial assets are purchased or originated at a deep discount that reflects incurred credit losses.

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

Loans and advances to banks

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

- When repayments of interest and principal are not done on time as per contractual schedules to the extent of 30 days delay;
- When counterpart is taken under management by Statutory Manager;
- When counterpart licence has been revoked by Central Banks; and

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.3 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

6.1.3.2 DEFINITION OF DEFAULT AND CREDIT IMPAIRED ASSETS (CONTINUED)

Loans and advances to banks (continued)

- When counterpart has been declared bankrupt by responsible bodies like Registration, Insolvency and Trusteeship Agency (RITA) and Court.

Government securities

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

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

6.1.3.3 MEASURING ECL — EXPLANATION OF INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.3 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

6.1.3.3 MEASURING ECL — EXPLANATION OF INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES (CONTINUED)

month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

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

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

6.1.3.4 FORWARD-LOOKING INFORMATION INCORPORATED IN THE ECL MODELS

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD vary between secured and unsecured loans and off-balance sheet exposure. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Bank's Strategy Team on an annual basis and provide the best estimate view of the economy over the next three years.

After three years, to project the economic variables out for the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to reflect either a long run average rate (e.g. unemployment) or long run average growth rate (e.g. GDP, private credit growth) over a period of the past three years. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, the Bank's Strategy team also provide other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major segment type to ensure non-linearity are captured. The number of scenarios and their attributes are reassessed at each reporting date. The Bank concluded that three scenarios appropriately captured non-linearity.

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.3 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

6.1.3.4 FORWARD-LOOKING INFORMATION INCORPORATED IN THE ECL MODELS (CONTINUED)

each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

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

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2020 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	2020	*2021*	*2022*	*2023*	*2024*
Credit growth in private sector					
Base	*9.5%*	*10%*	*10.5%*	*11.0%*	*11.0%*
Upside	*12.0%*	*14%*	*14.5%*	*15.0%*	*15.0%*
Downside	*4.9%*	*6.1%*	*6.5%*	*7.0%*	*7.0%*

Significant period end assumptions used for ECL estimate as at 31 December 2019 are set out below.

	2019	*2020*	*2021*	*2022*	*2023*
Credit growth in private sector					
Base	*7.5%*	*9.5%*	*10%*	*10.5%*	*11.0%*
Upside	*10.5%*	*12.0%*	*14%*	*14.5%*	*15.0%*
Downside	*3.5%*	*4.9%*	*6.1%*	*6.5%*	*7.0%*

For the years 2019 and 2020, the weightings assigned to each economic scenario was 80%, 10% and 10% for "base", "upside" and "downside" respectively.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.3 EXPECTED CREDIT LOSS MEASUREMENT (CONTINUED)

6.1.3.4 FORWARD-LOOKING INFORMATION INCORPORATED IN THE ECL MODELS (CONTINUED)

Economic variable assumptions (continued)

If the credit growth in private sector changed by 10%, the changes in expected loss allowance would have been as follows:

Sensitivity Analysis	*2020*		*2019*	
	Higher end TZS Millions	*Lower end TZS Millions*	*Higher end TZS Millions*	*Lower end TZS Millions*
Secured term loans	*159*	*(154)*	*150*	*(147)*
Unsecured term loans	*321*	*(315)*	*288*	*(284)*
Overdraft facilities	*104*	*(133)*	*80*	*(80)*
Agribusiness	*185*	*(186)*	*101*	*(101)*
Off-balance sheet exposures	-	-	-	-
Total expected credit loss	***769***	***(787)***	***619***	***(612)***

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

6.1.4 CREDIT RISK EXPOSURE

6.1.4.1 MAXIMUM EXPOSURE TO CREDIT RISK – FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.4 CREDIT RISK EXPOSURE (CONTINUED)

6.1.4.1 MAXIMUM EXPOSURE TO CREDIT RISK – FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT (CONTINUED)

(a) Secured Term Loans

	ECL Staging			
	Stage 1 12-month ECL TZS Millions	Stage 2 Lifetime ECL TZS Millions	Stage 3 Lifetime ECL TZS Millions	Total TZS Millions
Credit grade				
As at 31 December 2020				
Current	719,139	-	-	719,139
Especially mentioned	-	112,008	-	112,008
Sub-standard	-	-	22,058	22,058
Doubtful	-	-	22,043	22,043
Loss	-	-	50,009	50,009
Gross carrying amount	**719,139**	**112,008**	**92,110**	**923,257**
Loss allowance	(4,868)	(60,094)	(36,772)	(101,734)
Carrying amount	**714,271**	**51,914**	**55,338**	**821,523**
As at 31 December 2019				
Current	765,001	-	-	765,001
Especially mentioned	-	104,390	-	104,390
Sub-standard	-	-	26,783	26,783
Doubtful	-	-	31,560	31,560
Loss	-	-	77,701	77,701
Gross carrying amount	**765,001**	**104,390**	**136,044**	**1,005,435**
Loss allowance	(6,004)	(19,981)	(65,305)	(91,290)
Carrying amount	**758,997**	**84,409**	**70,739**	**914,145**

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.4 CREDIT RISK EXPOSURE (CONTINUED)

6.1.4.1 MAXIMUM EXPOSURE TO CREDIT RISK – FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT (CONTINUED)

(b) Unsecured term loans

	ECL Staging			
	Stage 1 12-month ECL TZS Millions	**Stage 2 Lifetime ECL TZS Millions**	**Stage 3 Lifetime ECL TZS Millions**	**Total TZS Millions**
Credit grade				
As at 31 December 2020				
Current	2,770,599	-		2,770,599
Especially mentioned	-	8,948	-	8,948
Sub-standard	-	-	15,321	15,321
Doubtful	-	-	11,935	-
Loss	-	-	9,173	9,173
Gross carrying amount	**2,770,599**	**8,948**	**36,429**	**2,815,976**
Loss allowance	(16,294)	(236)	(18,853)	(35,383)
Carrying amount	**2,754,305**	**8,712**	**17,576**	**2,780,593**
As at 31 December 2019				
Current	2,261,340	-	-	2,261,340
Especially mentioned	-	8,237	-	8,237
Sub-standard	-	-	8,705	8,705
Doubtful	-	-	10,442	10,442
Loss	-	-	3,326	3,326
Gross carrying amount	**2,261,340**	**8,237**	**22,473**	**2,292,050**
Loss allowance	(17,444)	(178)	(12,682)	(30,304)
Carrying amount	**2,243,896**	**8,059**	**9,791**	**2,261,746**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.4 CREDIT RISK EXPOSURE (CONTINUED)

6.1.4.1 MAXIMUM EXPOSURE TO CREDIT RISK – FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT (CONTINUED)

(c) Agribusiness loans

	ECL Staging			
	Stage 1 12-month ECL TZS Millions	Stage 2 Lifetime ECL TZS Millions	Stage 3 Lifetime ECL TZS Millions	Total TZS Millions
Credit grade				
As at 31 December 2020				
Current	*144,937*	-	-	*144,936*
Especially mentioned	-	*35,268*	-	*35,268*
Sub-standard	-	-	*36,360*	*36,360*
Doubtful	-	-	*8,395*	*8,395*
Loss	-	-	*21,454*	*21,454*
Gross carrying amount	***144,936***	***35,268***	***66,209***	***246,413***
Loss allowance	*(4,777)*	*(983)*	*(40,478)*	*(46,238)*
Carrying amount	***140,159***	***34,285***	***25,731***	***200,175***
As at 31 December 2019				
Current	*135,499*	-	-	*135,499*
Especially mentioned	-	*4,931*	-	*4,931*
Sub-standard	-	-	*28,148*	*28,148*
Doubtful	-	-	*16,205*	*16,205*
Loss	-	-	*3,937*	*3,937*
Gross carrying amount	***135,498***	***4,931***	***48,290***	***188,720***
Loss allowance	*(2,178)*	*(635)*	*(25,943)*	*(28,756)*
Carrying amount	***133,320***	***4,296***	***22,347***	***159,963***

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.4 CREDIT RISK EXPOSURE (CONTINUED)

6.1.4.1 MAXIMUM EXPOSURE TO CREDIT RISK – FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT (CONTINUED)

(d) Overdraft facilities

	ECL Staging			
	Stage 1 12-month ECL TZS Millions	Stage 2 Lifetime ECL TZS Millions	Stage 3 Lifetime ECL TZS Millions	Total TZS Millions
Credit grade				
As at 31 December 2020				
Current	283,348	-	-	283,348
Especially mentioned	-	8,638	-	8,638
Sub-standard	-	-	1,364	1,364
Doubtful	-	-	5,189	5,189
Loss	-	-	29,986	29,986
Gross carrying amount	**283,348**	**8,638**	**36,539**	**328,525**
Loss allowance	(4,230)	(71)	(17,153)	(21,454)
Carrying amount	**279,118**	**8,567**	**19,386**	**307,071**
As at 31 December 2019				
Current	225,902	-	-	225,902
Especially mentioned	-	9,549	-	9,549
Sub-standard	-	-	4,019	4,019
Doubtful	-	-	6,963	6,963
Loss	-	-	36,161	36,161
Gross carrying amount	**225,902**	**9,549**	**47,143**	**282,594**
Loss allowance	(2,626)	(293)	(19,841)	(22,760)
Carrying amount	**223,276**	**9,256**	**27,203**	**259,834**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.4 CREDIT RISK EXPOSURE (CONTINUED)

6.1.4.1 MAXIMUM EXPOSURE TO CREDIT RISK – FINANCIAL INSTRUMENTS SUBJECT TO IMPAIRMENT (CONTINUED)

(e) Off balance sheet exposures*

	2020 TZS Millions	2019 TZS Millions
Guarantees and Indemnities	*238,671*	*202,752*
Undrawn Commitments	*120,065*	*113,934*
Acceptances and letters of credit	*266,145*	*335,968*
Gross carrying amount	***624,881***	***652,654***
Loss allowance	*(74)*	*(6,562)*
Net carrying amount	***624,807***	***646,092***

**The off-balance sheet exposures under the credit risk note include only loan commitment and financial contracts that fall within the scope of IFRS 9. Provision for loss allowance relating to off-balance sheet exposures is disclosed under other liabilities.*

6.1.5 LOSS ALLOWANCE

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

6.1.5.1 CHANGES IN LOSS ALLOWANCE

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.1 CHANGES IN LOSS ALLOWANCE (CONTINUED)

(a) Secured term loans

	ECL Staging			
Amounts in TZS' Millions	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2020	*6,004*	*19,981*	*65,305*	*91,290*
Movements				-
Transfer from stage 1 to stage 2	*(74)*	*80*	-	*6*
Transfer from stage 1 to stage 3	-	-	*17*	*17*
Transfer from stage 2 to stage 1	*2*	*(9)*	-	*(7)*
Transfer from stage 2 to stage 3	-	*(103)*	*2,158*	*2,055*
Transfer from stage 3 to stage 1	*211*		*(6,555)*	*(6,344)*
Transfer from stage 3 to stage 2	-	-	*(13)*	*(13)*
Unwind of interest	*348*	*1,393*	*4,183*	*5,924*
New financial assets originated	*3,327*	*202*	*5,707*	*9,236*
De-recognition	*(3,220)*	*(52)*	*(10,846)*	*(14,118)*
Remeasurements (forex and other movements)	*(1,730)*	*38,602*	*11,534*	*48,406*
Net profit or loss charge during the period	***(1,136)***	***40,113***	***6,185***	***45,162***
Other movements with no P or L impact Write-offs	-	-	*(34,718)*	*(34,718)*
As at 31 December 2020	***4,868***	***60,094***	***36,772***	***101,734***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.1 CHANGES IN LOSS ALLOWANCE (CONTINUED)

(a) Secured term loans (continued)

	ECL Staging			
Amounts in TZS' Millions	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2019	6,705	9,039	61,560	77,304
Movements				
Transfer from stage 1 to stage 2	(20)	64	-	44
Transfer from stage 1 to stage 3	(323)	-	8,986	8,663
Transfer from stage 2 to stage 1	133	(823)	-	(690)
Transfer from stage 3 to stage 1	1	-	(216)	(215)
Unwind of interest	418	695	4,239	5,352
New financial assets originated	4,567	1,203	14,566	20,336
Remeasurements (derecognition, forex and other movements)	(5,477)	9,803	11,685	16,011
Net P or L charge during the period	**(701)**	**10,942**	**39,260**	**49,501**
Other movements with no P or L impact				
Write-offs	-	-	(35,515)	(35,515)
As at 31 December 2019	**6,004**	**19,981**	**65,305**	**91,290**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.1 CHANGES IN LOSS ALLOWANCE (CONTINUED)

(b) Unsecured term loans

	ECL Staging			
Amounts in TZS' Millions	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2020	*17,444*	*178*	*12,682*	*30,304*
Movements				*-*
Transfer from stage 1 to stage 2	*(57)*	*179*	*-*	*30,304*
Transfer from stage 1 to stage 3	*(182)*	*-*	*8,797*	*-*
Transfer from stage 2 to stage 1	*8*	*(39)*	*-*	*122*
Transfer from stage 2 to stage 3	*-*	*(89)*	*1,717*	*8,615*
Transfer from stage 3 to stage 1	*6*	*-*	*(642)*	*(31)*
Transfer from stage 3 to stage 2	*-*	*1*	*(100)*	*1,628*
Unwind of interest	*2,508*	*28*	*1,485*	*(636)*
New financial assets originated	*3,103*	*51*	*1,278*	*(99)*
De-recognition	*(2,212)*	*(42)*	*(2,555)*	*4,021*
Remeasurements (forex and other movements)	*(4,324)*	*(31)*	*(2,385)*	*4,432*
Net profit or loss charge during the period	***(1,136)***	***58***	***7,595***	***6,503***
Other movements with no P or L impact Write-offs	*-*	*-*	*(1,424)*	*(1,424)*
As at 31 December 2020	***16,294***	***236***	***18,853***	***35,383***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.1 CHANGES IN LOSS ALLOWANCE (CONTINUED)

(b) Unsecured term loans (continued)

	ECL Staging			
Amounts in TZS' Millions	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2019	*7,368*	*126*	*17,181*	*24,675*
Movements				
Transfer from stage 1 to stage 2	*(28)*	*126*	-	*24,675*
Transfer from stage 1 to stage 3	*(70)*	-	*9,477*	
Transfer from stage 2 to stage 1	*17*	*(11)*	-	*98*
Transfer from stage 3 to stage 1	*3*	-	*(554)*	*9,407*
Unwind of interest	*1,132*	*11*	*321*	*6*
New financial assets originated	*4,378*	*41*	*1,116*	*(551)*
Remeasurements (derecognition, forex and other movements)	*4,644*	*(115)*	*3,467*	*7,996*
Net P or L charge during the period	***10,076***	***52***	***13,827***	***23,955***
Other movements with no P or L impact				
Write-offs	-	-	*(18,326)*	*(18,326)*
As at 31 December 2019	***17,444***	***178***	***12,682***	***30,304***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.1 CHANGES IN LOSS ALLOWANCE (CONTINUED)

(c) Agribusiness loans

	ECL Staging			
Amounts in TZS' Millions	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2020	*2,178*	*635*	*25,943*	*28,756*
Movements				*-*
Transfer from stage 1 to stage 2	*(331)*	*878*	*-*	*547*
Transfer from stage 1 to stage 3	*(257)*	*-*	*4,819*	*4,562*
Transfers from stage 2 to stage 3	*-*	*(197)*	*1,940*	*1,743*
Transfers from stage 3 to stage 1	*84*	*-*	*(139)*	*(55)*
Unwinding of interest	*156*	*31*	*2,209*	*2,396*
New financial assets originated	*3,277*	*105*	*8,808*	*12,190*
Derecognition	*(514)*	*(436)*	*(1,124)*	*(2,074)*
Remeasurements (forex and other movements)	*184*	*(33)*	*397*	*548*
Net P or L charge during the period	***2,599***	***348***	***16,910***	***19,857***
Other movements with no P or L impact Write-offs	*-*	*-*	*(2,375)*	*(2,375)*
As at 31 December 2020	***4,777***	***983***	***40,478***	***46,238***
As at January 2019	*5,866*	*54*	*2,118*	*8,038*
Movements				
Transfer from stage 1 to stage 2	*(248)*	*557*	*-*	*309*
Transfer from stage 1 to stage 3	*(1,337)*	*-*	*5,831*	*4,494*
Transfer from stage 2 to stage 3	*-*	*(16)*	*81*	*65*
Unwinding of interest	*414*	*4*	*30*	*448*
New financial assets originated	*2,047*	*79*	*25,173*	*27,299*
Remeasurements (derecognition, forex and other movements)	*(4,564)*	*(43)*	*(6,150)*	*(10,757)*
Net P or L charge during the period	***(3,688)***	***581***	***24,965***	***21,858***
Other movements with no P or L impact Write-offs	*-*	*-*	*(1,140)*	*(1,140)*
As at 31 December 2019	***2,178***	***635***	***25,943***	***28,756***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.1 CHANGES IN LOSS ALLOWANCE (CONTINUED)

(d) Overdraft

	ECL Staging			
Amounts in TZS' Millions	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
As at 1 January 2020	*2,626*	*293*	*19,841*	*22,760*
Movements				*-*
Transfer from stage 1 to stage 2	*(27)*	*24*	*-*	*(3)*
Transfer from stage 1 to stage 3	*-*	*-*	*111*	*111*
Unwinding of interest	*340*	*3*	*1,337*	*1,680*
New financial assets originated	*2,280*	*47*	*13,210*	*15,537*
Derecognition	*(775)*	*(21)*	*(699)*	*(1,495)*
Remeasurements (forex and other movements)	*(217)*	*(278)*	*(9,482)*	*(9,977)*
Net profit or loss charge during the period	***1,604***	***(222)***	***4,477***	***5,859***
Other movements with no P or L impact Write-offs	*-*	*-*	*(7,165)*	*(7,165)*
As at 31 December 2020	***4,230***	***71***	***17,153***	***21,454***
As at January 2019	*3,648*	*133*	*17,801*	*21,582*
Movements				
Transfer from stage 1 to stage 2	*(26)*	*34*	*-*	*8*
Transfer from stage 1 to stage 3	*(84)*	*-*	*4,985*	*4,901*
Transfer from stage 2 to stage 1	*54*	*(52)*	*-*	*2*
Transfer from stage 2 to stage 3	*-*	*(11)*	*698*	*686*
Transfer from stage 3 to stage 1	*4*	*-*	*(270)*	*(266)*
Unwinding of interest	*321*	*21*	*1,337*	*1,679*
New financial assets originated	*241*	*3*	*(334)*	*(90)*
Remeasurements (derecognition, forex and other movements)	*(1,532)*	*165*	*(3,770)*	*(5,137)*
Net profit or loss charge during the period	***(1,022)***	***160***	***2,646***	***1,784***
Other movements with no P or L impact Write-offs	*-*	*-*	*(606)*	*(606)*
As at 31 December 2019	***2,626***	***293***	***19,841***	***22,760***

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.1 CHANGES IN LOSS ALLOWANCE (CONTINUED)

(e) Off-balance sheet items

		2020 TZS Millions	2019 TZS Millions
As at 1 January		*6,562*	*5,002*
Movements			
New financial guarantees		*54*	*52*
Changes to model assumptions and methodologies		-	*5,120*
Matured financial guarantees		*(6,542)*	*(3,612)*
Net profit or loss charge during the period		*(6,488)*	*1,560*
As at 31 December		***74***	***6,562***
Allowance charged to profit or loss during the year			
Secured loans	*6.1.5 (a)*	*45,162*	*49,501*
Unsecured loans	*6.1.5 (b)*	*6,503*	*23,955*
Agribusiness loans	*6.1.5 (c)*	*19,857*	*21,858*
Overdraft facilities	*6.1.5 (d)*	*5,858*	*1,784*
Loss on derecognition of assets	*Note 20(b)*	*48,420*	*1,752*
Total on-balance sheet charge		*125,800*	*98,850*
Off-balance sheet exposures	*6.1.5 (e)*	*(6,488)*	*1,560*
As at 31 December		***70,893***	***100,410***

6.1.5.2 CHANGES IN GROSS CARRYING AMOUNT

Significant changes in the gross carrying amount of financial assets that contributed to changes in the loss allowance were as follows:

- The growth of new Salaried Workers Loans and other consumers' loans originated during the period, aligned with the Bank's organic growth objective, increase the gross carrying amount of the unsecured book by 23% (2019: 19%) while secured book slightly decreased by 8% (2019: increased by 2%), with a corresponding TZS 5.1 billion increase in loss allowance for unsecured book (2019: TZS 5.6 billion), TZS 10.4 billion (2019: TZS 14 billion) for secured book.
- The write-off loans resulted the reduction of gross carrying amount and the loss allowance by TZS 94.1 billion.

It is worth noting that changes in model assumptions and incorporation of collaterals in estimation of loss given default (LGD) has largely impacted the loss allowance as of 31 December 2020. There was no changes in model assumptions in estimation of loss given default (LGD) in 2020.

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.2 CHANGES IN GROSS CARRYING AMOUNT (CONTINUED)

The following table further explains changes in the gross carrying amount and explains their significance to the changes in the loss allowance for the same portfolio as discussed on the previous page.

(i) Secured term loans

	ECL Staging			
Amounts in TZS' Millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2020	*765,001*	*104,390*	*136,044*	*1,005,435*
Movements				*-*
Transfer from stage 1 to stage 2	*(1,039)*	*138*	*-*	*(901)*
Transfer from stage 1 to stage 3	*(6)*	*-*	*26*	*20*
Transfer from stage 2 to stage 1	*3,102*	*(7,683)*	*-*	*(4,580)*
Transfer from stage 3 to stage 1	*18,927*	*-*	*(32,369)*	*(13,441)*
Transfer from stage 3 to stage 2	*-*	*6,040*	*(7,531)*	*(1,491)*
Transfer from stage 2 to stage 3	*-*	*(2)*	*21*	*19*
Maintained stage	*(154,995)*	*(632)*	*44,204*	*(111,422)*
New financial assets originated	*605,758*	*20,127*	*41,736*	*667,621*
Write-offs	*(2,455)*	*(3,906)*	*(70,778)*	*(77,139)*
De-recognition	*(515,155)*	*(6,463)*	*(19,244)*	*(540,863)*
As at 31 December 2020	***719,139***	***112,008***	***92,110***	***923,257***
As at January 2019	*745,712*	*131,529*	*103,289*	*980,530*
Movements				
Transfer from stage 1 to stage 2	*(2,154)*	*2,154*	*-*	*-*
Transfer from stage 1 to stage 3	*(26,239)*	*-*	*26,239*	*-*
Transfer from stage 3 to stage 1	*5,682*		*(5,682)*	*-*
Transfer from stage 2 to stage 1	*24,665*	*(24,665)*		*-*
New financial assets originated	*606,311*	*22,858*	*38,581*	*667,750*
Write-offs	*(94)*	*(1,395)*	*(18,510)*	*(19,999)*
De-recognition/Maintained stage	*(588,882)*	*(26,091)*	*(7,873)*	*(621,920)*
As at 31 December 2019	***765,001***	***104,390***	***136,044***	***1,005,435***

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.2 CHANGES IN GROSS CARRYING AMOUNT (CONTINUED)

(ii) Unsecured term loans

	ECL Staging			
Amounts in TZS' Millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2020	*2,261,340*	*8,237*	*22,473*	*2,292,050*
Movements				-
Transfer from stage 1 to stage 2	*(7,728)*	*6,675*	-	*(1,053)*
Transfer from stage 1 to stage 3	*(18,997)*	-	*16,956*	*(2,041)*
Transfer from stage 2 to stage 1	*1,448*	*(1,557)*	-	*(109)*
Transfer from stage 3 to stage 1	*1,070*	-	*(1,144)*	*(74)*
Transfer from stage 3 to stage 2	-	*52*	*(186)*	*(134)*
Transfer from stage 2 to stage 3	-	*(3,758)*	*3,325*	*(433)*
Maintained stage	*73,750*	*(85)*	*(813)*	*72,852*
New financial assets originated	*675,254*	*1,946*	*2,584*	*679,784*
Write-offs	*(984)*	*(421)*	*(1,942)*	*(3,347)*
De-recognition	*(214,554)*	*(2,141)*	*(4,824)*	*(221,519)*
As at 31 December 2020	***2,770,599***	***8,948***	***36,429***	***2,815,976***
As at January 2019	*1,898,047*	*14,665*	*19,633*	*1,932,345*
Movements				
Transfer from stage 1 to stage 2	*(5,884)*	*5,884*	-	-
Transfer from stage 1 to stage 3	*(16,649)*	-	*16,649*	-
Transfer from stage 2 to stage 1	*1,184*	*(1,184)*	-	-
Transfer from stage 2 to stage 3	-	*(3,194)*	*3,194*	-
New financial assets originated	*614,890*	*1,767*	*2,630*	*619,287*
Write-offs	*(715)*	*(4,599)*	*(11,618)*	*(16,932)*
De-recognition/Maintained stage	*(229,533)*	*(5,102)*	*(8,015)*	*(242,650)*
As at 31 December 2019	**2,261,340**	**8,237**	**22,473**	**2,292,050**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.2 CHANGES IN GROSS CARRYING AMOUNT (CONTINUED)

(iii) Agribusiness loans

	ECL Staging			
Amounts in TZS' Millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2020	*135,498*	*4,931*	*48,290*	*188,719*
Movements				-
Transfer from stage 1 to stage 2	*(34,441)*	*33,118*	-	*(1,324)*
Transfer from stage 1 to stage 3	*(11,088)*	-	*9,716*	*(1,372)*
Transfer from stage 2 to stage 3	-	*(2,936)*	*3,427*	*491*
Transfer from stage 3 to stage 1	*9,958*	-	*(6,369)*	*3,589*
Maintained stage	*(43,008)*	*(27,399)*	*(6,667)*	*(77,074)*
New financial assets originated	*114,203*	*29,504*	*22,761*	*166,468*
Write-offs	-	-	*(3,116)*	*(3,116)*
De-recognition	*(26,186)*	*(1,950)*	*(1,833)*	*(29,969)*
As at 31 December 2020	***144,936***	***35,268***	***66,209***	***246,413***
As at January 2019	*65,867*	*606*	*5,101*	*71,574*
Movements				
Transfer from stage 1 to stage 2	*(3,031)*	*3,031*	-	-
Transfer from stage 1 to stage 3	*(9,843)*	-	*9,843*	-
Transfer from stage 2 to stage 3	-	*(142)*	*142*	-
New financial assets originated	*130,988*	*1,839*	*38,040*	*170,867*
Write-offs	-	*(30)*	*(1,030)*	*(1,060)*
De-recognition/Maintained stage	*(48,483)*	*(373)*	*(3,806)*	*(52,662)*
As at 31 December 2019	***135,498***	***4,931***	***48,290***	***188,719***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.5 LOSS ALLOWANCE (CONTINUED)

6.1.5.2 CHANGES IN GROSS CARRYING AMOUNT (CONTINUED)

(iv) Overdraft

	ECL Staging			
Amounts in TZS' Millions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
As at 1 January 2020	*225,902*	*9,549*	*47,143*	*282,594*
Movements				-
Transfer from stage 1 to stage 2	*(1,336)*	*2,018*	-	*682*
Transfer from stage 1 to stage 3	*(4,101)*	-	*6,578*	*2,477*
Maintained stage	*(7,161)*	*(7,160)*	*(26,189)*	*(40,510)*
New financial assets originated	*114,572*	*6,620*	*29,961*	*151,153*
Write-offs	*(200)*	-	*(19,342)*	*(19,542)*
De-recognition	*(44,328)*	*(2,389)*	*(1,612)*	*(48,329)*
As at 31 December 2020	***283,348***	***8,638***	***36,539***	***328,525***
As at January 2019	*319,411*	*13,325*	*66,208*	*398,944*
Movements				
Transfer from stage 1 to stage 2	*(32)*	*32*	-	-
Transfer from stage 1 to stage 3	*(950)*	-	*950*	-
Transfer from stage 2 to stage 1	*694*	*(694)*	-	-
Transfer from stage 2 to stage 3	-	*(40)*	*40*	-
Transfer from stage 3 to stage 1	*262*	-	*(262)*	-
New financial assets originated	*10,020*	*102*	*480*	*10,602*
Write-offs	-	-	*(20,174)*	*(20,174)*
De-recognition/Maintained stage	*(103,503)*	*(3,176)*	*(99)*	*(106,778)*
As at 31 December 2019	***225,902***	***9,549***	***47,143***	***282,594***

6.1.6 WRITE-OFF POLICY

The Bank writes off financial assets that have been past due for more than 365 days. The Bank may write-off some financial assets in whole or in part before the 365 days threshold when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Bank may write-off financial assets that are still subject to enforcement activity. The outstanding contractual amounts of such assets written off during the year ended 31 December 2020 was TZS 94.48 billion (2019: TZS 58.16 billion). The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.7. MODIFICATION OF LOANS

The following table includes summary information for financial assets with lifetime ECL whose cash flows were modified during the period as part of the Bank's restructuring activities and their respective effect on the Bank's financial performance:

	2020 TZS Millions	2019 TZS Millions
Loans and advance to customers		
Gross amount before modification	*82,897*	*21,157*
Net modification loss	*1,103*	*(2,863)*

The net modification loss above represents the changes in the gross carrying amounts (i.e. before impairment allowance) of the financial assets from immediately before, to immediately after, modification. In majority of cases, this gross loss had been anticipated and already materially reflected within the ECL allowance. The gross carrying amount of restructured facilities held as at 31 December 2020 was TZS 85,996 million (2019: TZS 20,188 million).

6.1.8 AMOUNTS DUE FROM BANKS

Balances due from other banks are categorized as stage 1. The Loss Given Default (LGD) for these assets is zero hence no impairment was recognized as at 31 December 2020 (2019: Nil). The expected credit loss is expected to be insignificant. As at 31 December 2020, there were no collateral held by Bank in respect of these balances (2019: Treasury bonds with face value of TZS 696.2 billion).

6.1.9 DEBT SECURITIES, TREASURY BILLS AND OTHER ELIGIBLE BILLS

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

6.1.10 BALANCES WITH BANK OF TANZANIA AND OTHER ASSETS

Other assets are categorized as stage 1 and stage 3, balances with Bank of Tanzania are categorized as stage 1. The simplified model has been used for estimation of ECL. The impact has been determined to be insignificant.

6.1.11 REPOSSESSED COLLATERAL

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

6.1.12 COVID 19 – IMPACT

COVID-19 pandemic is still impacting some of our borrowing customers though at decreasing rate. The Bank has proactively and prudently implemented various strategies including;

- Early identification and remedial actions for the stressed customers to assist them to continue performing and avoid significant additional impairment i.e. loan restructuring for genuine

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.12 COVID 19 – IMPACT (CONTINUED)

cases. The Bank has so far restructured credit lines with total exposure of around TZS 65 billion due to COVID-19 mainly being payment holidays ranging from 3 to 6 months;

- Extending credit lines to lowly impacted sectors, enhance close monitoring for partially impacted sectors and reduce lending for highly impacted sectors. Most impacted businesses are Garments, Cosmetics, Hotel/Lodges, Tourism, Electronics, Hardware & Building Material, Spare parts and Textiles; and
- Execution of normal recovery strategies for difficult cases. This portfolio is being reviewed and immediate actions are taken where necessary.

Overall assessment of significant increase in credit risk (SICR) for customers impacted by COVID-19 outbreak has been done on a case-by-case basis whereby reclassification or remedial action has been considering quantitative and qualitative criteria. There was no any change in ECL model assumptions.

In line with Bank of Tanzania relief package, all credit lines restructured due to COVID-19 impact have remained in the same classifications as were before restructuring and the accounts are upgraded to better bucket after paying two instalments on time consecutively.

Close monitoring is being done for all restructured loans to ensure these accounts are turned to performing bucket; Most restructured loans are performing well (87%).

6.1.13 CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE

(a) Geographical sectors

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.13 CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE (CONTINUED)

(a) Geographical sectors (continued)

	TZS Millions				
Credit risk exposures relating to on-balance sheet assets are as follows:	**Tanzania**	**Europe**	**America**	**Others**	**Total**
31 December 2020					
Balances with the Bank of Tanzania	*385,799*	-	-	-	*385,799*
Placement and balances with other banks	*88,056*	*26,108*	*45,969*	*10,696*	*170,829*
Investment in Government securities					
- Amortised cost	*1,275,291*	-	-	-	*1,275,291*
- Fair value through Other Comprehensive Income	*28,962*	-	-	-	*28,962*
Loans and advances to customers:					
- MSEs	*65,833*	-	-	-	*65,833*
- Other consumer loans	*107,407*	-	-	-	*107,407*
- Salaried workers loans	*2,763,712*	-	-	-	*2,763,712*
- Corporate customers	*537,190*	-	-	-	*537,190*
- SMEs	*231,079*	-	-	-	*231,079*
- Agribusiness	*200,176*	-	-	-	*200,175*
Other assets (excluding non-financial assets)	*43,227*	-	-	-	*43,227*
As at 31 Dec. 2020	***5,930,595***	***26,108***	***45,969***	***10,696***	***6,013,368***
Credit risk exposures relating to off-balance sheet assets are as follows:					
Guarantees and indemnities (Note 39(a))	*238,671*	-	-	-	*238,671*
Undrawn commitments (Note 39(a))	*120,065*	-	-	-	*120,065*
Acceptances and letters of credit (Note 39(a))	*266,145*	-	-	-	*266,145*
As at 31 Dec. 2020	***624,881***	**-**	**-**	**-**	***624,881***

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1.13 CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

(a) Geographical sectors (continued)

	TZS Millions				
Credit risk exposures relating to on-balance sheet assets are as follows:	**Tanzania**	**Europe**	**America**	**Others**	**Total**
31 December 2019					
Balances with the Bank of Tanzania	*842,909*	-	-	-	*842,909*
Placement and balances with other banks	*56,017*	*63,273*	*77,785*	*67,251*	*264,326*
Investment in Government securities					
- Amortised cost	*744,527*	-	-	-	*744,527*
- Fair value through Other Comprehensive Income	*17,027*	-	-	-	*17,027*
Loans and advances to customers:					
- MSEs	*346,100*	-	-	-	*346,100*
- Other consumer loans	*136,697*	-	-	-	*136,697*
- Salaried workers loans	*2,150,573*	-	-	-	*2,150,573*
- Corporate customers	*590,945*	-	-	-	*590,945*
- SMEs	*211,405*	-	-	-	*211,405*
- Agribusiness	*159,968*	-	-	-	*159,968*
Other assets (excluding non-financial assets)	*47,762*	-	-	-	*47,762*
As at 31 Dec. 2019	***5,303,930***	***63,273***	***77,785***	***67,251***	***5,512,239***
Credit risk exposures relating to off-balance sheet assets are as follows:					
Guarantees and indemnities (Note 39(a))	*202,752*	-	-	-	*202,752*
Undrawn commitments (Note 39(a))	*113,934*	-	-	-	*113,934*
Acceptances and letters of credit (Note 39(a))	*335,968*	-	-	-	*335,968*
As at 31 Dec. 2019	***652,654***	**-**	**-**	**-**	***652,654***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.13 CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE (CONTINUED)

(b) Industry sectors

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

31 December 2020	Financial institutions	Manu-facturing	Trading and commercial	Transport & communi-cation	Wholesale and retail	Agriculture	Individuals	Others	Total
Balances with the Bank of Tanzania	*385,799*	-	-	-	-	-	-	-	*385,799*
Placement and balances with other banks	*170,829*	-	-	-	-	-	-	-	*170,829*
Investment in Government securities									
- Amortised cost	*1,275,291*	-	-	-	-	-	-	-	*1,275,291*
- Fair value through Other comprehensive Income	*28,962*	-	-	-	-	-	-	-	*28,962*
Loans and advances to customers:									
- MSEs	-	-	*169*	*123*	*309,554*	-	-	*1,424*	*311,270*
- Other consumer loans	-	-	-	-	*3*	-	*65,818*	*12*	*65,833*

Table continues on next page

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.13 CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE (CONTINUED)

(b) Industry sectors (continued)

31 December 2020	Financial institutions	Manu-facturing	Trading and commercial	Transport & communi-cation	Wholesale and retail	Agriculture	Individuals	Others	Total
- Salaried workers loans	-	-	-	-	1	-	2,763,711	-	2,763,712
- Corporate customers	-	201,564	202,811	74,936	53,734	3,086	-	1,059	537,190
- SMEs	-	483	11,282	1,185	214,614	377	-	3,138	231,079
- Agribusiness	-	-	-	-	-	200,176	-	-	200,176
Other assets (excluding non-financial assets)	-	-	-	-	-	-	-	43,227	43,227
As at 31 Dec. 2020	**1,904,108**	**202,047**	**214,262**	**76,244**	**577,906**	**203,639**	**2,829,529**	**5,633**	**6,013,368**

Credit risk exposures relating to off-balance sheet assets are as follows:	Financial institutions	Manu-facturing	Trading and commercial	Transport & communi-cation	Wholesale and retail	Agriculture	Individuals	Others	Total
Guarantees and indemnities - (Note 39(a))	7,095	268	181,688	12,788	34,499	1,258	-	1,075	238,671
Undrawn commitments (Note 39(a))	-	21,253	26,315	1,089	66,267	2,844	-	2,297	120,065
Acceptances & letters of credit (Note 39(a))	4,106	35,811	115,681	11,544	24,293	8,536	-	66,174	266,145
As at 31 Dec. 2020	**11,201**	**57,332**	**323,684**	**25,421**	**125,059**	**12,638**	**-**	**69,546**	**624,881**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.13 CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE (CONTINUED)

(b) Industry sectors (continued)

31 December 2019	Financial institutions	Manu-facturing	Trading and commercial	Transport & communi-cation	Wholesale and retail	Agriculture	Individuals	Others	Total
Balances with the Bank of Tanzania	*842,909*	-	-	-	-	-	-	-	*842,909*
Placement and balances with other banks	*264,326*	-	-	-	-	-	-	-	*264,326*
Investment in Government securities									
- Amortised cost	*744,527*	-	-	-	-	-	-	-	*744,527*
- Fair value through Other comprehensive Income	*17,027*	-	-	-	-	-	-	-	*17,027*
Loans and advances to customers:									
- MSEs	-	*28*	*22,282*	*28*	*303,736*	*926*	-	*19,100*	*346,100*
- Other consumer loans	-	*56,855*	*79,192*	*9*	-	-	-	*641*	*136,697*
- Salaried workers loans	-	-	-	-	-	-	*2,150,573*	-	*2,150,573*
- Corporate customers	*64,898*	*268,647*	*128,362*	*113,098*	-	*7,036*	-	*8,904*	*590,945*

Table continues on next page

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1 CREDIT RISK (CONTINUED)

6.1.13 CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE (CONTINUED)

(b) Industry sectors (continued)

31 December 2019	Financial institutions	Manu-facturing	Trading and commercial	Transport & communi-cation	Wholesale and retail	Agriculture	Individuals	Others	Total
- SMEs	-	*2,183*	*91,934*	*5,697*	*30,068*	*5,055*	-	*76,468*	*211,405*
- Agribusiness	-	-	*40,694*	-	*21,119*	*87,495*	-	*10,660*	*159,968*
Other assets (excluding non-financial assets)	-	-	-	-	-	-	-	*47,762*	*47,762*
As at 31 Dec. 2019	***1,933,687***	***327,713***	***362,464***	***118,832***	***354,923***	***100,512***	***2,150,573***	***163,535***	***5,512,239***

Credit risk exposures relating to off-balance sheet assets are as follows:	Financial institutions	Manu-facturing	Trading and commercial	Transport & communi-cation	Wholesale and retail	Agriculture	Individuals	Others	Total
Guarantees and indemnities - (Note 39(a))	*10,192*	*14,060*	*52,863*	*25,353*	*41,053*	-	-	*59,231*	*202,752*
Undrawn commitments (Note 39(a))	-	*30,520*	*14,425*	*644*	*67,633*	-	-	*712*	*113,934*
Acceptances & letters of credit (Note 39(a))	-	*4,165*	*236,556*	*34,950*	*260*	-	-	*60,037*	*335,968*
As at 31 Dec. 2019	***10,192***	***48,745***	***303,844***	***60,947***	***108,946***	**-**	**-**	***119,980***	***652,654***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 MARKET RISK

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

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

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

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

6.2.1 FOREIGN EXCHANGE RISK

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

The table on the following page summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2020 and 31 December 2019. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 MARKET RISK (CONTINUED)

6.2.1 FOREIGN EXCHANGE RISK (CONTINUED)

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

As at 31 December 2020	USD Millions	EURO Millions	GBP Millions	Others Millions	Total Millions
Assets					
Cash and balances with Bank of Tanzania	250,016	10,181	1,946	1,932	264,075
Placement and balances with other banks	142,207	20,669	6,990	963	170,829
Loans and advances to customers	272,529	-	-	2	272,531
Other assets (excluding non-financial assets)	214	29	-	101	344
Total financial assets	**664,966**	**30,879**	**8,936**	**2,998**	**707,778**
Liabilities					
Deposits from customers	489,824	16,228	2,497	1	508,550
Long term borrowing	82,271	-	-	1	82,272
Lease liabilities	4,452	-	-	1	4,453
Other liabilities (excluding non-financial other liabilities)	3,639	5	3	-	3,647
Total financial liabilities	**580,186**	**16,233**	**2,500**	**3**	**598,922**
Net on-balance sheet financial position	**84,780**	**14,646**	**6,436**	**1,347**	**108,856**
Off balance sheet position					
Guarantee and indemnities	194,342	-	-	-	194,342
Undrawn commitments	20	-	-	-	20
Acceptance and letters of credit	239,568	14,562	-	-	254,130
	433,930	**14,562**	**-**	**-**	**448,492**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 MARKET RISK (CONTINUED)

6.2.1 FOREIGN EXCHANGE RISK (CONTINUED)

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

As at 31 December 2020	USD Millions	EURO Millions	GBP Millions	Others Millions	Total Millions
Assets					
Cash and balances with Bank of Tanzania	130,938	5,365	1,145	490	137,938
Placement and balances with other banks	124,089	70,165	12,559	1,496	208,309
Loans and advances to customers	288,621	-	-	-	288,621
Other assets (excluding non-financial assets)	1,120	26	-	-	1,146
Total financial assets	**544,768**	**75,556**	**13,704**	**1,986**	**636,014**
Liabilities					
Deposits from customers	392,028	22,234	1,700	-	415,962
Deposits from banks	219	-	-	-	219
Long term borrowing	112,142	-	-	-	112,142
Lease liabilities	94,808	-	-	-	94,808
Other liabilities (excluding non-financial other liabilities)	4,380	5	2	-	4,387
Total financial liabilities	**603,577**	**22,239**	**1,702**	**-**	**627,518**
Net on-balance sheet financial position	**(58,809)**	**53,317**	**12,002**	**1,986**	**8,496**
Off balance sheet position					
Guarantee and indemnities	123,479	-	-	-	123,479
Undrawn commitments	47,557	-	-	-	47,557
Acceptance and letters of credit	278,339	13,599	1,004	-	292,942
	449,375	**13,599**	**1,004**	**122,299**	**463,978**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 MARKET RISK (CONTINUED)

6.2.1 FOREIGN EXCHANGE RISK (CONTINUED)

Foreign exchange sensitivity analysis

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

	% change in exchange rate	2020 TZS Millions	2019 TZS Millions
USD	*10%*	*8,478*	*5,881*
EURO	*10%*	*1,465*	*5,332*
GBP	*10%*	*644*	*1,200*

The effect of translation of placements and balances with other banks in other currencies (Kenyan shillings, Ugandan Shillings, Japanese Yen, Swiss Francs, Canadian dollars, Indian Rupees, Rwandese Francs, Australian dollars, Norwegian Krona, Swedish Krona and South African Rand) is not considered to be significant.

6.2.2 INTEREST RATE RISK

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Bank. The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 MARKET RISK (CONTINUED)

6.2.2 INTEREST RATE RISK (CONTINUED)

TZS Millions	Up to1 month	1 - 3 months	3 - 12 months	1 - 5 Years	Over 5 years	Non-interest bearing	TOTAL
As at 31 December 2020							
Assets							
Cash and balances with Bank of Tanzania	-	-	-	-	-	1,047,488	1,047,488
Investment in Government securities							
- Amortised cost	20,469	159,477	302,615	436,087	356,643	-	1,275,291
- Fair value through other comprehensive income	-	-	-	899	28,063	-	28,962
Placement and balances with other banks	91,999	-	41,474	-	-	37,356	170,829
Loans and advances to customers	234,122	179,970	639,563	1,630,832	1,424,773	-	4,109,260
Equity Investments	-	-	-	-	-	2,920	2,920
Other assets (excluding prepayments)	-	-	-	-	-	43,227	43,227
Total financial assets	**346,590**	**339,447**	**942,178**	**2,109,292**	**1,809,479**	**1,130,991**	**6,677,977**
Liabilities							
Deposits from customers	494,483	470,910	851,458	694,079	-	2,814,525	5,325,455
Deposit from banks	131,224	-	-	-	-	-	131,224
Borrowing	6,984	20,714	66,083	158,935	-	-	252,715
Subordinated Debt	-	2,835	-	68,190	-	-	71,025
Lease liabilities	3,169	1,203	10,915	36,473	18,344	-	70,104
Other liabilities (excluding non-financial other liabilities)	-	-	-		-	60,226	60,226
Total financial liabilities	**635,860**	**495,662**	**928,456**	**957,677**	**18,344**	**2,874,751**	**5,910,749**
Total interest gap	**(289,270)**	**(156,215)**	**13,722**	**1,151,615**	**1,791,135**		

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 MARKET RISK (CONTINUED)

6.2.2 INTEREST RATE RISK (CONTINUED)

TZS Millions	Up to1 month	1 - 3 months	3 - 12 months	1 - 5 Years	Over 5 years	Non-interest bearing	TOTAL
As at 31 December 2019							
Assets							
Cash and balances with Bank of Tanzania	-	-	-	-	-	*1,341,140*	*1,341,140*
Investment in Government securities							
- Amortised cost	*25,201*	*96,956*	*226,211*	*309,441*	*86,718*	-	*744,527*
- Fair value through other comprehensive income	-	-	-	-	*17,027*	-	*17,027*
Placement and balances with other banks	*208,309*	-	-	-	-	*56,017*	*264,326*
Loans and advances to customers	*161,196*	*241,210*	*694,430*	*1,495,719*	*1,003,133*	-	*3,595,688*
Equity Investments	-	-	-	-	-	*2,920*	*2,920*
Other assets (excluding prepayments)	-	-	-	-	-	*47,762*	*47,762*
Total financial assets	***394,706***	***338,166***	***920,641***	***1,805,160***	***1,106,878***	***1,447,839***	***6,013,390***
Liabilities							
Deposits from customers	*388,705*	*311,377*	*755,858*	*614,256*	-	*2,852,082*	*4,922,278*
Deposit from banks	*10*	*1,500*	*21,614*	-	-	*10,322*	*33,446*
Borrowing	-	*19,472*	*96,095*	*156,336*	-	*4,542*	*276,444*
Subordinated Debt	-	-	-	*51,143*	*17,047*	*2,808*	*70,998*
Lease liabilities	*58*	*51*	*786*	*20,111*	*135,024*	-	*156,030*
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	-	*96,116*	*96,116*
Total financial liabilities	***388,715***	***332,349***	***873,567***	***821,735***	***17,047***	***2,869,754***	***5,303,166***
Total interest gap	***5,991***	***5,817***	***47,074***	***983,425***	***1,089,831***		

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2 MARKET RISK (CONTINUED)

6.2.2 INTEREST RATE RISK (CONTINUED)

Interest rate risk sensitivity

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

Sensitivity period	*Weighted average*	*Net Interest-Bearing Funding*	*Net position*	*Impact*
2020				
Less than 30 days	*(989)*	*(98,906)*	*97,917*	*979*
1 year	*58,122*	*1,788,409*	*(1,730,286)*	*(17,303)*
2019				
Less than 30 days	*(2,178)*	*(217,791)*	*215,613*	*2,156*
1 year	*(2,006)*	*(361,440)*	*359,434*	*3,594*

6.3 LIQUIDITY RISK

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

6.3.1 LIQUIDITY RISK MANAGEMENT PROCESS

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that daily obligations can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly liquid and marketable securities that can easily be liquidated as protection against any unforeseen interruption to cash flows;
- Monitoring balance sheet liquidity ratios, i.e., Liquid Asset Ratio (LAR), Loan to Deposit Ratio (LDR) and Long-term Funding Ratio (LTFR) against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities;
- Diversification of depositor base;
- Performing liquidity stress and scenario tests; and
- Maintaining a robust and effective contingency funding plan.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3 LIQUIDITY RISK (CONTINUED)

6.3.1 LIQUIDITY RISK MANAGEMENT PROCESS (CONTINUED)

point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 6.3.3).

6.3.2 FUNDING APPROACH

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

6.3.3 NON-DERIVATIVE CASH FLOWS

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of reporting period. The amounts disclosed in the table below are the undiscounted cash flows. As at 31 December 2020, the interest-bearing deposits had a balance of TZS 2,511 billion (2019: TZS 2,070 billion).

TZS Millions	Up to1 month	1 - 3 months	3 - 12 months	Over 1 year	TOTAL
As at 31 December 2020					
Liabilities					
Deposits from customers	*3,309,373*	*472,817*	*867,853*	*705,579*	*5,355,622*
Deposits from banks	*131,916*	-	-	-	*131,916*
Long term borrowing*	*7,184*	*21,966*	*66,833*	*160,661*	*256,644*
Subordinated debt*	*795*	*4,398*	*7,285*	*72,405*	*84,883*
Lease liabilities	*3,169*	*1,204*	*11,553*	*60,134*	*76,060*
Other liabilities (excluding non-financial liabilities)	*60,226*	-	-	-	*60,226*
Total liabilities	***3,512,663***	***500,385***	***953,524***	***998,779***	***5,965,351***
Assets held for managing liquidity	***346,590***	***339,447***	***942,178***	***5,049,762***	***6,677,977***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3 LIQUIDITY RISK (CONTINUED)

6.3.3 NON-DERIVATIVE CASH FLOWS (CONTINUED)

TZS Millions	Up to1 month	1 - 3 months	3 - 12 months	Over 1 year	TOTAL
As at 31 December 2019					
Liabilities					
Deposits from customers	3,240,872	312,185	780,910	645,530	4,979,497
Deposits from banks	10,332	1,500	21,614	-	33,446
Long term borrowing*	7,314	25,282	58,439	188,339	279,374
Subordinated debt*	795	1,589	7,285	108,667	118,336
Lease liabilities	531	996	5,030	385,920	392,477
Other liabilities (excluding non-financial liabilities)	96,116	-	-	-	96,116
Total liabilities	***3,355,960***	***341,552***	***873,278***	***1,328,456***	***5,899,246***
Assets held for managing liquidity	**394,706**	**338,166**	**920,641**	**4,359,877**	**6,013,390**

** Includes interest payable on the loan up to its maturity date as per repayment schedule. The amount is determined by using the exchange rate and LIBOR rate at year-end.*

6.3.4 ASSETS HELD FOR MANAGING LIQUIDITY RISK

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

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

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

6.4 OFF-BALANCE SHEET ITEMS

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

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 39) are summarised in the table below.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.4 OFF-BALANCE SHEET ITEMS (CONTINUED)

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 39) are also included below based on the earliest contractual maturity date.

	No later than 1 year TZS Millions	*1 - 5 years TZS Millions*	*Total TZS Millions*
As at 31 December 2020			
Guarantee and indemnities	*238,140*	*531*	*238,671*
Undrawn commitments	*120,065*	*-*	*120,065*
Acceptance and letter of credit	*264,604*	*1,541*	*266,145*
Total	***622,809***	***2,072***	***624,881***
As at 31 December 2019			
Guarantee and indemnities	*197,862*	*4,890*	*202,752*
Undrawn commitments	*113,934*	*-*	*113,934*
Acceptance and letter of credit	*317,237*	*18,731*	*335,968*
Total	***629,033***	***23,621***	***652,654***

6.5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

6.5.2 FAIR VALUE ESTIMATION

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

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

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

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

There were no transfers between the levels during the year.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

6.5.2 FAIR VALUE ESTIMATION (CONTINUED)

(i) Fair value of the Group financial assets and financial liabilities that are measured at fair value on recurring basis

The following table gives information about how the fair value of these financial assets and liabilities are determined:

	Fair value at					
Type	*2020 TZS Millions*	*2019 TZS Millions*	Hierarchy	*Valuation technique and key inputs*	*Significant unobservable inputs*	*Relationship of unobservable input to fair value*
Investment in government securities	*28,962*	*17,027*	Level 2	Market observable inputs	N/A	N/A
Equity instruments	*2,920*	*2,920*	Level 2	Market observable inputs	N/A	N/A

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

Cash and balances with Bank of Tanzania

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

Investment in government securities

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

Loans and advances to banks

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

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

Loans and advances to customers

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

6.5.2 FAIR VALUE ESTIMATION (CONTINUED)

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

Deposits from banks and customers

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

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

Borrowings

Significant portion of borrowing is benchmarked to LIBOR and therefore reprices at balance sheet date. Management has considered the impact of borrowings with fixed interest rate as insignificant to the total fair value of borrowings. The fair value of borrowings therefore approximates its carrying value.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

6.5.2 FAIR VALUE ESTIMATION (CONTINUED)

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

		Carrying amount		Fair value	
BANK	Hierarchy Level	2020 TZS Millions	2019 TZS Millions	2020 TZS Millions	2019 TZS Millions
Financial assets					
Cash and balances with Bank of Tanzania	Level 2	1,047,488	1,341,140	1,047,488	1,341,140
Government securities at amortised cost (Treasury bonds)	Level 2	889,268	471,720	886,075	453,901
Government securities at amortised cost (Treasury bills)	Level 2	386,023	272,807	386,402	275,525
Placement and balances with other banks	Level 2	170,829	264,326	170,829	264,326
Loans and advances to customers	Level 3	4,108,260	3,595,688	4,108,260	3,595,688
Other assets (excluding non-financial assets)*	Level 3	43,227	47,762	43,227	51,350
		6,646,095	**5,993,443**	**6,643,281**	**5,981,930**
Financial liabilities					
Deposits from customers	Level 3	5,325,455	4,922,278	5,325,455	4,922,278
Deposits from banks	Level 2	131,224	33,446	131,224	33,446
Subordinated debt	Level 3	71,025	70,998	71,025	70,998
Borrowings	Level 3	252,715	276,445	252,715	276,445
Other liabilities (Excluding non-financial other liabilities)	Level 3	60,226	96,116	60,226	96,369
		5,840,645	**5,399,283**	**5,840,645**	**5,399,536**

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

**Prepayments, inventory, provision for other assets and stationery are excluded from other assets balance, as this analysis is for financial instruments only.*
***Non-financial liabilities such as provision and statutory liabilities are excluded from other liabilities balance, as this analysis is for financial instruments only.*

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.6 CAPITAL MANAGEMENT

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

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

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

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

(a) Hold a minimum level of core capital of TZS 15 billion;

(b) Maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets of above the required minimum of 10%; and

(c) Maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

(d) Maintain a capital conservation buffer of 2.5% of risk-weighted assets and off-balance sheet exposures from August 2018. The capital conservation buffer is made up of items that qualify as tier 1 capital.

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

- Shall not distribute dividends to shareholders or bonuses to senior management and other staff members until the buffer is restored to at least 2.5%;
- Shall submit a capital restoration plan to the Bank of Tanzania within a period specified by BoT, indicating how the bank is going to raise capital to meet its minimum requirement including capital conservation buffer within a specified period of time; and
- In the event that BoT does not approve the capital restoration plan, it may direct the bank to raise additional capital within a specified time period in order to restore its capital conservation buffer.

The Bank's regulatory capital as managed by its Treasury Department is divided into two tiers:

- Tier 1 capital: means permanent shareholders' equity in the form of issued and fully paid ordinary shares, and perpetual non-cumulative preference shares, capital grants and disclosed reserves less year to date losses, goodwill organization, pre-operating expenses, prepaid expenses, deferred charges, leasehold rights and any other intangible assets.
- Tier 2 capital: means general provisions which are held against future, presently unidentified losses and are freely available to meet losses which subsequently materialize, subordinated debts, cumulative redeemable preferred stocks and any other form of capital as may be determined and announced from time to time by the Bank of Tanzania.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.6 CAPITAL MANAGEMENT (CONTINUED)

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

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2020 and year ended 31 December 2019. During those two periods, the Bank complied with all the externally imposed capital requirements to which it is subject.

	Note	*2020 TZS Millions*	*2019 TZS Millions*
Tier 1 capital			
Share capital		*20,000*	*20,000*
Retained earnings		*1,109,142*	*951,340*
Less: Prepaid expenses	*23(b)*	*(16,893)*	*(39,896)*
Less: Deferred tax assets	*27*	*(85,610)*	*(77,084)*
Total qualifying Tier 1 capital **(A)**		***1,026,639***	***854,360***
Tier 2 capital			
Subordinated debt		*71,025*	*70,998*
Accrued interest		*(2,835)*	*(2,808)*
Fair valuation reserve		*792*	*1,049*
Total qualifying Tier 2 capital **(B)**		***68,982***	***69,239***
Maximum Tier 2 capital allowed (2% of Risk weighted assets) – ***(C)*** [(a)]		*106,201*	*99,776*
Total regulatory capital (D) = *[(A) + Lower of (B) or (C)]*		***1,095,621***	***923,599***
Risk-weighted assets			
On-balance sheet		*4,435,680*	*4,031,716*
Off-balance sheet		*397,538*	*534,985*
Market risk		*57,003*	*38,402*
Operational risk [(b)]		*419,815*	*383,687*
Total risk-weighted assets **(E)**		**5,310,036**	**4,988,790**

	Required ratio (%)	*2020 Bank's ratio (%)*	*2019 Bank's ratio (%)*
Tier 1 capital	*12.5*	*19.3*	*17.1*
Tier 1 + Tier 2 capital	*14.5*	*20.6*	*18.5*

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6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.6 CAPITAL MANAGEMENT (CONTINUED)

The increase in the total regulatory capital in the 2020 is mainly due to the contribution of the current-year profit. The increase of the risk-weighted assets reflects the increase in loans and advances, off-balance sheet exposure and operational risk capital charge during the year.

(a) As per Bank of Tanzania requirement, Tier 2 Capital should not exceed 2% of the total risk weighted assets and off-balance sheet exposure.

(b) Capital charge for operational risk is calculated using Basic Indicator approach (BIA) prescribed under Basel II by capping net interest income to 3.5% of interest earning assets.

	2020 TZS Millions	*2019 TZS Millions*
7. INTEREST INCOME		
(a) GROUP		
Loans and advances to customers	*603,239*	*555,965*
Government securities	*107,144*	*94,067*
Placements and balances with other banks	*2,265*	*3,163*
	712,648	***653,195***
(b) BANK		
Loans and advances to customers	*603,568*	*556,744*
Government securities	*107,144*	*94,067*
Placements and balances with other banks	*2,265*	*3,163*
	712,977	***653,974***
8. INTEREST EXPENSE		
(a) GROUP		
Deposits from customers		
- Time deposits	*59,865*	*52,777*
- Current accounts	*32,367*	*23,990*
- Saving deposits	*14,057*	*17,053*
Deposits due to other banks	*176*	*24*
Borrowings from financial institutions	*21,261*	*24,454*
NMB bond	*11,475*	*9,488*
Lease liabilities	*2,282*	*3,034*
	141,483	***130,820***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
8. INTEREST EXPENSE (CONTINUED)		
(b) BANK		
Deposits from customers		
- Time deposits	59,865	52,777
- Current accounts	32,367	23,990
- Saving deposits	14,057	17,053
Deposits due to other banks	176	24
Borrowings from financial institutions	21,261	24,454
NMB bond	11,475	9,488
Lease liabilities	8,120	8,547
	147,322	**136,333**
9. FOREIGN EXCHANGE INCOME (GROUP AND BANK)		
Foreign currency trading	27,377	24,454
10. NET FEES AND COMMISSION INCOME		
GROUP AND BANK		
Fees and commission income		
Credit related fees and commissions	71,265	41,134
Other fees	26,314	23,356
Card fees	14,274	10,730
Agency banking fees	40,633	31,789
MNO collaboration fees	48,319	38,424
ATM fees and card issuing	36,273	32,576
Maintenance fees	20,887	10,180
Teller withdrawal fees	16,441	16,743
Commission - mobile banking	8,555	7,344
Government service fees	1,851	3,540
	284,812	**215,816**
Fees and commission expense		
Financial charges	(58,412)	(46,663)
Net fees and commission income	226,400	169,153

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
11. OTHER INCOME (GROUP AND BANK)		
Bad debts recovery	7,721	8,603
Miscellaneous income	1,222	921
Profit on disposal of property and equipment	159	131
Rental income	9	16
Gain on termination of lease liabilities	5,267	-
Dividend on TMRC equity investments	17	31
	14,395	**9,702**
12. EMPLOYEE BENEFITS EXPENSE (GROUP AND BANK)		
Salaries and allowances	110,228	105,590
Other emoluments	68,807	60,919
Pension costs - defined contribution plan	16,480	16,070
	195,515	**182,579**
13. OTHER OPERATING EXPENSES		
(a) GROUP		
Administrative expenses	38,909	41,984
Other staff cost	14,659	16,133
Cash trip expenses	6,179	4,954
Depositor's Protection Fund Insurance	6,790	6,243
Operating lease rent	968	274
Utilities	16,097	14,810
Security expenses	10,897	10,658
Marketing and advertising expenses	7,589	6,493
Repairs and maintenance	44,922	40,617
Travelling expenses	8,644	7,471
Management contract expenses	256	2,707
Other expenses	67	2,664
Auditors' remuneration	676	676
Directors' remuneration:		
- Fees	101	120
- Others	215	135
Impairment charge/(release) of other assets	1,060	(1,372)
	159,029	**154,567**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
13. OTHER OPERATING EXPENSES (CONTINUED)		
(b) BANK		
Administrative expenses	38,694	41,784
Other staff cost	14,659	16,133
Cash trip expenses	6,179	4,954
Depositor's Protection Fund Insurance	6,790	6,243
Operating lease rent	968	274
Utilities	16,097	14,810
Security expenses	10,897	10,658
Marketing and advertising expenses	7,589	6,493
Repairs and maintenance	44,922	40,617
Travelling expenses	8,644	7,471
Management contract expenses	256	2,707
Other expenses	67	1,292
Auditors' remuneration	676	676
Directors' remuneration:		
- Fees	101	120
- Others	215	133
Impairment charge/(release) of other assets	1,060	(1,372)
	157,814	**154,365**
14. DEPRECIATION AND AMORTISATION		
(a) GROUP		
Depreciation of property and equipment (Note 24(a))	46,369	48,998
Amortization of right-of-use assets (Note 26(a))	11,124	10,935
Amortization of intangible assets (Note 25)	10,815	13,434
	68,308	**73,367**
(b) BANK		
Depreciation of property and equipment (Note 24(b))	44,399	47,028
Amortization of right of use assets (Note 26(b))	13,336	13,146
Amortization of intangible assets (Note 25)	10,815	13,434
	68,550	**73,608**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
15. CURRENT INCOME TAX		
a) INCOME TAX EXPENSE: GROUP		
Income tax expense for the year is arrived at as follows:		
Current tax:		
In respect of current year	101,426	85,921
Over provision in prior period	(2,188)	(71)
	99,238	**85,850**
Deferred tax:		
In respect of current year (Note 27(a))	(9,972)	(15,093)
In respect of prior year (Note 27(a))	1,714	365
	(8,258)	**(14,728)**
	90,980	**71,122**

The tax on the Group's profit differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2020 TZS Millions	2019 TZS Millions
Reconciliation of account profit to tax charge:		
Profit before income tax	301,280	215,861
Tax calculated at the statutory income tax rate of 30% (2019: 30%)	90,384	64,758
Tax effect of:		
Depreciation on non-qualifying assets	370	511
Expenses not deductible for tax purposes	700	4,682
Dividend income	-	(9)
Utilisation of provision charged to retained earnings on IFRS 9 adoption	-	886
Net (under)/over provision of deferred and current tax in prior year	1,714	365
Net (under)/over provision of current tax in prior year	(2,188)	(71)
Income tax expense	**90,980**	**71,122**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
15. CURRENT INCOME TAX (CONTINUED)		
b) INCOME TAX EXPENSE: BANK		
Income tax expense for the year is arrived at as follows:		
Current tax:		
In respect of current year	100,387	84,848
In respect of prior year	(2,188)	-
	98,199	**84,848**
Deferred tax:		
In respect of current year (Note 27(b))	(9,972)	(15,076)
In respect of prior year (Note 27(b))	1,714	(851)
	(8,258)	**(15,927)**
	89,941	**68,921**

The tax on the Bank's profit differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2020 TZS Millions	2019 TZS Millions
Reconciliation of account profit to tax charge:		
Profit before income tax	295,743	211,088
Tax calculated at the statutory income tax rate of 30% (2019: 30%)	88,722	63,326
Tax effect of:		
Depreciation on non-qualifying assets	370	511
Expenses not deductible for tax purposes	1,322	5,058
Investment income	-	(9)
Utilisation of provision charged to retained earnings on IFRS 9 adoption	-	886
Over provision of current tax in prior year	(2,188)	-
Under/(Over) provision of deferred tax in prior year	1,714	(851)
Income tax expense	**89,941**	**68,921**
(c) CURRENT TAX (LIABILITIES)/ASSETS – GROUP		
At start of the year	(12,366)	13,066
Current year tax expense (Note 15(a))	(99,238)	(85,850)
Tax paid	123,140	60,418
Tax recoverable / (payable)	**11,536**	**(12,366)**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
15. CURRENT INCOME TAX (CONTINUED)		
(d) CURRENT TAX (LIABILITIES)/ASSETS – BANK		
At start of the year	(15,303)	13,188
Current year tax expense (Note 15(b))	(98,199)	(84,848)
Tax paid	122,089	56,357
Tax recoverable / (payable)	**8,587**	**(15,303)**
16. EARNINGS PER SHARE		
(a) GROUP		
The calculation of the basic earnings per share was based on the net profit attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding during the year, calculated as follows:		
Net profit attributable to shareholders	209,969	144,619
Weighted average number of shares in issue in millions (Note 35)	500	500
Basic and diluted earnings per share (TZS)	**419.94**	**289.24**
(b) BANK		
Net profit attributable to shareholders	205,802	142,167
Weighted average number of shares in issue in millions (Note 35)	500	500
Basic and diluted earnings per share (TZS)	**411.60**	**284.33**

There being no dilutive or dilutive potential share options, the basic and diluted earnings per share are the same.

17. DIVIDEND PER SHARE

Dividends are not recognised as a liability until they have been ratified at the Annual General Meeting. The Directors propose payment of a dividend of TZS 137 per share, amounting to TZS 68,500 million out of 2020 profit. In 2020, dividend of TZS 96 per share, amounting to TZS 48,000 million was approved and paid in respect of the year ended 31 December 2019.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
18. CASH AND BALANCES WITH BANK OF TANZANIA		
(GROUP AND BANK)		
Cash in hand		
- local currency	455,394	432,519
- foreign currency	206,295	65,712
Balances with Bank of Tanzania		
- local currency	(52,115)	378,588
- foreign currency	57,781	72,225
Statutory Minimum Reserves (SMR)*	328,018	392,096
	1,047,488	**1,341,140**
Current	**1,047,488**	**1,341,140**

**The SMR deposit is not available to finance the Bank's day-to-day operations and hence excluded from cash and cash equivalents for the purpose of the cash flow statement (See Note 36). Cash in hand and balances with Bank of Tanzania are non-interest bearing.*

	2020 TZS Millions	2019 TZS Millions
19. PLACEMENTS AND BALANCES WITH OTHER BANKS		
(GROUP AND BANK)		
Balances with banks abroad	82,773	208,309
Placement with local banks		
- Local currency	88,056	56,017
	170,829	**264,326**
Current	**170,829**	**264,326**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
20. (a) LOANS AND ADVANCES TO CUSTOMERS		
GROUP		
Salaried workers loans (SWL)	2,798,460	2,177,717
MSE loans	324,845	356,111
Other consumer loans	67,273	142,629
Large corporate entities	622,930	670,109
SME loans	253,676	227,830
Agribusiness loans	246,414	188,720
Gross loans and advances to customers	**4,308,104**	**3,763,116**
Less: allowance for impairment	(204,809)	(173,110)
Net loans and advances to customers	**4,108,789**	**3,590,006**
Analysis of loans and advances to customers by maturity		
Maturity analysis is based on the remaining periods to contractual maturity from year-end		
Maturing:	1,053,184	1,091,154
Within 1 year	1,630,832	1,495,719
Between 1 year and 5 years	1,424,773	1,003,133
Over 5 years	**4,108,789**	**3,590,006**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
20. (b) LOANS AND ADVANCES TO CUSTOMERS		
BANK		
Salaried workers loans (SWL)	2,798,460	2,177,717
MSE loans	324,845	356,111
Other consumer loans	67,273	142,629
Large corporate entities	623,401	675,791
SME loans	253,676	227,830
Agribusiness loans	246,414	188,720
Gross loans and advances to customers	**4,314,069**	**3,768,798**
Less: allowance for impairment	(204,809)	(173,110)
Net loans and advances to customers	**4,109,260**	**3,595,688**
Analysis of loans and advances to customers by maturity		
Maturity analysis is based on the remaining periods to contractual maturity from year-end		
Maturing:		
Within 1 year	1,053,184	1,096,836
Between 1 year and 5 years	1,630,832	1,495,719
Over 5 years	1,424,773	1,003,133
	4,109,260	**3,595,688**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

20. (b) LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

BANK (CONTINUED)

	Large Corporate TZS Millions	MSE TZS Millions	SME TZS Millions	SWL TZS Millions	Other consumer loans TZS Millions	Agribusiness TZS Millions	TOTAL TZS Millions
Movement in the allowance account for losses on loans:							
At 1 January 2020	*84,846*	*10,011*	*16,425*	*27,144*	*5,932*	*28,752*	*173,110*
Change in allowance for loan impairment*	*33,142*	*4,012*	*12,415*	*8,345*	*645*	*18,823*	*77,380*
Net loss from Derecognition	*39,678*	*907*	*6,470*	*893*	*411*	*59*	*48,420*
Write-offs	*(75,751)*	*(1,356)*	*(12,938)*	*(1,634)*	-	*(2,421)*	*(94,101)*
At 31 December 2020	***81,915***	***13,574***	***22,372***	***34,748***	***6,988***	***45,213***	***204,809***
At 1 January 2019	*66,554*	*18,574*	*11,685*	*20,360*	*4,838*	*9,588*	*131,599*
Increase in allowance for loan impairment	*35,972*	*5,680*	*11,291*	*21,498*	*4,416*	*20,241*	*97,098*
Net loss from Derecognition	*1,623*	*37*	-	*92*	-	-	*1,752*
Write-offs	*(17,303)*	*(14,280)*	*(6,551)*	*(14,806)*	*(3,322)*	*(1,077)*	*(57,339)*
At 31 December 2019	**84,846**	**10,011**	**16,425**	**27,144**	**5,932**	**28,752**	**173,110**

** The increase in impairment charge during the year was attributed to write-off accounts which were not provided for.*

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
21. (a) GOVERNMENT SECURITIES AT AMORTISED COST		
(GROUP AND BANK)		
Treasury Bills		
Treasury Bonds	386,023	272,807
	889,268	471,720
	1,275,291	**744,527**
Current		
Non-current	482,561	348,368
	792,730	396,159
	1,275,291	**744,527**

Treasury Bills and Bonds are debt securities issued by the Government of the United Republic of Tanzania and during the year the effective interest rate was 8.4% (2019: 12.6%).

As at 31 December 2020, Treasury bill and treasury bonds with face value of TZS 20 billion (2019: Nil) and TZS 62,402 million (2019: TZS 9,277 million) respectively were pledged as securities to borrowings.

The movement in investment securities may be summarized as follows:

	2020	2019
At 1 January	744,527	724,943
Additions	934,231	583,552
Matured securities	(403,467)	(563,968)
At 31 December	**1,275,291**	**744,527**

21. (b) GOVERNMENT SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(GROUP AND BANK)

The Group has invested in various treasury bonds that are designated at fair value through other comprehensive income. The movement in these securities is as follows:

	2020	2019
At 1 January	**17,027**	**15,242**
Interest income	3,828	1,617
Realised gain on fair valuation credited to P&L	3,107	1,100
Unrealised fair valuation (loss)/gain credited to OCI (Note 35 (viv))	(525)	240
Additions	162,459	76,340
Disposed	(156,934)	(77,512)
At 31 December	**28,962**	**17,027**
Non-current	**28,962**	**17,027**

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	2020 TZS Millions	% Share - holding	2019 TZS Millions	% Share - holding
22 . EQUITY INVESTMENTS				
(a) GROUP				
Investment at FVOCI				
Company name				
Tanzania Mortgage Refinance Company Limited (TMRC)	2,920	7.81	2,920	9.73

TMRC is a private company and there is no quoted market price available for the shares. On adoption of IFRS 9 the investment was re-measured at fair-value through other comprehensive income. Fair value was determined by observing a recent transaction in the market. As at 31 December 2020, the Bank had 1,800,000 shares in TMRC.

(b) BANK

The Bank has equity investments in TMRC and a subsidiary named Upanga Joint Venture Company Limited.

(i) Investment in a subsidiary

Company name				
Upanga Joint Venture Company Limited	39,639	88	39,639	88

There are no contingent liabilities relating to the Bank's interest in the subsidiary.

There are no restrictions to the Bank in gaining access or use of assets of the subsidiary and settling liabilities of the Group.

The subsidiary listed above has share capital consisting solely of ordinary shares. The country of incorporation; the United Republic of Tanzania is also their principal place of business.

There were no significant judgements and assumptions made in determining the Bank's interest in the subsidiary.

Set out below is the summarised financial information of Upanga Joint Venture Company Limited ("UJVC Limited"), a subsidiary of the Bank.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
22. EQUITY INVESTMENTS (CONTINUED)		
Summarised statement of financial position		
Current		
Total current assets	5,817	11,523
Current liabilities	(2,735)	(12,836)
Total net current assets /(liabilities)	**3,082**	**(1,313)**
Non-current		
Assets	34,154	36,125
Liabilities	-	-
Total non-current net assets	**34,154**	**36,125**
Total net assets	**37,236**	**34,812**
Summarised statement of comprehensive income		
Revenue	5,977	6,033
Cost of sales	(142)	(142)
Finance costs	(329)	(778)
Administrative expenses	(2,043)	(2,031)
Tax (charge)/credit	(1,039)	(1,056)
Profit after tax	**2,424**	**2,026**
Allocated to non- controlling interest	**331**	**120**

Non-controlling interests have no protective rights that can significantly restrict the Bank's ability to access or use the assets and settle the liabilities of the Group.

	2020 TZS Millions	2019 TZS Millions
Summarised cash flows		
Net cash used in operations	(174)	(959)
Net cash used in investing activities	-	-
Net cash used in financing activities	(5,540)	(5,889)
Net increase/(decrease) in cash and cash equivalents	(5,714)	(6,848)
Cash and cash equivalents at start of the year	5,539	12,387
Cash and cash equivalents at end of the year	(175)	5,539

	2020 TZS Millions	% share	2019 TZS Millions	% share
(ii) Investment at fair value through other comprehensive income				
Company name				
Tanzania Mortgage Refinance Company Limited (TMRC)	2,920	7.81	2,920	9.73

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
23. OTHER ASSETS		
(a) GROUP		
Prepayments	16,973	39,975
Service fees receivable	9,604	7,077
Staff imprest	29	64
Cheques and items for clearing	1,449	4,152
Other receivables	25,215	22,764
Balances with mobile network operators	16,730	17,490
Less: impairment allowance for other receivables	(1,256)	(196)
	68,744	**91,326**
Current	67,212	90,562
Non-current	1,532	764
	68,744	**91,326**
The movement in provision for impairment of other assets is as follows:		
At start of the year	(196)	(1,568)
Release/ (Charge) for the year	(1,060)	1,372
At end of year	**(1,256)**	**(196)**
(b) BANK		
Prepayments	16,893	39,896
Service fees receivable	9,604	7,077
Staff advance	29	64
Cheques and items for clearance	1,449	4,152
Balances with mobile network operators	20,575	17,490
Other receivables	16,730	19,174
Less: Allowance for impairment of other receivables	(1,256)	(196)
	64,024	**87,657**
Current	62,492	86,893
Non-current	1,532	764
	64,024	**87,657**
The movement in provision for impairment of other assets is as follows:		
At start of the year	(196)	(1,568)
(Charge)/Release for the year	(1,060)	1,372
At end of year	**(1,256)**	**(196)**

Other assets have not been pledged as security for liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

24. PROPERTY AND EQUIPMENT

	Own building TZS Millions	Leasehold improvement TZS Millions	Motor vehicles TZS Millions	Computers, furniture and equipment TZS Millions	Capital work in progress TZS Millions	TOTAL TZS Millions
(a) GROUP						
Year ended 31 December 2020						
COST						
At 1 January 2020	*158,036*	*67,502*	*18,661*	*217,139*	*356*	*461,694*
Additions	*1,267*	*1,514*	*225*	*10,100*	*5,649*	*18,755*
Transfers from work in progress	*(5,408)*	*7,868*	-	*984*	*(3,444)*	-
Transfer from prepayments	-	-	*1,243*	*2,927*	-	*4,170*
Disposal	-	-	*(26)*	*(3,720)*	-	*(3,746)*
At 31 December 2020	***153,895***	***76,884***	***20,103***	***227,430***	***2,561***	***480,873***
DEPRECIATION						
At 1 January 2020	*37,405*	*30,630*	*15,530*	*138,962*	-	*222,527*
Charge for the year	*6,459*	*9,370*	*1,959*	*28,581*	-	*46,369*
Disposal	-	-	*(20)*	*(3,718)*	-	*(3,738)*
At 31 December 2020	***43,864***	***40,000***	***17,469***	***163,825***	**-**	***265,158***
NET BOOK VALUE						
At 31 December 2020	***110,031***	***36,884***	***2,634***	***63,605***	***2,561***	***215,715***

The capital work in progress relates to the ongoing projects of branch renovations, network equipments and ongoing security system projects. No property and equipment of the Group and Bank has been pledged as security for liabilitieS.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

24. PROPERTY AND EQUIPMENT (CONTINUED)

	Own building TZS Millions	Leasehold improvement TZS Millions	Motor vehicles TZS Millions	Computers, furniture and equipment TZS Millions	Capital work in progress TZS Millions	TOTAL TZS Millions
(a) GROUP						
Year ended 31 December 2019						
COST						
At 1 January 2020	*151,554*	*59,355*	*18,411*	*197,211*	*16,436*	*442,967*
Additions	*1,095*	*747*	-	*5,197*	*5,610*	*12,649*
Transfers from work in progress	*5,387*	*7,400*	*10*	*9,637*	*(22,434)*	-
Transfer from prepayments	-	-	*315*	*8,920*	*744*	*9,979*
Disposal	-	-	*(75)*	*(3,826)*	-	*(3,901)*
At 31 December 2019	***158,036***	***67,502***	***18,661***	***217,139***	***356***	***461,694***
DEPRECIATION						
At 1 January 2020	*30,382*	*23,304*	*12,874*	*110,709*	-	*177,269*
Charge for the year	*7,023*	*7,326*	*2,724*	*31,925*	-	*48,998*
Disposal	-	-	*(68)*	*(3,672)*	-	*(3,740)*
At 31 December 2019	***37,405***	***30,630***	***15,530***	***138,962***	**-**	***222,527***
NET BOOK VALUE						
At 31 December 2019	***120,631***	***36,872***	***3,131***	***78,177***	***356***	***239,167***

The capital work in progress relates to the ongoing projects of branch remodelling. No property and equipment of the Group and Bank has been pledged as security for liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

24. PROPERTY AND EQUIPMENT (CONTINUED)

b) BANK

	Own building TZS Millions	Leasehold improvement TZS Millions	Motor vehicles TZS Millions	Computers, furniture and equipment TZS Millions	Capital work in progress TZS Millions	TOTAL TZS Millions
Year ended 31 December 2020						
COST						
At 1 January 2020	115,016	67,502	18,661	217,139	356	418,674
Additions	1,267	1,514	225	10,100	5,649	18,755
Transfers from work in progress	(5,408)	7,868	-	984	(3,444)	-
Transfer from prepayments	-	-	1,243	2,927	-	4,170
Disposal	-	-	(26)	(3,720)	-	(3,746)
At 31 December 2020	**110,875**	**76,884**	**20,103**	**227,430**	**2,561**	**437,853**
DEPRECIATION						
At 1 January 2020	30,508	30,630	15,530	138,962	-	215,630
Charge for the year	4,489	9,370	1,959	28,581	-	44,399
Disposal	-	-	(20)	(3,718)	-	(3,738)
At 31 December 2020	**34,997**	**40,000**	**17,469**	**163,825**	**-**	**256,291**
NET BOOK VALUE						
At 31 December 2020	**75,878**	**36,884**	**2,634**	**63,605**	**2,561**	**181,562**

The capital work in progress relates to the ongoing projects of branch renovations, network equipments and ongoing security system projects. No property and equipment of the Group and Bank has been pledged as security for liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

24. PROPERTY AND EQUIPMENT (CONTINUED)

	Own building TZS Millions	Leasehold improvement TZS Millions	Motor vehicles TZS Millions	Computers, furniture and equipment TZS Millions	Capital work in progress TZS Millions	TOTAL TZS Millions
b) BANK						
Year ended 31 December 2019						
COST						
At 1 January 2020	*108,534*	*59,355*	*18,411*	*197,211*	*16,436*	*399,947*
Additions	*1,095*	*747*	-	*5,197*	*5,610*	*12,649*
Transfers from work in progress	*5,387*	*7,400*	*10*	*9,637*	*(22,434)*	-
Transfer from prepayments	-	-	*315*	*8,920*	*744*	*9,979*
Disposal	-	-	*(75)*	*(3,826)*	-	*(3,901)*
At 31 December 2019	***115,016***	***67,502***	***18,661***	***217,139***	***356***	***418,674***
DEPRECIATION						
At 1 January 2020	*25,455*	*23,304*	*12,874*	*110,709*	-	*177,269*
Charge for the year	*5,053*	*7,326*	*2,724*	*31,925*	-	*48,998*
Disposal	-	-	*(68)*	*(3,672)*	-	*(3,740)*
At 31 December 2019	***30,508***	***30,630***	***15,530***	***138,962***	**-**	***215,630***
NET BOOK VALUE						
At 31 December 2019	***84,508***	***36,872***	***3,131***	***78,177***	***356***	***203,044***

The capital work in progress relates to the ongoing projects of branch re-modelling. No property and equipment of the Group and Bank has been pledged as security for liabilities.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	Computer Software TZS Millions	Work in progress TZS Millions	Total wTZS Millions
25. INTANGIBLE ASSETS			
(GROUP AND BANK)			
2020			
Cost:			
At 1 January	72,202	1,706	73,908
Additions	2,115	2,210	4,325
Transfer from work in progress	2,784	(2,784)	-
Transfer from prepayments	(391)		(391)
At 31 December	**76,710**	**1,132**	**77,842**
Amortisation			
At 1 January	53,129	-	53,129
Charge for the year	10,815	-	10,815
At 31 December	**63,944**	**-**	**63,944**
Net book value	**12,766**	**1,132**	**13,898**
2019			
Cost:			
At 1 January	58,958	1,978	60,936
Additions	3,173	7,794	10,967
Transfer from work in progress	8,066	(8,066)	-
Transfer from prepayment	2,005	-	2,005
At 31 December	**72,202**	**1,706**	**73,908**
Amortisation			
At 1 January	39,695	-	39,695
Charge for the year	13,434	-	13,434
At 31 December	**53,129**	**-**	**53,129**
Net book value	**19,073**	**1,706**	**20,779**

The Software work in progress relates to costs towards acquisition of new agency banking and procurement to pay system.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
26. LEASES		
(a) RIGHT-OF-USE ASSETS (GROUP)		
At start of year	29,421	37,707
Additions	14,105	2,649
Termination	(3,552)	-
Amortisation charge	(11,124)	(10,935)
At the end of year	**28,850**	**29,421**
(b) RIGHT-OF-USE ASSETS (BANK)		
At start of year	162,184	172,681
Additions	55,282	2,649
Termination	(134,103)	-
Amortisation charge	(13,336)	(13,146)
At the end of year	**70,027**	**162,184**
(c) LEASE LIABILITIES (GROUP)		
At start of year	27,985	34,545
Additions	14,105	2,649
Finance cost	2,282	3,034
Revaluation gain/losses	(97)	-
Termination	(4,490)	-
Payment during the year	(10,858)	(12,243)
At the end of year	**28,927**	**27,985**
Current	12,767	8,177
Non-current	16,160	19,808
	28,927	**27,985**
(d) LEASE LIABILITIES (BANK)		
At start of year	156,030	157,077
Additions	55,282	2,649
Terminated	(139,370)	
Finance cost	8,120	8,547
Revaluation gain/losses	900	-
Payment during the year	(10,858)	(12,243)
At the end of year	**70,104**	**156,030**
Current	17,689	8,177
Non-current	52,415	147,853
	70,104	**156,030**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
26. LEASES (CONTINUED)		
The statement of profit or loss shows the following amounts relating to leases		
(e) GROUP		
Amortisation of right-of-use assets - Note 14 (a)	11,124	10,935
Finance cost – included as interest expense - Note 8(a)	2,282	3,034
Expense relating to short-term leases - Note 13 (a)	968	274
At the end of the year	**14,374**	**14,243**
(f) BANK		
Amortisation of right-of-use assets - Note 14 (b)	13,336	13,146
Finance cost – included as interest expense - Note 8(b)	8,120	8,547
Expense relating to short-term leases - Note 13 (b)	968	274
At the end of the year	**22,424**	**21,967**

All leases relate to building properties used as office, branch or ATM outlets. Total cash flow for leases in 2020 for Group and Bank amounted to TZS 10,858 million (2019:TZS 12,243 million). There was no acquisition of right-of-use assets during the year.

27. (a) DEFERRED TAX ASSETS (GROUP)

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

	2020 TZS Millions	2019 TZS Millions
At start of year	76,788	62,132
(Debit)/credit to profit or loss:		
In respect to current year (Note 15(a))	9,972	15,093
In respect of prior year: Under/(Over) provision (Note 15(a))	(1,714)	(365)
Impact of IFRS 9 adoption – to retained earnings	-	-
Credit/(Debit) to OCI		
Current year – charged to OCI	268	(72)
At the end of the year	**85,314**	**76,788**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	1 January TZS Millions	Credited to profit or loss TZS Millions	Credited (Charged) to OCI TZS Millions	Credited to Retained earnings TZS Millions	31 December TZS Millions
27. (a) DEFERRED TAX ASSETS (GROUP) (CONTINUED)					
Year ended 31 December 2020					
Deferred income tax asset					
Property and equipment	9,515	2,959	-	-	12,474
Provisions	68,651	7,848	-	(886)	75,613
Deferred income tax liabilities					
Other temporary differences	(846)	52	-	-	(794)
Deferred tax – prior year	-	(1,715)	-	-	(1,715)
Fair valuation gain – debt instruments	(178)	-	268	-	90
Fair valuation gain– equity instruments	(354)	-	-	-	(354)
	76,788	**9,144**	**268**	**(886)**	**85,314**
Year ended 31 December 2019					
Deferred income tax asset					
Property and equipment	7,673	1,842	-	-	9,515
Provisions	55,571	13,080	-	-	68,651
Deferred income tax liabilities					
Other temporary differences	(652)	(194)	-	-	(846)
Fair valuation gain – debt instruments	(106)	-	(72)	-	(178)
Fair valuation gain– equity instruments	(354)	-	-	-	(354)
	62,132	**14,728**	**(72)**	**-**	**76,788**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
27. (b) DEFERRED TAX ASSETS (BANK)		
Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred income tax account is as follows:		
At start of year	77,084	61,229
Credit/(Debit) to profit or loss:		
In respect to current year (Note 15(b))	9,972	15,076
In respect of prior year: (Under)/Over provision (Note 15(b))	(1,714)	851
Credit/(Debit) to OCI:		
In respect of current year	268	(72)
At the end of the year	**85,610**	**77,084**

Deferred income tax asset and deferred income tax credit to the profit or loss are attributed to the following items:

	1 January TZS Millions	Credited to profit or loss TZS Millions	Credited (Charged) to OCI TZS Millions	31 December TZS Millions
Year ended 31 December 2020				
Deferred income tax asset				
Property and equipment	8,197	1,807	-	10,004
Provisions	68,402	9,325	-	73,305
Other temporary differences	1,017	(1,159)	-	(142)
Deferred tax – prior year	-	(1,715)	-	(1,715)
Fair valuation gain – debt instruments	(178)	-	268	90
Fair valuation gain– equity instruments	(354)	-	-	(354)
	77,084	**8,259**	**268**	**85,610**
Year ended 31 December 2019				
Deferred income tax asset				
Property and equipment	6,356	1,841	-	8,197
Provisions	55,333	13,069	-	68,402
Other temporary differences	-	1,017	-	1,017
Fair valuation gain – debt instruments	(106)	-	(72)	(178)
Fair valuation gain– equity instruments	(354)	-	-	(354)
	61,229	**15,927**	**(72)**	**77,084**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
28. DEPOSITS FROM CUSTOMERS		
(a) GROUP		
Deposits due to customers are composed of the following;		
Current accounts	1,956,663	1,886,794
Personal accounts	2,506,956	2,249,390
Time deposit accounts	861,831	780,367
	5,325,450	**4,916,551**
Current	4,631,371	4,302,295
Non-current	694,079	614,256
	5,325,450	**4,916,551**
(b) BANK		
Current accounts	1,956,668	1,892,521
Personal accounts	2,506,956	2,249,390
Time deposit accounts	861,831	780,367
	5,325,455	**4,922,278**
Current	4,631,376	4,308,022
Non-current	694,079	614,256
	5,325,455	**4,922,278**

	2020 TZS Millions	2019 TZS Millions
29. DEPOSITS DUE TO OTHER BANKS (GROUP AND BANK)		
(GROUP AND BANK)		
Deposits from other banks	131,224	33,446
Current	131,224	33,446

	2020 TZS Millions	2019 TZS Millions
30. OTHER LIABILITIES		
(a) GROUP		
Accrued expenses	36,682	33,355
Bills payable	2,118	2,133
Deferred processing fees	34,809	30,974
Sundry liabilities	43,196	35,280
Impairment provision for off-balance sheet items (Note 6.1.5(e))	74	6,562
Total	**116,879**	**108,304**
Non-Current	112,510	105,042
Current	4,370	3,262

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
30. OTHER LIABILITIES (CONTINUED)		
(b) BANK		
Accrued expenses	36,683	33,355
Bills payable	2,118	2,133
Deferred processing fees	34,809	30,974
Sundry liabilities	77,794	33,872
Impairment provision for off-balance sheet items (Note 6.1.5(e))	74	6,562
	116,669	**106,896**
Non-Current	30,439	27,712
Current	86,230	79,184

	2020 TZS Millions	2019 TZS Millions
31 . PROVISIONS		
(GROUP AND BANK)		
Provision for losses from legal cases	971	2,230
Movement in provision		
At the start of year	2,230	3,519
Released during the year	(1,259)	(1,289)
At end of year	**971**	**2,230**

The amounts represent provision for certain legal claims brought against the Bank by third parties in the course of business. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided as at 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
32. BORROWINGS		
(b) BANK		
Borrowings:		
- EIB Loan (i)	6,889	18,130
- FMO Loan (ii)	39,593	66,729
- Triodos (iii)	16,999	28,332
- NMB Bond (iv)	83,349	106,745
- TMRC (v	11,700	11,700
- IFC (vi)	90,758	40,267
Accrued interest	3,427	4,542
	252,715	**276,445**
Current	93,780	119,902
Non-current	158,935	156,543
	252,715	**276,445**

As at 31 December 2020, the Group had no borrowing at default.

(i) European Investment Bank (EIB) loan

As at 31 December 2020, the Bank had a borrowing balance from EIB of TZS 6,889 million (2019: TZS 14,293 million) being accumulation of TZS loans payable semi-annually within four to seven years at effective interest rate of 8.43% (2019: 8.51%). In addition, as at 31 December 2020, the Bank had a borrowing balance from EIB of USD 636,170 (2019: USD 1.7 million) equivalent to TZS 1,372 million (2019: TZS 3,837 million) being accumulation of various USD loans payable over a period of four to seven years at a fixed interest rate. The effective interest rate of the loan during the year was 3.42% (2019: 3.25%). The loans were taken for the purpose of better Assets Liability management. The loans are unsecured.

As at 31 December 2020, the Bank was compliant with all the lender's covenants.

(ii) Financierings-Maatschappij voor Ontwikkelingslanden N.V (FMO) loan

In 2015, the Bank obtained additional unsecured loan of USD 35 million repayable semi-annually within five to six years and carries a floating rate based on six months LIBOR rate. The effective interest rate was 4.49%, during the year. The outstanding balance as at 31 December 2020 was USD 7.06 million equivalent to TZS 16,442 million (2019: USD 14 million equivalent to TZS 32,214 million).

Moreover in 2019, the bank drew down tranche 2 of the 2015 contract amounting to USD 25 Million repayable semi-annually within five to six years and carries a floating rate based on six months LIBOR rate. The effective interest rate was 4.49%, during the year. The outstanding balance as at 31 December 2020 was USD 10.09 million equivalent to TZS 23,151 million (2019: USD 15 million equivalent to TZS 34,515 million).

As at 31 December 2020, the Bank was compliant with all the lender's covenants.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

32. BORROWINGS (GROUP AND BANK) (CONTINUED)

(iii) Triodos B.V.

In 2019, the Bank borrowed from Triodos an amount of TZS 28.3 billion repayable semi-annually from the year 2020 and carrying a fixed rate. The effective interest rate is 14.4%. The loan was taken for the purpose of better Assets Liability management. The loan is unsecured. As at 31 December 2020 the balance was TZS 16,999 million (2019: TZS 28,332 million).

As at 31 December 2020, the Bank was compliant with all the lender's covenants.

(iv) NMB Bond

Retail Bond

On 10 June 2019, the Bank issued the third tranche of this program. The Bank issued a TZS 25 billion 3-year bond targeted towards the retail investor segment; offering a gross coupon rate of 10% and issued at par. The coupon on the bond is paid quarterly. The offer period closed on 08 July 2019 with market demand exceeding expectations. The bond was oversubscribed by 233% with the Bank receiving applications from investors amounting to TZS 83.3 billion.

Corporate Bond

On 28 December 2017 and 29 December 2017, the Bank issued the second tranche of the Medium-Term Note (MTN) program amounting TZS 17,096 million and TZS 5 billion respectively via a private placement. The issue was targeted towards corporate investors at a gross coupon rate of 13.5% for a period of 3 years. This facility was not rolled over and was paid off on 28 December 2020.

The bonds are unsecured and are tradable on the Dar es Salaam Stock Exchange (DSE).

The proceeds of the bond issue will be used for on-lending to the Bank's customers who include individuals, micro, small and medium sized enterprises as well as large corporate and Government institutions.

As at 31 December 2020, TZS 53,155 million on the MTN program was not issued by the Bank. Subsequent tranches will be issued as and when the Bank requires and when market conditions are conducive.

The issuance of the bonds is part of the Bank's strategy to diversify its funding sources.

(v) Tanzania Mortgage Refinance Company Limited

At the end of 2017, the Bank had borrowed from Tanzania Mortgage Refinance Company Limited (TMRC) a renewable loan of TZS 1.7 billion maturing in 48 months and carries a fixed rate of 11.5% p.a. The loan is secured by specific debenture over the portfolio of mortgage loans covering at least 125% of the loan amount.

In 2019, the Bank secured an additional TZS 5 billion loan with a 3-year tenor at a fixed interest rate of 11.5%. The loan is secured by a portfolio of treasury bonds with a coverage ratio of at least 105.3% and minimum remaining tenor of 3 years from the date of disbursement.

The loans were taken to re-finance a portfolio of mortgage loans. The effective interest rate of the loans is 11.5%.

As at 31 December 2020 the balance was TZS 11.7 billion (2019: TZS 11.7 billion).

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

32. BORROWINGS (GROUP AND BANK) (CONTINUED)

(vi) International Finance Corporation (IFC)

In 2018, the Bank obtained a short-term loan from IFC amounting to USD 17.5 million repayable in 2020 in one bullet and carries a floating rate based on three months LIBOR rate. The effective interest rate during the year was 4.1%. The loan was taken to better Assets Liability management. The loan is unsecured. In 2019, the loan was renewed. As at 31 December 2020 the balance was USD 17.5 million equivalent to TZS 40,758 million (2019: USD 17.5 million equivalent to TZS 40,267 million).

During the year, the Bank obtained additional unsecured loan of TZS 50 Billion repayable semi-annually within five to six years and carries a fixed rate. The effective interest rate was 10.5%, during the year. The outstanding balance as at 31 December 2020 was TZS 50 billion.

As at 31 December 2020, the Bank was compliant with all the lenders covenants.

Movement of borrowings during the year was as follows:

	2020 TZS Millions	*2019 TZS Millions*
At 1 January	*276,445*	*301,388*
Accrued interest	*31,664*	*33,916*
Additions	*50,000*	*88,349*
Interest paid	*(32,582)*	*(33,782)*
Principal payment	*(73,857)*	*(113,426)*
Foreign exchange loss	*1,045*	-
At 31 December	***252,715***	***276,445***

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

33 SUBORDINATED DEBT (GROUP AND BANK)

In 2019, the Bank borrowed an amount of TZS 68,190 million from International Finance Corporation (IFC). The loan is repayable semi-annually after lapse of 5 years grace period and carries a fixed rate. The loan was taken to improve the Tier II capital of the Bank. The loan is unsecured. As at 31 December 2020 the balance was TZS 71,025 million.

As at 31 December 2020, the Bank was compliant with all the lender's covenants.

	2020 TZS Millions	*2019 TZS Millions*
Principal	*68,190*	*301,388*
Accrued interest	*2,835*	*33,916*
	71,025	***70,998***
Current	*2,835*	*2,808*
Non-current	*68,190*	*68,190*
Movement of subordinated loan during the year was as follows:		
At 1 January	*70,998*	*70,972*
Interest expense	*9,696*	*9,669*
Interest paid	*(9,669)*	*(9,643)*
At 31 December	***71,025***	***70,998***

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	2020 TZS Millions	2019 TZS Millions
34. (a) NET DEBT RECONCILIATION		
(GROUP)		
The analysis and movement of the Group net debt is as follows;		
Cash and cash equivalents (Note 36)	907,029	1,232,544
Borrowings repayable within one year	(93,780)	(119,902)
Borrowings repayable after one year	(158,935)	(156,543)
Lease liabilities due after 1 year	(16,160)	(19,808)
Lease liabilities due within 1 year	(12,767)	(8,177)
Net debt	**625,387**	**928,114**
Cash and cash equivalents (Note 36)	907,029	1,213,370
Gross debt – fixed interest rate	(163,658)	(267,188)
Gross debt – variable interest rate	(117,984)	(108,261)
Net debt	**625,387**	**928,114**

	Assets	Liabilities from financing activities		
	Cash and cash equivalents TZS Millions	Borrowings TZS Millions	Lease liabilities TZS Millions	Total TZS Millions
At 1 January 2020	1,232,544	(347,443)	(27,985)	837,921
Acquisition of lease – IFRS 16 adoption adjustment	-	-	-	-
Cash flows – principal	(313,571)	23,857	(3,247)	(342,632)
Net movement in accrued interest	-	(154)	(2,282)	(2,436)
Gain on termination of lease	-	-	4,490	4,490
Foreign exchange adjustment	(11,944)	-	(97)	(11,944)
At 31 December 2020	**907,029**	**(323,740)**	**(28,927)**	**(485,517)**
At 1 January 2019	861,888	(372,360)	-	470,354
Acquisition of lease – IFRS 16 adoption adjustment	-	-	(37,251)	(37,251)
Cash flows – principal	370,716	25,077	12,398	408,191
Net movement in accrued interest	-	(160)	(3,153)	(3,313)
Foreign exchange adjustment	(60)	-	-	(60)
At 31 December 2019	**1,232,544**	**(347,443)**	**(27,985)**	**837,921**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
34. (b) NET DEBT RECONCILIATION		
(BANK)		
The analysis and movement of the Group net debt is as follows;		
Cash and cash equivalents (Note 36)	907,029	1,232,544
Borrowings repayable within one year	(93,780)	(119,902)
Borrowings repayable after one year	(158,935)	(156,543)
Lease liabilities due after 1 year	(57,336)	(147,853)
Lease liabilities due within 1 year	(12,767)	(8,177)
Net debt	**584,211**	**800,069**
Cash and cash equivalents (Note 36)	907,029	1,232,544
Gross debt – fixed interest rate	(192,585)	(324,214)
Gross debt – variable interest rate	(130,233)	(108,261)
Net debt	**584,211**	**800,069**

	Assets	Liabilities from financing activities		
	Cash and cash equivalents TZS Millions	Borrowings TZS Millions	Lease liabilities TZS Millions	Total TZS Millions
At 1 January 2020	1,213,370	(347,443)	(156,030)	709,897
Acquisition of lease – IFRS 16 adoption adjustment	-	-	-	-
Cash flows – principal	(363,242)	23,857	(44,424)	(383,809)
Net movement in accrued interest	-	(154)	(8,120)	(8,274)
Termination of lease	-	-	139,370	139,370
Foreign exchange adjustment	(11,944)	-	(900)	(12,844)
Net debt	**838,184**	**(323,740)**	**70,104**	**444,340**
At 1 January 2019	842,714	(372,360)	-	470,354
Acquisition of lease – IFRS 16 adoption adjustment	-	-	(159,762)	(159,762)
Cash flows – principal	370,716	25,077	12,398	408,191
Net movement in accrued interest	-	(160)	(8,666)	(8,826)
Foreign exchange adjustment	(60)	-	-	(60)
Net debt	**1,213,370**	**(347,443)**	**(156,030)**	**709,897**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
35. CAPITAL AND RESERVES		
(i) Share capital		
Authorised 625,000,000 ordinary shares of TZS 40 each	25,000	25,000
Called up and fully paid 500,000,000 ordinary shares of TZS 40 each	20,000	20,000

(ii) Retained earnings

Retained earnings consist of undistributed profits from previous years.

(iii) General banking risk reserve

General banking risk reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of the Bank of Tanzania. This reserve is not available for distribution.

(iv) Fair valuation reserve

The reserve is made up of fair valuation of financial assets and liabilities.

This reserve is not available for distribution to shareholders.

	2020 TZS Millions	2019 TZS Millions
Movement in fair valuation reserve is as follows:		
At 1 January		
- As previously stated	1,049	881
- Fair valuation adjustments due to IFRS 9 adoption	-	-
- Deferred tax adjustment due to IFRS 9 adoption	-	-
- As stated after IFRS 9 adoption	1,049	881
Fair valuation gain	(525)	240
Deferred tax on fair valuation gain	268	(72)
	(257)	168
At 31 December	**792**	**1,049**

There was no reclassification adjustment made in respect to components of other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	2020 TZS Millions	2019 TZS Millions
36 . CASH AND CASH EQUIVALENTS		
(GROUP AND BANK)		
Cash and balances with Bank of Tanzania (Note 18)	1,047,488	1,341,140
Less: Statutory Minimum Reserves (Note 18)	(328,018)	(392,096)
Placement and balances with other banks (Note 19)	170,829	264,326
Balances with Mobile network operators	16,730	19,174
	907,029	**1,232,544**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition including: cash and balances with Bank of Tanzania and Placement with other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Tanzania.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	Note	2020 TZS Millions	2019 TZS Millions
37 . NOTES TO THE STATEMENT OF CASH FLOWS			
(a) GROUP			
Operating activities			
Profit before tax		301,280	215,861
Adjustment for:			
Depreciation and amortization	14	68,308	73,367
Profit on disposal of property and equipment	11	(159)	(131)
Realised gain on government security available for sale - FVOCI		(3,017)	(1,100)
Gain on termination of lease liability		(938)	-
Foreign exchange gain on leases liability		(97)	-
Interest income from government security available for sale	21(b)	(3,828)	(1,617)
Interest expense on lease	8	(2,282)	3,034
Interest expense on borrowings	8	32,736	33,942
Effect of movement in foreign exchange		11,944	60
		408,421	**323,416**
Movement in operating assets:			
- Statutory Minimum Reserve		64,078	10,003
- Loans and advances to customers		(518,783)	(348,605)
- Other assets		16,353	(18,559)
- Deposits from customers		408,899	601,331
- Deposits due to other banks		97,778	12,676
- Other liabilities		8,574	1,147
- Provisions	31	(1,259)	(1,289)
Other operating activities			
- Proceeds from government securities		560,401	641,480
- Investment in government securities		(1,096,690)	(659,892)
Cash generated (used in)/from operations		**(52,229)**	**561,708**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	Note	2020 TZS Millions	2019 TZS Millions
37. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)			
(b) BANK			
Operating activities			
Profit before tax		295,743	211,088
Adjustment for:			
Depreciation and amortization	14	68,550	73,608
Profit on disposal of property and equipment	11	(159)	(131)
Realised gain on government security available for sale - FVOCI	21(b)	(3,017)	(1,100)
Gain on termination of lease liability		(5,267)	-
Foreign exchange gain on leases liability		(97)	-
Interest income from government security available for sale	21(b)	(3,828)	(1,617)
Interest expense on lease	8	8,120	8,547
Interest expense on borrowings	8	32,736	33,942
Foreign exchange loss on leases liability		900	-
Effect of movement in foreign exchange		11,944	60
		405,632	**324,398**
Movement in operating assets:			
- Statutory Minimum Reserve		64,078	10,003
- Loans and advances to customers		(513,572)	(343,894)
- Other assets		17,399	(33,179)
- Deposits from customers		403,177	594,671
- Deposits due to other banks		97,778	12,676
- Other liabilities		9,773	13,221
- Provisions	31	(1,259)	(1,289)
Other operating activities			
- Proceeds from government securities		560,401	641,480
- Investment in government securities		(1,096,690)	(659,892)
Cash generated from operations		**(53,283)**	**558,195**

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	Amortised Cost TZS Millions	Fair Value through OCI TZS Millions	Total TZS Millions
38. (a) FINANCIAL INSTRUMENTS BY CATEGORY (GROUP)			
As at 31 December 2020			
Financial assets			
Cash and balances with Bank of Tanzania	1,047,488	-	1,047,488
Investment securities – at amortised cost	1,275,291	-	1,275,291
Investment securities – FVOCI	-	28,962	28,962
Placement and balances with other banks	170,829	-	170,829
Loans and advances to customers	4,108,789	-	4,108,789
Equity investments	-	2,920	2,920
Other assets (excluding non-financial assets) *	47,767	-	47,945
	6,650,342	**31,882**	**6,682,224**
As at 31 December 2019			
Financial assets			
Cash and balances with Bank of Tanzania	1,341,140	-	1,341,140
Investment securities – at amortised cost	744,527	-	744,527
Investment securities – FVOCI	-	17,027	17,027
Placement and balances with other banks	264,326	-	264,326
Loans and advances to customers	3,590,006	-	3,590,006
Equity investments	-	2,920	2,920
Other assets (excluding non-financial assets) *	51,350	-	51,350
	5,991,349	**19,947**	**6,011,296**

	2020 TZS Millions	2019 TZS Millions
Financial liabilities at amortised cost		
Deposits from customers	5,325,450	4,916,551
Deposits from banks	131,224	33,446
Borrowings	252,715	276,446
Subordinated debt	71,025	70,998
Lease liabilities	28,927	28,006
Other liabilities (excluding non-financial other liabilities) **	60,226	96,116
	5,869,567	**5,421,563**

**Prepayments, inventory, provision for other assets and stationery are excluded from other assets balance, as this analysis is for financial instruments only.*

***Non-financial liabilities such as provision and statutory liabilities are excluded from other liabilities balance, as this analysis is for financial instruments only.*

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

	Amortised Cost TZS Millions	Fair Value through OCI TZS Millions	Total TZS Millions
38. (b) FINANCIAL INSTRUMENTS BY CATEGORY (BANK)			
As at 31 December 2020			
Financial assets			
Cash and balances with Bank of Tanzania	1,047,488	-	1,047,488
Investment securities – at amortised cost	1,275,291	-	1,275,291
Investment securities – FVOCI	-	28,962	28,962
Placement and balances with other banks	170,829	-	170,829
Loans and advances to customers	4,109,260	-	4,109,260
Equity investments	-	2,920	2,920
Other assets (excluding non-financial assets) *	43,227	-	43,227
	6,646,095	**31,882**	**6,677,977**
As at 31 December 2019			
Financial assets			
Cash and balances with Bank of Tanzania	1,341,140	-	1,341,140
Investment securities – at amortised cost	744,527	-	744,527
Investment securities – FVOCI	-	17,027	17,027
Placement and balances with other banks	264,326	-	264,326
Loans and advances to customers	3,595,688	-	3,595,688
Equity investments	-	2,920	2,920
Other assets (excluding non-financial assets) *	47,762	-	47,762
	5,993,443	**19,947**	**6,013,390**

	2020 TZS Millions	2019 TZS Millions
Financial liabilities at amortised cost		
Deposits from customers	5,325,455	4,922,278
Deposits from banks	131,224	33,446
Borrowings	252,715	276,446
Subordinated debt	71,025	70,998
Lease liabilities	70,104	156,030
Other liabilities (excluding non-financial other liabilities) **	60,226	96,116
	5,910,750	**5,555,314**

**Prepayments, inventory, provision for other assets and stationery are excluded from other assets balance, as this analysis is for financial instruments only.*

***Non-financial liabilities such as provision and statutory liabilities are excluded from other liabilities balance, as this analysis is for financial instruments only.*

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

39 CONTINGENT LIABILITIES AND COMMITMENTS (GROUP AND BANK)

(a) Loan commitments guarantee and other financial facilities

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

As at 31 December 2020, the Bank had the contractual amounts of off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities, as follows: -

	2020 TZS Millions	2019 TZS Millions
Commitments		
Guarantees and Indemnities	238,671	202,752
Undrawn Commitments	120,065	113,934
Acceptances and letters of credit	266,145	335,968
	624,881	**652,654**

Acceptances and letters of credit

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

(b) Legal claims

Some previous loan customers and ex-employees are suing the Bank for various reasons. With the exception of amounts disclosed in Note 31, the amounts claimed in both situations are not material and professional advice indicates that it is unlikely that any significant loss will arise.

(c) Capital commitments

As at 31 December 2020, the Bank had capital commitments of TZS 36,280 million (2019: TZS 14,218 million) in respect of new branches, branch remodeling, equipment and information technology. The expenditure contracted as at the end of reporting period but not yet incurred is as follows:

	2020 TZS Millions	2019 TZS Millions
Information technology	26,244	10,223
Branch and business centres remodeling	4,449	1,107
Others including equipment, vehicles and furniture	5,587	2,888
	36,280	**14,218**

The Bank's management is confident that future net revenues and funding will be sufficient to cover these commitments.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

39 CONTINGENT LIABILITIES AND COMMITMENTS (GROUP AND BANK) (CONTINUED)

(d) Lease commitments

As at 31 December 2020, the Group and Bank had short term lease commitments of TZS 171 millions (2019: TZS 189 million).

40 EFFECTIVE INTEREST RATES OF FINANCIAL ASSETS AND LIABILITIES (GROUP AND BANK)

The effective interest rates for the principal financial assets and liabilities at 31 December 2020 were as follows:

	2020 %	*2019 %*
Government securities	*8.40*	*12.63*
Deposits with banking institutions	*1.33*	*1.20*
Loans and advances to customers	*14.69*	*15.51*
Customer deposits	*2.00*	*1.91*
Deposits from banks	*0.13*	*0.07*
Borrowings	*10.11*	*9.77*

41 RELATED PARTY TRANSACTIONS AND BALANCES

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions.

The volumes of related party transactions, outstanding balances at year-end, and related expense and income for the year are as follows:

(a) Loans and advances to related parties

At 31 December 2020 there were no loans issued to companies controlled by the Directors or their families. Advances to customers at 31 December 2020 include loans to key management personnel and related entities as follows:

GROUP

Key management personnel	*2020 TZS Millions*	*2019 TZS Millions*
At start of year	*2,363*	*1,287*
Advanced during the year	*6,225*	*2,703*
Repaid during the year	*(5,467)*	*(1,627)*
At end of year	***3,121***	***2,363***
Interest income earned	*231*	*214*

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41 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(a) Loans and advances to related parties (continued)

	Key management personnel		*Related companies*	
	2020 TZS Millions	*2019 TZS Millions*	*2020 TZS Millions*	*2019 TZS Millions*
BANK				
At start of year	*2,363*	*1,287*	*5,682*	*10,590*
Advanced during the year	*6,225*	*2,703*	*-*	*-*
Repaid during the year	*(5,467)*	*(1,627)*	*(5,211)*	*(4,908)*
At end of year	***3,121***	***2,363***	***471***	***5,682***
Interest income earned	*231*	*214*	*329*	*778*

Provision recognized in respect of loans given by the Group and Bank to key management personnel amounted to TZS 3,121 million (2019: TZS 2,363 million). Mortgage loans issued to key management were secured and the rest were unsecured. These loans carry off-market interest rates ranging between 5% and 9%. As at 31 December 2020, the Group and Bank held collateral valued at TZS 1,890 million (2019: TZS 1,323 million).

The Bank had advanced loans of USD 12.3 million (2015: USD 7.3 million and 2013: USD 5 million) to its subsidiary Upanga Joint Venture Company Limited (UJVC) to meet costs of construction of its headquarters. The loan is repayable in 84 months and attracts a fixed interest rate of 8% p.a. (for the first three years) and floating rate at six months LIBOR + 7.5% p.a. from year four to the last year of the facility. As at the year-end, outstanding loan balance was TZS 471 million equivalent to USD 0.2 million (2019: TZS 5,682 million equivalent to USD 2.5 million). As at 31 December 2020, the Bank held no provision (2019: TZS 137 million) against this loan. The loan is secured by a landed property collateral valued at TZS 59,840 million.

(b) Deposits from related parties

	Directors and key Management personnel	
	2020 %	*2019 %*
GROUP		
Deposits at the beginning of the year	*556*	*273*
Deposits received during the year	*4,766*	*5,575*
Deposits repaid during the year	*(4,991)*	*(5,292)*
Borrowings	*10.11*	*9.77*
Deposits as at the end of the year	***331***	***556***
Interest expense	*7*	*5*

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

41 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Deposits from related parties (continued)

	Directors and key Management personnel		*Related companies*	
	2020 TZS Millions	*2019 TZS Millions*	*2020 TZS Millions*	*2019 TZS Millions*
BANK				
Deposits at the beginning of the year	*556*	*273*	*5,760*	*12,489*
Deposits received during the year	*4,766*	*5,575*	*-*	*1,558*
Deposits repaid during the year	*(4,991)*	*(5,292)*	*(5,755)*	*(8,287)*
Deposits as at the end of the year	***331***	***556***	***5***	***5,760***
Interest expense	*7*	*5*	*-*	*-*

The above deposits are unsecured, carry variable interest rate and are repayable on demand. Related companies included in this disclosure is Upanga Joint Venture Company Limited.

(c) Transactions and balances with Rabobank (GROUP AND BANK)

Based on the management service contract approved by the Board, a total of TZS 256 million (2019: TZS 2,707 million) was paid to Rabobank during the year as management and technical assistance expenses. Management fees payable as at year-end was TZS 495 million (2019: TZS 781 million).

Nostro balances with Rabobank at year-end amounted to TZS 9,673 million (2019: TZS 66,103 million). There was no inter-bank balance due to Rabobank as at year-end. The Bank did not incur any expenses which were refundable from Rabobank (2019: TZS 505 million).

(d) Transactions and balances with Upanga Joint Venture (BANK)

During the year, the Bank incurred operating lease expenses amounting to TZS 6 billion (2019: TZS 6 billion) to Upanga Joint Venture Limited. As at 31 December 2020, the Bank had no prepaid rent (2019: TZS 5,977 million).

(e) Key management compensation

(GROUP AND BANK)

	2020 TZS Millions	*2019 TZS Millions*
Salaries and other short-term benefits	*5,248*	*3,975*
Post-employment benefits - defined contribution plan	*507*	*124*
	5,755	***4,099***

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41 RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(e) Key management compensation (continued)

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The compensation made to expatriates from Rabobank is included in the management service contract highlighted in part (e) below and therefore excluded in the above benefits.

(f) Transactions and balances with Government of Tanzania (GROUP AND BANK)

The Government of Tanzania owns 31.8% (2019: 31.8%) equity in the Bank and has significant influence. The Bank invested in government securities during the year and at the year-end the amount receivable from the Government of Tanzania in the form of treasury bills and bonds amounted to TZS 1,304,253 million (2019: TZS 761,554 million). Interest earned from investment in government securities during the year was TZS 107,144 million (2019: TZS 94,067 million), Service fee earned from the government due to transactional services performed amounted to TZS 9,707 million (2019:TZS 7,078 million). The Bank also accepts deposits from various Government institutions and agencies, which do not attract interest.

(g) Directors' remuneration (GROUP AND BANK)

Fees and other emoluments paid to Directors of the Bank during the period amounted to TZS 316 million (2019: TZS 254 million). Details of payment to individual directors will be tabled at the annual general meeting.

DIRECTORS	*Board (9)*	*BARCC (10)*	*BCC (14)*	*BHR&RC (4)*	*BEC (4)*	*Directors' Remuneration*
Dr. Edwin P. Mhede	5	n/a	n/a	n/a	2	*25,355,962*
Juma Kisaame	6	3	n/a	n/a	1	16,693,808
George Mandepo	7	n/a	10	3	1	*36,613,966*
Margaret Ikongo	9	n/a	14	4	4	*45,307,185*
Mathias Magwanya	9	10	n/a	n/a	n/a	*37,159,052*
Dr. George Mulamula	9	10	n/a	n/a	n/a	*37,761,738*
Leonard Mususa	9	10	14	n/a	n/a	41,744,504
Christine Glover	9	n/a	13	3	4	*37,366,474*
Hendrik Reisinger	9	n/a	14	4	n/a	*37,435,611*
						315,438,301

42 EVENTS AFTER THE REPORTING PERIOD

There were events after the reporting period that had no material impact to the consolidated and Bank financial statements where by NMB Bank Plc acquired China Commercial Bank Limited which was under Bank of Tanzania admistration.

COMPANY CONTACT INFORMATION

Company Information & Key Contacts

NMB Head Office
Ohio / Ali Hassan Mwinyi Road
P.O. Box 9213, Dar es Salaam
Tel: (General): +255 222322000
Fax: +255 222112148

Wholesale Banking

GOVERNMENT BUSINESS
P.O. Box 9213, Dar es Salaam
Tel: (Direct): +255 22 2161157
Tel: (General): +255 22 2127362

INSTITUTIONAL BANKING
P.O. Box 9213, Dar es Salaam
Tel: (General): +255 22 2322000
Fax: +255 22 2112148

TRANSACTIONAL BANKING
P.O. Box 9213, Dar es Salaam
Tel: (General): +255 22 2322000
Fax: +255 22 2112148

CORPORATE BANKING
P.O. Box 9213, Dar es Salaam
Tel: (General): +255 22 2322000
Fax: +255 22 2112148

Retail Banking

BUSINESS BANKING
P.O. Box 9213, Dar es Salaam
Tel: (General): +255 22 2322000
Fax: +255 22 2112148

PERSONAL BANKING
P.O. Box 9213, Dar es Salaam
Tel: (General) : +255 22 2322000
Fax: +255 22 2112148

ALTERNATIVE CHANNELS
P.O. Box 9213, Dar es Salaam
Tel: (General): +255 22 2322000
Fax: +255 22 2112148

FOREIGN EXCHANGE
P.O. Box 9213, Dar es Salaam
Tel: (Direct): +255 22 2322020
Fax: +255 22 2112149

MONEY MARKETS
P.O. Box 9213, Dar es Salaam
Tel: (Direct): +255 22 2322010
Fax: +255 22 2112149

Network Distribution

Region	Branch/Unit	Address	Telephone
DSM Zone	Dar es Salaam	Samora ave/Pamba road	022 2128685/4
Dar es Salaam	Airport	Nyerere road	022-232-4200
Dar es Salaam	Bank House	Samora ave/Pamba road	022-232-4128
Dar es Salaam	Congo Street	Congo street	022-232-4154
Dar es Salaam	Gongo la Mboto	Nyerere Rd	022-232-4160
Dar es Salaam	Ilala	Uhuru road	022-232-4116
Dar es Salaam	Kariakoo	Livingstone St	022-232-4112
Dar es Salaam	Kariakoo Business Center	Mafia/Swahili street	
Dar es Salaam	Kigamboni	Ferry street	022-232-4174
Dar es Salaam	Kurasini	Engaruka	022-232-4166
Dar es Salaam	Magomeni	Morogoro road	022-232-4108
Dar es Salaam	Mandela Road	Mandela Rd, TOT Tabata area	022-232-4157
Dar es Salaam	Mbagala	Kilwa road	022-232-4135
Dar es Salaam	Mbezi	Bagamoyo Road	022-232-4163
Dar es Salaam	Mbezi Louis	Mbezi Louis area opp. Old Morogoro road	022-232-4212
Dar es Salaam	Mlimani City	Sam Nujoma road	022-232-4120
Dar es Salaam	Morogoro Road	Morogoro road/ Mshihiri	022-232-4104
Dar es Salaam	Msasani	Kimweri Avenue	022-232-4190
Dar es Salaam	Muhimbili	Kalenga	022-232-4141
Dar es Salaam	Mwenge	Afrikasana road	022-232-4184
Dar es Salaam	Ohio	Ohio/Ali Hassan Mwinyi	022-232-2726
Dar es Salaam	Oysterbay	Haile Selassie/Ali bin Said road	022-232-4147
Dar es Salaam	Sinza	Shekilango Road/Sinza Mori	022-232-4187
Dar es Salaam	Tandika	Bus stand, Ugweno Street	022-232-4194
Dar es Salaam	Tegeta	Bagamoyo Road	022-232-4132
Dar es Salaam	Temeke	Temeke street/Mbagala road	022-232-4100
Dar es Salaam	TPA Bandari	TPA, Mandela Rd	022-232-4126
Dar es Salaam	Ubungo	Morogoro road	022-232-4203
Dar es Salaam	University	University road	022-232-4168

Region	Branch/Unit	Address	Telephone
Zanzibar			
Mjini Magharibi	Mwanakwerekwe	Mwanakwerekwe street	022-232-4181
Mjini Magharibi	Zanzibar	Darajani	022-232-4207
Kusini Pemba	Chakechake	Msingini	022-232-4144
Eastern Zone	Morogoro	Uhuru street	023 2613511
Morogoro	Gairo	Morogoro Road Gairo area	022-232-4279
Morogoro	Ifakara	Nduna street	022-232-4243
Morogoro	Kilombero	Kidodi	022-232-4240
Morogoro	Kilosa	Jamhuri	022-232-4252
Morogoro	Mahenge	Kilosa Rd	022-232-4246
Morogoro	Malinyi	Madaraka rd - Misegese area near Malinyi DC offices	022-232-4519
Morogoro	Mlimba	Mlimba A, Kituo cha afya road	022-232-4294
Morogoro	Morogoro Business Center	Madaraka street Opp. Morogoro MC building	022-232-4282
Morogoro	Mount Uluguru	Masika area	022-232-4237
Morogoro	Msamvu	LAPF Building /Msamvu Bus Terminal	022-232-4257
Morogoro	Mvomero	Dakawa	022-232-4255
Morogoro	SUA	SUA Main Campus - Administrative area	022-232-4231
Morogoro	Turiani	Madizini	022-232-4249
Morogoro	Wami	Uhuru street	022-232-4231
Pwani	Bagamoyo	Bank street	022-232-4267
Pwani	Chalinze	Chalinze-Dar RD, Chalinze area	022-232-4227
Pwani	Kibaha	Maili moja- mkoani	022-232-4261
Pwani	Kibiti	Lindi-kibiti rd	022-232-4273
Pwani	Kisarawe	Sokoni	022-232-4264
Pwani	Mafia	Kilindoni	022-232-4197
Pwani	Mkuranga	Bank street	022-232-4270
Coast	Mlandizi	Morogoro road, Mlandizi stand	022-232-4276
Central Zone	Dodoma	PSPF building, 18 Jakaya Kikwete rd, adjacent to BOT	026 2322260
Dodoma	Bahi	Mission street/Bahi Distr. Building	022-232-4054
Dodoma	Bunge	Parliament Grounds, Uzunguni	022-232-4009
Dodoma	Chamwino	Chamwino Ikulu/Chamwino Distr. Building	022-232-4051
Dodoma	Dodoma	One Way / Kuu Street	022-232-4060

Region	Branch/Unit	Address	Telephone
Dodoma	Kambarage	PSPF building, 18 Jakaya Kikwete rd, adjacent to BOT	022-232-4072
Dodoma	Kibaigwa	Dodoma Highway	022-232-4018
Dodoma	Kondoa	Chem Chem	022-232-4024
Dodoma	Kongwa	Dodoma Road	022-232-4012
Dodoma	Makole Business Center	Kuu Street / Nyerere rd	022-232-4066
Dodoma	Mazengo	Kuu Street	022-232-4063
Dodoma	Mpwapwa	Post Offfice Area	022-232-4015
Dodoma	UDOM	Nyerere	022-232-4006
Manyara	Babati	Police Line	022-232-4003
Manyara	Haydom	Hydom Old bus stand street	022-232-4033
Manyara	Katesh	Machakos	022-232-4039
Manyara	Kibaya	Bomani	022-232-4021
Manyara	Mbulu	Karatu Road	022-232-4030
Manyara	Mirerani	Kisimani opp police station	022-232-4751
Manyara	Simanjiro	Boma	022-232-4036
Singida	Ikungi	Opp. Ikungi District council's building	022-232-4057
Singida	Itigi	Majengo	022-232-4027
Singida	Kiomboi	Karume/Thomas Mussa	022-232-4048
Singida	Manyoni	Kipondoa Dodoma - Singida Rd	022-232-4045
Singida	Mitundu	Mitundu bus stand	022-232-4029
Singida	Mkalama	Nduguti	022-232-4069
Singida	Singida	Majengo/Karume Road	022-232-4042
Northern Zone	Arusha	Sokoine road/Joel Maeda St	027 2508516
Arusha	Arusha Business Center	Makongoro Road	022-232-4942
Arusha	Arusha Market	Martin Road	022-232-4945
Arusha	Clock Tower	Sokoine road/Joel Maeda Street	022-232-4948
Arusha	Karatu	Ngorongoro Road	022-232-4724
Arusha	Loliondo	Loliondo	022-232-4721
Arusha	Monduli	Boma Road	022-232-4718
Arusha	Mto wa Mbu	Along ngorongoro road/mto wa mbu	022-232-4790
Arusha	Namanga	Eworendeke	022-232-4784
Arusha	Ngaramtoni	Ngaramtoni town - along Namanga/Nairobi rd	022-232-4987
Arusha	Ngarenaro	Sokoine Road	022-232-4990
Arusha	Usa River	Arusha/Himo Road	022-232-4939

Region	Branch/Unit	Address	Telephone
Kilimanjaro	Hai	Moshi/Arusha Road	022-232-4742
Kilimanjaro	Hedaru	Hedaru A	022-232-4762
Kilimanjaro	Himo	Himo/Marangu Road	022-232-4720
Kilimanjaro	Holili	Holili border post - Tanzania & Kenya	022-232-4720
Kilimanjaro	Mawenzi	Rengua	022-232-4963
Kilimanjaro	Mbuyuni	Mbuyuni	022-232-4966
Kilimanjaro	Mwanga	C.D Msuya	022-232-4727
Kilimanjaro	Nelson Mandela	Market	022-232-4776
Kilimanjaro	Rombo	Rombo Mkuu	022-232-4994
Kilimanjaro	Same	Bank/Posta	022-232-4996
Kilimanjaro	Siha	Sanya Juu area	022-232-4748
Kilimanjaro	Tarakea	Moshi/Arusha Road	022-232-4745
Tanga	Bumbuli	Kwemuae, Bumbuli	022-232-4757
Tanga	Handeni	Kondoa Road	022-232-4951
Tanga	Kilindi	Songe	022-232-4954
Tanga	Korogwe	DSM-Arusha Road	022-232-4957
Tanga	Lushoto	Main Road	022-232-4903
Tanga	Madaraka	Market/Clock Tower Street	022-232-4960
Tanga	Mkata	Mkata kwavunde - along highway of Dsm - Tanga	022-232-4763
Tanga	Mkinga	Mkinga District Council offices	022-232-4716
Tanga	Mombo	Lushoto Road	022-232-4900
Tanga	Muheza	Posta	022-232-4981
Tanga	Pangani	Usalama Street	022-232-4736
Highlands Zone	Mbeya	Mbalizi Road	025 2504347
Mbeya	Busokelo	Busokelo district council	025 2552253
Mbeya	Chunya	Mbeya -Tabora	022-232-4325
Mbeya	Kasumulu	Highway road to Malawi/Ngisi str.	022-232-4374
Mbeya	Kyela	Mbondeni A	022-232-4344
Mbeya	Mbalizi Road	Mbalizi Road	022-232-4334
Mbeya	Mbarali	Ihanga	022-232-4322
Mbeya	Mount Loleza	Lupa Way	022-232-4328
Mbeya	Mwanjelwa	Tunduma Road	022-232-4341
Mbeya	Tukuyu	Bomani	022-232-4395
Mbeya	Uyole	Uyole Industrial / Uyole stand	022-232-4359

Region	Branch/Unit	Address	Telephone
Iringa	Ilula	Mtua	022-232-4362
Iringa	Kilolo	Luganga	022-232-4304
Iringa	Mafinga	Mbeya/Songea Road	022-232-4307
Iringa	Mkwawa	Uhuru /Dodoma road	022-232-4300
Iringa	Ruaha	Miomboni	022-232-4389
Katavi	Mlele	Inyonga / Mlele DC	022-232-4353
Katavi	Mpanda	Madukani Road	022-232-4350
Njombe	Ludewa	Kanisa	022-232-4316
Njombe	Makambako	Songea Rd	022-232-4310
Njombe	Makete	Makete Rd	022-232-4319
Njombe	Njombe	Songea Road	022-232-4313
Njombe	Wanging'ombe	Igwachanya	022-232-4378
Rukwa	Kalambo	Kalambo District council	022-232-4356
Rukwa	Laela	Nkusa - sumbawanga to mbeya road	022-232-4380
Rukwa	Nkasi	Soko Kuu	022-232-4368
Rukwa	Sumbawanga	Mbeya Road	022-232-4392
Songwe	Ileje	Rungwa 'A'	022-232-4371
Songwe	Mbozi	Independence	022-232-4383
Songwe	Mkwajuni	Mwambani road - Kona ya mbeya	022-232-4386
Songwe	Mlowo	Tunduma Rd, Mlowo centre	022-232-4365
Songwe	Tunduma	Zambia Road	022-232-4398
Songwe	Usongwe	Tunduma road	022-232-4347
Lake Zone	Mwanza	Kenyatta Road	028 2500867
Mwanza	Buzuruga	Musoma rd	022-232-4440
Mwanza	Igoma	Musoma rd / Kwa Gachuma	022-232-4555
Mwanza	Ilemela	Ardhi street at Ilemela DC offices	022-232-4552
Mwanza	Kenyatta Road	Kenyatta Road	022-232-4513
Mwanza	Magu	Bank Street	022-232-4523
Mwanza	Misungwi	Shinyanga Road	022-232-4526
Mwanza	Mwanza Business Center	Kenyatta Road	022-232-4455
Mwanza	Nansio	Boma Road	022-232-4529
Mwanza	Ngudu	Kakola	022-232-4532
Mwanza	Pamba	Pamba road	022-232-4466
Mwanza	Rock City	Ghana street/Airport road	022-232-4469
Mwanza	Sengerema	Bank Street	022-232-4540

Region	Branch/Unit	Address	Telephone
Geita	Chato	Bukoba road	022-232-4443
Geita	Geita	Street Bank	022-232-4510
Geita	Katoro	Stamico street	022-232-4480
Geita	Nyang'hwale	Kharumwa Msalala -Butalanda str.	022-232-4431
Kagera	Biharamulo	Mankorongo	022-232-4543
Kagera	Kabanga	Nzaza, TRA Burundi border	022-232-4558
Kagera	Kaitaba	Junction of Uganda/Jamhuri road	022-232-4546
Kagera	Kayanga	Bomani	022-232-4445
Kagera	Kyerwa	Kyerwa District council	022-232-4433
Kagera	Misenyi	Kyaka	022-232-4498
Kagera	Mtukula	Mtukula TRA building / border	022-232-4434
Kagera	Muleba	Nyerere	022-232-4451
Kagera	Ngara	Nyerere Road	022-232-4549
Kagera	Nkwenda	Nkwenda/ kaisho road	022-232-4492
Kagera	Rusumo	Kagera / Rwanda border	022-232-4483
Mara	Bunda	Bank St	022-232-4501
Mara	Butiama	Muhunda Street	022-232-4437
Mara	Mugumu	Bomani	022-232-4448
Mara	Musoma	Gandhi/Mukendo/Kusaga Street	022-232-4504
Mara	Nyamongo	Bom gate	022-232-4460
Mara	Old Musoma	Nyerere Road	022-232-4463
Mara	Rorya	Shirati	022-232-4495
Mara	Rorya District Council	Ingri juu	022-232-4477
Mara	Sirari	Forodhani, border of Tanzania -Kenya	022-232-4489
Mara	Tarime	Bank Street	022-232-4507
Western Zone	Tabora	Jamhuri	026 2606424
Tabora	Igunga	Bank	022-232-4618
Tabora	Kaliua	Ushokora, Kigoma highway	022-232-4609
Tabora	Mihayo	Jamhuri	022-232-4651
Tabora	Nkinga	Nkinga bus stand	022-232-4666
Tabora	Nzega	Bank st	022-232-4645
Tabora	Sikonge	Police Line Mbeya -Tabora Rd	022-232-4654
Tabora	Urambo	Boma Village	022-232-4657
Kigoma	Kakonko	Kanyomvi Road	022-232-4621
Kigoma	Kasulu	Kigoma Road	022-232-4606

Region	Branch/Unit	Address	Telephone
Kigoma	Kibondo	Boma	022-232-4624
Kigoma	Kigoma	Kigoma	022-232-4612
Kigoma	Uvinza	Lugufu - at Uvinza DC buildings	022-232-4648
Shinyanga	Kahama	Lumelezi	022-232-4603
Shinyanga	Kahama Business Center	Nyasubi area along Isaka road	022-232-4663
Shinyanga	Kishapu	Mwasele "B"	022-232-4627
Shinyanga	Maganzo	Masagala	022-232-4642
Shinyanga	Manonga	Uhuru	022-232-4630
Shinyanga	Mwadui	Sekoture	022-232-4636
Shinyanga	Mwanhuzi	Bank	022-232-4639
Simiyu	Bariadi	Bank	022-232-4615
Simiyu	Itilima	Itilima District Council's building	022-232-4660
Simiyu	Maswa	Uhuru	022-232-4633
Simiyu	Busega	Main road of Mwanza-Musoma	022-232-4523
Southern Zone	Mtwara	Tanu road	023 2334020
Mtwara	Masasi	Masasi Road	022-232-4809
Mtwara	Mtwara	Vigaeni / Sinani - PPF Plaza	022-232-4800
Mtwara	Mtwara Business Center	Tanu road	022-232-4851
Mtwara	Nanyumbu	Kilimani Hewa	022-232-4812
Mtwara	Newala	Nangwala	022-232-4803
Mtwara	Tandahimba	Mji Mpya	022-232-4806
Lindi	Kilwa Masoko	Kilwa Road	022-232-4821
Lindi	Lindi	Bima Street	022-232-4818
Lindi	Liwale	Nachingwea Road	022-232-4824
Lindi	Nachingwea	Government Road	022-232-4830
Lindi	Ndanda	Masasi Road	022-232-4815
Lindi	Ruangwa	Bomani	022-232-4827
Ruvuma	Litembo	RC Mission	022-232-4843
Ruvuma	Madaba	Mkwera- Mtepa	022-232-4854
Ruvuma	Mbinga	Nyerere road	022-232-4845
Ruvuma	Namtumbo	Tunduru Rd	022-232-4839
Ruvuma	Nyasa	Likwilu str. near DC office	022-232-4848
Ruvuma	Songea	Sokoine/Market	022-232-4833
Ruvuma	Tunduru	Masasi - Songea Road	022-232-4836

Close to you

NMB Bank Plc.

Head Office
Ohio/Ali Hassan Mwinyi Road
P.O. Box 9213, Dar es Salaam
Tel: (General) +255 22 232 2000
Fax: +255 22 211 2148

www.nmbbank.co.tz