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Directors: Mr. Wilson N. Ndesanjo
Mr. Arthur N. Shoo
Mrs. Aginatha F. Rutazaa
Mrs. Elizabeth M. Minde
Mrs. Ndenengo E. Mwendé**
Mr. Abel M. Mrema
Mrs. Janet D. Mmari
Dr. Heavenlight Kavishe
**Retired on 28th August, 2020

General Manager: Mrs. Angela Moshi (Up to 30th June, 2020)
Mr. Samwel Wado (from 01st July 2020)

Company Secretary: Mr. Ibrahim A. Komu
P. O. Box 7811
Moshi
Tanzania

Independent Auditors: Mhasibu Consultants
P. O. Box 78047
Dar es Salaam

Bankers: Bank of Tanzania
Exim Bank Tanzania Limited
CRDB Bank - Moshi Branch
Absa Bank

Registered Office: ELCT ND Building
Market Street
P. O. Box 7811
Moshi
Tanzania

Contacts: Telephone 027-2750491
Fax 027-2750492
ucb@uchumibank.co.tz

UCHUMI COMMERCIAL BANK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2020

1 INTRODUCTION

The Directors are pleased to submit the report together with the audited financial statements of Uchumi Commercial Bank Ltd (the "Bank") for the year ended 31st December, 2020 which disclose the Bank's state of affairs.

2 INCORPORATION

Uchumi Commercial Bank (UCB) Ltd was established in 2005 by the Evangelical Lutheran Church of Tanzania Northern Diocese (ELCT-ND) to operate as a regional unit bank to provide all commercial banking services in Northern Tanzania, based in Moshi Municipality, Kilimanjaro Region. It is licensed and regulated under the Banking and Financial Institutions Act 2006 and Companies Act, 2002.

3 PRINCIPAL ACTIVITIES

The principal activities of the bank are taking deposits on demand, providing short term and medium-term credit facilities and other permitted banking services allowed under Banking and Financial Institutions Act, 2006. UCB is one of the financial services providers in Tanzania and is engaged in consumer and retail banking.

The Bank offers a full range of commercial banking services. Its main focus is to work with organized grassroots economic groups that have hitherto been largely under-banked, principally individuals running small and medium enterprises (SMEs) in Northern Tanzania. At present, the bank operates through its Head Office (HQ) in Moshi, one branch in Moshi Municipality, Kilimanjaro region, mini branch at Karatu in Arusha region and one service centre in Sanya Juu in Siha District.

4 BANK'S VISION

To become premier provider of banking services.

5 BANK'S MISSION

To provide efficient, affordable and convenient banking services, promote Member-based Organizations (MBOs) and address the financial needs of under banked and unbanked people in Tanzania.

6 BOARD OF DIRECTORS

The Directors of the Bank at the date of this report, who held office since 1st January, 2020, except where otherwise stated, are as listed in page (ii) above.

7 CAPITAL STRUCTURE AND SHAREHOLDING OF THE BANK

The bank's capital structure for the year under review is shown below: -

Authorized; 30,000,000 ordinary shares of TZS. 1,000 each, issued and fully paid up 9,076,261 ordinary shares of TZS. 1,000 each (2019: 7,773,022 shares)

UCHUMI COMMERCIAL BANK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2020

7 CAPITAL STRUCTURE AND SHAREHOLDING OF THE BANK (CONTINUED)

The total number of shareholders as at 31 December 2020 was 42 (2019: 40) shareholders. The Capital structure and shareholding position of the Bank as at 31stDecember, 2020 is as follows:

Shareholders	31.12.2020		31.12.2019	
	No. of Shares	%	No. of Shares	%
ELCT-ND	2,895,069	31.9	2,530,901	32.56
ELCT-ND Institutions	804,267	8.86	733,605	9.44
Other Shareholders	5,376,925	59.24	4,508,516	58
Total	9,076,261	100	7,773,022	100

8 RESULTS AND DIVIDENDS

The bank recorded a profit before tax of TZS.790.2 million for the year under review (2019: TZS.1,319 million). The profit for the year 2020 decreased by 40% compared to the previous year of 2019 caused mainly by decrease of fees and commission and increase in provision for probable loss due to the impact of Covid-19 pandemic on business during the year 2020. The net profit also decreased from TZS.926mil in 2019 to TZS.573 mil in 2020 due to increase in provision for loans.

During the year the bank declared and paid a dividend amounting to TZS.692 million out of the profit made for the year 2019, hence deducted from retained earnings as indicated in the statement of changes in equity (2018: 570mil).

9 CORPORATE GOVERNANCE

The bank's Board of Directors is composed of seven (7) Directors (2019: 8). During the year the tenure of one Board member came to an end, the bank is in the process of filling the vacant position, all directors are non-executive. The Board takes overall responsibility for the bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet at least four (4) times a year. The Board delegates the day to day management of the business to the General Manager assisted by Senior Management. Senior Management are invited to attend Board meetings and facilitates the effective control of all the bank's operational activities, acting as a medium of communication and coordination between all the various business units. During the year 2020, the Board held four ordinary meetings against 4 meetings as required by the regulator and four extraordinary meetings.

The bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year, the Board of Directors of the bank had the following Board Committees to ensure a high standard of corporate governance throughout the Bank.

(i) Audit and Risk Management Committee: -

Name	Position	Nationality
Mrs. Janet D. Mmari	Chairperson	Tanzanian
Mr. Abel M. Mrema	Member	Tanzanian
Mrs. Aginatha F. Rutazaa	Member	Tanzanian

The Audit and Risk Management Committee reports to the Board, the committee held four meetings during the year against four meetings as required by regulator.

UCHUMI COMMERCIAL BANK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2020

CORPORATE GOVERNANCE (CONTINUED)

(ii) Credit Committee

Name	Position	Nationality
Mr. Arthur N. Shoo	Chairperson	Tanzanian
Dr. Heavenlight E. Kavishe	Member	Tanzanian

The Credit Committee reports to the Board, the committee held four meetings during the year against four meetings as required by the regulator. During the year 2020 one Board member (Mrs Ndenengo Mwendu) who sits in Credit Committee retired. The process of the filling the vacant position is in progress and will be completed before 2021 AGM.

(iii) Executive Committee

Name	Position	Nationality
Mrs. Elizabeth M. Minde	Chairperson	Tanzanian
Dr. Heavenlight E. Kavishe	Member	Tanzanian
Mr. Arthur N. Shoo	Member	Tanzanian

The Executive Committee reports to the Board, the committee held four meetings during the year against four meetings as required by regulator.

The main Board of Directors held four meetings during the year.

10 RELATED PARTY TRANSACTIONS AND BALANCES

Transactions during the year with related parties were conducted at terms and conditions similar to those offered to other clients and in the normal course of business. Details of transactions and balances with related parties are included in note 32 to the financial statements.

11 MANAGEMENT

The Management of the bank is under the General Manager and is organized in the following departments:

- Finance Department,
- Operations Department,
- Credit Department
- Internal Audit Department (Report to Audit Committee)
- Information Communication and Technology Department,
- Business Development and Microfinance Department.
- Legal, Administration and Personnel Unit

In mid-2020 on 30th June, 2020, Mrs. Angela G. Moshi who was serving as General Manager of the bank retired and her position was replaced by Mr. Samwel Wado.

12 PERFORMANCE OF THE BANK

Interest Income increased from TZS. 4,936 million during the year 2019 to TZS.5,259 million in 2020 which is an increase of 6.54% while fees and commission income decrease from TZS.772 million in 2019 to TZS 693 million in 2020 which is 10.29% decrease in transactions due to impact of Covid 19 pandemic. Overall the Bank experienced consistent good performance in the year 2020 as in previous year. The overall achievement of the bank during the year when compared with the Strategic Business plan was 74.74% compared 84.37% in December 2019, the performance was lower than the previous year due to Covid-19 Impact. Total general and administrative expenditure was TZS 1,507 million, a decrease of 2.09% from expenditure of TZS. 1,539 million in 2019 due to cost minimization.

UCHUMI COMMERCIAL BANK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2020

12 PERFORMANCE OF THE BANK (CONTINUED)

Total assets at year-end stood at TZS. 39,741 million, an increase of 4.25% or TZS. 1,621 million from TZS. 38,119 million as at 31st December, 2019. This growth in the bank's asset base was fully funded by increase in deposits throughout 2020 and new capital injection of TZS.1,303 million. The bank managed to maintain customer deposit volume which increased by 3.78% from TZS. 27,667 million in 2019 to TZS. 28,712 million in 2020. The deposit and capital base also fully financed lending activities which stood at TZS.29,356 million from TZS. 27,049 million in 2019 reflecting a net growth of TZS 2,307million an increase of 8.53%.

13 FUTURE DEVELOPMENT PLANS

The bank future strategy is to increase value added services whereby in 2021 Uchumi Commercial Bank Ltd intends to continue to leverage its influence and participation on the UMOJA Switch network and enable customers to access financial products through the Umoja switch network across the country. The bank plans to continue engaging more agents with at least 40 (forty) agents in order to widen the bank's outreach as stipulated in the Strategic Business Plan (2018 -2022).

To tap for more businesses, the bank plans to increase paid up share capital to TZS.16 billion by the end of the year 2021, Furthermore to increase deposits to TZS38.4 billion.

Finally, the bank intends to continue being profitable through the introduction of innovative products, increases its customer base, using of technology and managing both costs and risks. The bank will continue to focus on improving productivity and introducing new products to the market.

14 RISK MANAGEMENT AND INTERNAL CONTROL

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

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

- Effectiveness and efficiency of operations;
- Safeguarding of the Bank's assets;
- Compliance with applicable laws and regulations;
- Reliability of accounting records;
- Business sustainability under normal as well as adverse conditions: and
- Responsible behaviours towards all stakeholders.

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

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

UCHUMI COMMERCIAL BANK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2020

15 EMPLOYEE WELFARE

15.1 Management and employee relations

The relationship between employees and management continued to be good during the year 2020. There were no unresolved reported complaints from the employees during the year.

Management took measures to build strong workplace relations by ensuring that employees lived up to the standards of the institution's culture and values while maintaining effective communication at all levels. Staff meetings were conducted at various levels whereby staff were able to participate in helping shape the future of the Bank. During the year UCB Staff conducted two meetings as required by the bank's policy.

15.2 Training Activities

During the year, the Bank spent TZS.85 million for staff training (2019: TZS.69 million). A total of 26 members of staff benefited from internal and external courses. The target for the year as per Strategic Plan was to train 30 staff members (87% achievement compared with the target). They acquired new knowledge and skills led to the enhancement of business performance

15.3 Medical Assistance

The bank, through medical scheme, provided medical support to members of staff and their respective dependants. A total of TZS.18 million against a budget of TZS.28.5mil (2019: TZS 21 million) was paid as medical expense.

15.4 Occupational Safety, Health and Environment

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

15.5 Financial Assistance to Employees

The Bank provided different types of financial support to improve the welfare of its employees, including staff loans. The bank's support was in line with the bank's policy and industry best practice.

15.6 Persons with Disabilities

It is the policy of the bank to recruit new staff regardless of their physical abilities. What matters is the candidate's merit for the job. In the event that members of staff become disabled, every effort is made to ensure that their employment with the bank continues and appropriate re-training is arranged, if necessary.

15.7 Employee Benefit Scheme

The bank makes contributions to public administered pension schemes on a mandatory basis. These schemes are defined contribution plans. A total of TZS.144 million was contributed in 2020 against the budget of TZS.153.2million (2019: TZS.130.4 million).

UCHUMI COMMERCIAL BANK LTD

DIRECTORS' REPORT FOR THE YEAR ENDED 31ST DECEMBER, 2020

15 EMPLOYEE WELFARE (CONTINUED)

15.8 Gender Parity

The Bank is gender sensitive, it ensured that female employees were given due priorities in all aspects of the bank. As at 31st December, 2020 the bank had 42 employees, out of whom 17 were women and 25 are men. This is 40%: 60% of female: Male ratio against the bank's target of 50%: 50%.

16 POLITICAL DONATIONS

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

17 CORPORATE SOCIAL RESPONSIBILITY

The bank recognizes its role and position in the society by undertaking several Corporate Social Responsibility (CSR) initiatives. These initiatives are geared towards giving back to society as well as looking into people's welfare as a caring companion. In the year 2020, the bank donated TZS.16.8 million against a budget of TZS.18million, the contribution focused on education, health and other community services (2019:16.1).

18 SOLVENCY

The state of affairs of the bank as at 31stDecember, 2020 is set out on page 13 of the financial statements. The Directors consider the bank to be solvent within the meaning ascribed by the Companies Act, 2002. In addition, the Bank has met all the Bank of Tanzania (BOT) regulatory capital requirements.

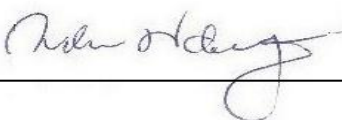
19 ENVIRONMENTAL CONTROL PROGRAMME

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

20 AUDITORS

The Auditors, Mhasibu Consultants have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing their re-appointment as the Bank's auditors for the subsequent year will be put to the Annual General Meeting.

BY ORDER OF THE BOARD



Chairman

Date: 31st March 2021



Director

Date: 31st March 2021

UCHUMICOMMERCIAL BANK LTD

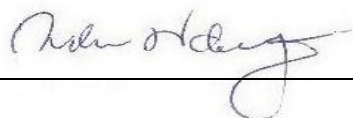
STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31ST DECEMBER, 2020

The Companies Act No. 12 CAP 212 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 as at the end of the financial year and of its profit or loss for the year. It also requires the directors to ensure that the bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the bank. They are also responsible for safeguarding the assets of the bank 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, CAP 212 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 its 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

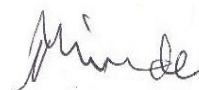
Nothing has come to the attention of the directors to indicate that the bank will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Board of Directors by:



Chairman

Date: 31st March 2021



Director

Date: 31st March 2021

UCHUMI COMMERCIAL BANK LTD

STATEMENT OF DECLARATION OF THE HEAD OF FINANCE

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No.33 of 1972, as amended by Act No.2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance/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/Management to discharge the responsibility of preparing financial statements of an entity showing true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as under Directors Responsibility statement on an earlier page.

I CPA Emmanuel R. Kessy being the Finance Officer of Uchumi Commercial Bank Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31stDecember, 2020 have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements give a true and fair view position of Uchumi Commercial Bank Limited as on that date and that they have been prepared based on properly maintained financial records.

Signed by: **CPA. Emmanuel R. Kessy**

Signature 

Position: Finance Officer

NBAA Membership No.: GA 8825

Date: 31st March, 2021

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF UCHUMI COMMERCIAL BANK LTD

Report on the Audit of the Financial Statements

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Uchumi Commercial Bank Ltd (the "bank") as at 31stDecember, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, CAP 212 Act No. 12 of 2002.

We have audited the financial statements of the bank set out on pages 12 to 65 which comprise the statement of financial position as at 31st December, 2020 and the statement of Profit and Loss and comprehensive income for the year then ended, statement of changes in equity for the year then ended, statement of cash flows for the year then ended and notes to the financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We 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 bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the bank's financial statements of the current period. Key audit matters are selected from the matters communicated to Board of Directors but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Based on the work we have performed; we have nothing to report in this regard.

Other Information

The Directors are responsible for the other information. The other information comprises directors' report but does not include the bank's financial statements and our auditor's report thereon.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF UCHUMI COMMERCIAL BANK LTD

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

In connection with our audit of the bank's 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 Bank's 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, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Bank's Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, CAP 212 Act No. 12 of 2002, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The directors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Bank's Financial Statements

Our objectives are to obtain reasonable assurance about whether the bank's 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 Bank's financial statements.

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

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

TO THE MEMBERS OF UCHUMI COMMERCIAL BANK LTD

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

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

We also provide the directors 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, related safeguards.

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, CAP 212 Act No. 12 of 2002 and for no other purposes.

As required by the Companies Act, CAP 212 Act No. 12 of 2002, we are also required to report to you if, in our opinion, the Directors' Report 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.



CPA. J.M. LYANGA,
For and On Behalf Of
Mhasibu Consultants
Certified Public Accountants
Dar es Salaam



Date: 31st March 2021

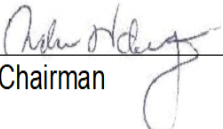
UCHUMICOMMERCIAL BANK LTD

**STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31ST DECEMBER, 2020

		2020	2019
	NOTES	TZS '000	TZS '000
Interest Income	7	5,259,605	4,936,821
Interest Expenses	8	<u>(1,109,690)</u>	<u>(999,784)</u>
Net Interest Income		4,149,915	3,937,037
Impairment loss on loans and advances	18	<u>(579,087)</u>	<u>(66,410)</u>
Net Interest Income after impairment loss on loans and advances		3,570,828	3,870,627
Fees and Commission Income	9	692,874	772,357
Foreign Exchange Income	10	27,558	19,311
Other operating Income	11	103,316	90,320
Employee benefits expenses	12	(1,895,934)	(1,717,322)
General and administrative expenses	13	(1,507,158)	(1,539,397)
Depreciation and amortization	14	<u>(201,232)</u>	<u>(176,888)</u>
Profit before tax		790,252	1,319,008
Income Tax expense	15	<u>(217,322)</u>	<u>(393,474)</u>
Profit for the Year		572,930	925,534
Other comprehensive income for the year		-	-
Total Comprehensive Income for the Year		572,930	925,534

The financial statements on pages 12 to 65 were approved and authorised for issue by the Board of Directors on 29 March 2021 and signed on its behalf by:


Chairman

Date: 31st March 2021


General Manager

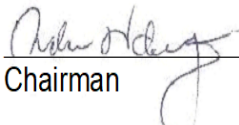
Date: 31st March 2021

UCHUMI COMMERCIAL BANK LTD

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER, 2020

ASSETS	NOTES	31.12.2020	31.12.2019
		TZS '000	TZS '000
Cash and balances with Bank of Tanzania	16	4,020,640	4,683,086
Balances with other Banks	17	3,485,226	4,036,478
Loans and advances to Customers	18	29,356,294	27,049,113
Unquoted equity investment	19	20,000	20,000
Property and Equipment	20	1,083,612	900,421
Intangible Assets	21	188,263	163,501
Right of Use Asset	22	442,893	590,524
Other Assets	23	1,006,813	620,359
Tax Receivable		52,678	-
Differed tax asset		84,746	56,266
TOTAL ASSETS		39,741,165	38,119,748
LIABILITIES			
Deposits from customers	24	28,711,823	27,667,195
Other Liabilities	25	253,980	242,594
MIVARF Grant	26	-	174
Lease Liability	27	480,374	614,815
Tax Payable	15	-	93,474
TOTAL LIABILITIES		29,446,177	28,618,252
SHAREHOLDERS EQUITY			
Share Capital	29	9,076,261	7,773,022
Share Redemption Reserve		16,900	16,900
Retained earnings		506,520	817,101
Capital Grant	26	133,129	166,462
Revaluation Reserve	30	30,000	30,000
Regulatory reserve		532,178	698,011
TOTAL EQUITY		10,294,988	9,501,496
TOTAL LIABILITIES AND EQUITY		39,741,165	38,119,748

The financial statements on pages 12 to 65 were approved and authorised for issue by the Board of Directors on 29 March 2021 and signed on its behalf by:


Chairman

Date: 31st March 2021

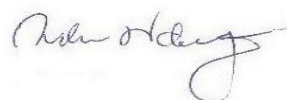

General Manager

Date: 31st March 2021

UCHUMI COMMERCIAL BANK LTD
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2020

PARTICULARS	Share Capital	Share Redemption Reserve	Retained Earnings	Regulatory Reserve	General Risk Reserve	Revaluation Reserve	Capital Grant	Total
	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000
As At 1 st January, 2020	7,773,022	16,900	817,101	698,011	-	30,000	166,462	9,501,496
Profit for the Year	-	-	572,930	-	-	-	-	572,930
Issued During the Year	1,303,239	-	-	-	-	-	-	1,303,239
Grant-Agency banking software	-	-	-	-	-	-	(22,093)	(22,093)
Depreciation on Capital Grant	-	-	-	-	-	-	(11,240)	(11,240)
Transfer from Regulatory Reserve	-	-	165,833	(165,833)	-	-	-	-
Prior year Taxes and other Charges	-	-	(356,945)	-	-	-	-	(356,945)
Dividend Declared	-	-	(692,399)	-	-	-	-	(692,399)
As At 31st December, 2020	9,076,261	16,900	506,520	532,178	-	30,000	133,129	10,294,988
As At 1 st January, 2019	7,125,468	16,900	703,432	318,291	213,521	30,000	171,250	8,578,862
Profit for the Year	-	-	925,534	-	-	-	-	925,534
Issued During the Year	647,554	-	-	-	-	-	-	647,554
Grant-Agency banking software	-	-	-	-	-	-	11,565	11,565
Depreciation on Capital Grant	-	-	-	-	-	-	(16,353)	(16,353)
Transfer to Regulatory Reserve	-	-	(379,720)	379,720	-	-	-	-
Transfer from General Risk Reserve	-	-	213,521	-	(213,521)	-	-	-
Prior year Taxes and other cost	-	-	(75,629)	-	-	-	-	(75,629)
Dividend Declared	-	-	(570,037)	-	-	-	-	(570,037)
As At 31st December, 2019	7,773,022	16,900	817,101	698,011	-	30,000	166,462	9,501,496

The financial statements on pages 12 to 65 were approved and authorised for issue by the Board of Directors on 29 March 2021 and signed on its behalf by:



Chairman



General Manager

Date: 31st March 2021

Date: 31st March 2021

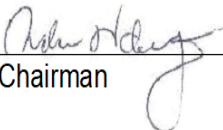
UCHUMICOMMERCIAL BANK LTD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31ST DECEMBER, 2020

	NOTES	2020 TZS 000	2019 TZS 000
Cash Flows from Operating Activities			
Profit before taxation		790,252	1,319,008
Adjustments for:			
Depreciation	14	201,232	176,888
Impairment on loans and advances	18	579,087	62,210
		<u>1,570,571</u>	<u>1,558,106</u>
Changes in Operating Assets and Liabilities			
Loans and Advances to customers		(2,307,181)	(3,616,312)
Other assets		(1,005,671)	(20,217)
Deposits from Customers		1,044,628	2,250,641
Other liabilities		(290,194)	(129,392)
Income tax payable		24,091	93,475
Income taxes paid		(270,000)	(300,000)
Net Cash Generated/(Used) from Operating Activities(A)		<u>(1,233,756)</u>	<u>(163,700)</u>
Cash Flows from Investing Activities			
Payments for intangible assets		(80,212)	(96,804)
Payments for property and equipment		(328,973)	(99,743)
Net Cash Used in Investing Activities (B)		<u>(409,185)</u>	<u>(196,547)</u>
Cash Flows from Financing Activities			
Dividend paid		(692,399)	(570,037)
Proceeds from Issue of shares		1,303,239	647,554
Lease payments		(182,368)	(182,368)
Net Cash Generated/(Used) in Financing Activities (C)		<u>610,840</u>	<u>77,517</u>
Net (Decrease)/Increase in Cash and Cash Equivalents (A+B+C)		<u>(1,032,101)</u>	<u>(282,730)</u>
Cash and Cash Equivalent at the Beginning of the Year		6,837,679	7,120,409
Cash and Cash Equivalent at the end of the Year		<u>5,805,578</u>	<u>6,837,679</u>
Add Statutory Minimum Reserve (S.M.R)		1,700,288	1,881,885
Cash and Cash Equivalent at the end of the Year		<u>7,505,866</u>	<u>8,719,564</u>

The financial statements on pages 12 to 65 were approved and authorised for issue by the Board of Directors on 29 March 2021 and signed on its behalf by:


Chairman

Date: 31st March 2021


General Manager

Date: 31st March 2021

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES

1 REPORTING ENTITY

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

P. O. Box 7811,
Moshi, Kilimanjaro

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

The financial statements of Uchumi Commercial Bank Ltd for the year ended 31stDecember, 2020 have been approved for issue by the board of Directors on 29th March, 2021. Neither the entity owners nor others have the power to amend the financial statements after issue

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Basis of preparation

The financial statements of Uchumi Commercial Bank Ltd have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The bank financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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 accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Bank's financial statements are disclosed in Note 4.

(a) Changes in accounting policy and disclosures

i) New standards amendments and interpretations adopted by the Bank

The following standards and interpretations became effective in the current year and beyond relevant to the bank and/ (will) had material impact on the amounts reported in these financial statements.

IFRS 9 Financial Instruments

Amended by Annual Improvements to IFRS Standards 2018–2020 (fees in the '10 per cent' test for de-recognition of financial liabilities)

Fees in the '10 per cent' test for de-recognition of financial liabilities. The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

Effective for annual periods beginning on or after 1 January 2022

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Basis of preparation (continued)

IAS 1 Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors (amendments)

Effective date: 1 January 2020

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.

The changes in Covid-19-Related Rent Concessions (Amendment to IFRS 16)

The COVID-19 pandemic has led to some lessors providing relief to lessees by deferring or relieving them of amounts that would otherwise be payable. In some cases, this is through negotiation between the parties, but can be as a consequence of a government encouraging or requiring that the relief be provided. Such relief is taking place in many jurisdictions in which entities that apply IFRSs operate.

When there is a change in lease payments, the accounting consequences will depend on whether that change meets the definition of a lease modification, which IFRS 16 Leases defines as “a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term)”.

On 24 April 2020, the Board published an exposure draft with a proposed amendment intended to provide practical relief to lessees in accounting for rent concessions arising as a result of the COVID-19 pandemic. Given the urgency of the matter, the exposure draft was published with a 14-day comment period. On 15 May 2020, the Board considered the feedback received and decided to finalise the amendment with some changes.

Changes

The changes in Covid-19-Related Rent Concessions (Amendment to IFRS 16) amend IFRS 16 to:-

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;
- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

The main change from the proposal in the exposure draft is that the IASB had proposed that the practical expedient should only be available for lease payments originally due in 2020. However, after having considered the feedback to the exposure draft, the IASB decided to extend this period to June 2021 to also capture rent concessions granted now and lasting for 12 months.

The IASB considered but decided not to provide any additional relief for lessors as the current situation is not as equally challenging for them and the required accounting is not as complicated.

Effective date

The amendment is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorised for issue at 28 May 2020. The amendment is also available for interim reports.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Basis of preparation (continued)

IFRIC 23 *Uncertainties over Income Tax Treatments* (IFRIC 23):

This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively only if possible without the use of hindsight. The amendment has no significant impact on the annual financial statements.

Annual improvements 2015-2017 cycle, the IASB has issued various amendments and clarifications to existing IFRS. Early adoption of revised standards:

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Interest income and expense

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

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

- (a) Profit or Loss through Other Comprehensive Income (POCI) financial assets, for which the original credit – adjusted effective, is applied to the amortized cost of the financial asset.
- (b) 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 amortized cost (i.e. net of the expected credit loss provision).

(b) Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees income can be divided into the following categories:

(i) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate (EIR) on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(ii) Operating income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

Other income is recognized in the period in which it is earned.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Foreign currency translation

i. *Functional and presentation currency*

Items included in the financial statements in the Bank are measured using the currency of the primary economic environment in which the Bank operates (“the functional currency”). The financial statements are presented in Tanzania Shillings (TZS) rounded to the nearest thousands, which is the Bank’s functional and presentation currency.

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 statement of profit or loss. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

(d) Financial assets and liabilities

(i) *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 bank commits to purchase or sell the asset.

At initial recognition, the Bank measure 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.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (Continued)

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.
- (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

(ii) Classification and subsequent measurement

Financial assets

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

- Fair Value through other comprehensive income (FVOCI); or
- Amortised cost.

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 bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) The Bank's business model for managing the asset; and
- (ii) The cash flow characteristics of the asset.

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

- Amortised cost: Assets that are held for collection for 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 18. Interest income from these financial assets is included in 'Interest and similar 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, re 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 instruments

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

Financial assets (continued)

(ii) Classification and subsequent measurement (continued)

Debt instruments (continued)

Amortised cost which are recognised in profit and loss. When the financial asset is derecognised 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 Bank manages the assets in order to generate cash flows. That is, whether the Bank'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 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 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.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments or principals and interest (the SPPI test'). In making this assessment, the Bank 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 is 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 principals and interest.

The Bank 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 includes basic ordinary shares.

The Bank's policy is to designate equity investments as FVOCI. 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 Bank's right to receive payments is established.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

Financial assets (continued)

(iii) Impairment

The Bank assesses on a forward-looking basis the expected credit loss ('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 Bank 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

(iv) Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assess whether or not the new terms are substantially different to the original terms. The Bank 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.

If the terms are substantially different, the Bank 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 Bank also assessed 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 Bank 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).

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

Financial assets (continued)

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

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

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

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Bank 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 Bank retains a subordinated residual interest.

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 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 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 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; and
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognized for the consideration received for the transfer. In subsequent periods, the Bank recognizes any expense incurred on the financial liability.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial assets and liabilities (continued)

Financial Liabilities

(i) 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 Bank 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.

Loan commitments provided by the Bank are measured as the amount of the loss allowance. The Bank 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.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Cash and cash equivalents

Cash and cash equivalents referred in the cash flow comprise cash on hand, non-restricted current accounts with Bank of Tanzania, deposits held at call with banks with an original maturity of three months or less, due from banks on demand and investments with maturity periods of three months or less in money market instruments.

(e) Current and deferred taxes

Current tax

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

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred income tax is 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 either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity or other comprehensive income are also recognised in equity or other comprehensive income and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Value added tax

Revenues, expenses and assets are recognised inclusive of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is recoverable from the taxation authority, in which case the value added tax is recognised as an asset or liability in the statement of financial position.

(g) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(h) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off statement of financial position transactions and disclosed as contingent liabilities. Estimates of the outcome and financial effect of contingent liabilities is made by management based on information available up to the date the financial statements are approved for issue by directors. Any expected loss is charged to the statement of profit or loss.

(i) Employees' benefits including post-employment benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognised as an expense in profit or loss in the period the employees render the services.

(i) Post-employment benefits

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 10% each of the employee's monthly salaries to the state owned and managed (statutory) Funds. The Bank has no further payment obligations once the contributions have been paid. The contributions are recorded as an expense under "employee benefits expenses" in the year to which they relate. Unpaid contributions are recognised as a liability.

(ii) Other employee benefits

The Bank provides free medical treatment for existing staff and their dependants. The cost is recorded as an expense under "employee benefits expenses". The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognised as an expense accrual.

(iii) Bonus Scheme

A liability for employee benefits in the form of bonus scheme is recognised when there is a formal scheme and the amounts to be paid are determined before the end of the reporting period or past practice has created a valid expectation in employees that they will receive a bonus subject to satisfactory performance and the amount can be determined before the financial statements are issued. Liabilities for bonus scheme are expected to be settled within 3 months and are measured at the amounts expected to be paid when they are settled.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Provision

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

(k) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, excluding the costs of day-to-day servicing. Costs of replacing part of the property and equipment and major inspection cost are capitalised if the recognition criteria are met as required by IAS 16. Borrowing costs for long-term projects are capitalised if they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other repair and maintenance costs are recognised in profit or loss as incurred. Depreciation is calculated on straight line basis to write down the cost of the asset to its residual value over the estimated useful life as follows:

Description of Assets	Rate (%)
Leasehold Improvement	4
Motor Vehicles	10
Furniture and Fittings	12.5
Computer and Equipment	20
Computer software	20

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

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

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

(l) Intangible assets

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

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

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Intangible assets (continued)

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

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

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

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

(n) Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Before 01 January 2019, operating lease payments were recognised as an expense in the profit or loss in the statement of comprehensive income on a straight-line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor

Leases where the Bank does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

The Bank's leasing activities and how these are accounted for

The Bank leases office space in various parts of the region. Rental contracts are typically made for fixed periods of 5 years but may have extension options as described in (v) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component

Until the 2019 financial year, leases of office space were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) *Leasing (Continued)*

The Bank's leasing activities and how these are accounted for (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees the
- exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the Measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Uchumi, which does not have recent third-party financing, and
- makes adjustment specific to the lease, e.g term, country, currency and security

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs and
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

Extension and termination options

Extension and termination options are included in a number of property leases contracts. These terms are used to maximise operational flexibility in terms of managing contracts.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). There are no potential future cash outflows that have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) *Leasing (Continued)*

The Bank's leasing activities and how these are accounted for (Continued)

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

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

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

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The bank adopted IFRS 16 during the year, in the context of transition to IFRS 16, right –of –use of asset of TZS 738mil and lease liability of 738mil was recognized as at 1st January 2019. Of these lease liabilities 182mil was paid during the year and included in the statement of comprehensive income also unwinding interest of 5% was applied which amounts to 59mil. The detail schedule of Right of use asset and lease liabilities is summarized below: -

Right of Use Asset (ROU)	Right of Use Office building	Right of Use assets ATMs	Right of use asset Total
Cost	TZS 000	TZS 000	TZS 000
As at 1st January 2020	526,740	211,415	738,155
Increase	-	-	-
As at 31st December 2020	526,740	211,415	738,155
Accumulated Depreciation			
As at 1st January 2020	(105,348)	(42,283)	(147,631)
Charge for the year	(105,348)	(42,283)	(147,631)
As at 31st December 2020	(210,696)	(84,566)	(295,262)
NBV 31st December 2020	316,044	126,849	442,893
Cost			
As at 1st January 2019	526,740	211,415	738,155
Increase	-	-	-
As at 31st December 2019	526,740	211,415	738,155
Accumulated Depreciation			
As at 1st January 2019			
Charge for the year	(105,348)	(42,283)	(147,631)
As at 31st December 2019	(105,348)	(42,283)	(147,631)
NBV 31st December 2019	421,392	169,132	590,524

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of non-financial assets

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

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

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

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

(r) Earnings per Share

Earnings per share are calculated based on the profit attributable to shareholders divided by the weighted number of ordinary shares. Diluted earnings per share are computed using the weighted average number of equity shares and dilutive potential ordinary shares outstanding during the year. During the year, there were no dilutive potential shares.

3 FINANCIAL RISK MANAGEMENT

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

Risk management is carried out by the Internal Audit Department under policies approved by the Board of Directors.

3.1 Credit Risk

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

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

The credit risk management and controls are centralised in Credit department, and reported to the Board of Directors and Heads of Departments regularly.

3.1.1 Credit Risk Measurement

(a) Loans and Advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the bank assesses the financial condition by looking at the trend of key ratios as well as conducting site visits to gauge feasibility of the prospective businesses.

For microfinance loans which form greater part of the bank's portfolio, the bank depends on in-built mechanisms like peer pressure, graduated lending and character-based lending to mitigate inherent risk embedded in offering loans to the sector hence little emphasis is stressed in measuring the credit risk at individual level.

Aging analysis is used to give ex-post information on the extent of exposure assumed by the Bank. Below is the continuum used by the Bank in ranking the level of exposure.

Bank's Ratings Scale

S/N	Description	Ageing	% Used for Regulatory Provisioning
1	Current	0 - 30 days	1%
2	Especially mentioned	31 - 90 days	3%
3	Sub-standard	91 - 180 days	20%
4	Doubtful	181 – 270 days	50%
5	Loss	271 days and above	100%

For larger loans, qualitative factors are considered along with aging analysis to determine the level of exposure. These include information like the account operation, loan collateral, insurance and tax status of the client and carried on a cost basis.

(b) Debt Securities

Debt securities are Treasury Bills and Bonds issued by the Government of the United Republic of Tanzania. These investments are internally graded as current.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.2 Credit Risk Limit Control and Mitigation Policies

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

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

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

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

(b) Credit-related commitments

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

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

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.2 Credit Risk Limit Control and Mitigation Policies (Cont'd)

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

3.1.3 Impairment and Provisioning Policies

The rating systems described in Note 3.1.1 focuses more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the internal rating system that is used for internal operational management and Banking regulation purposes.

The impairment provision shown in the financial statements at the reporting period is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grading. The table below shows the percentage of the bank's on and off-balance sheet items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating	2020		2019	
	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1. Current	85.73	-	87.86	-
2. Especially mentioned	6.85	4.15	4.76	39.23
3. Sub-standard	2.00	8.07	0.41	3.42
4. Doubtful	2.13	21.50	3.97	32.69
5. Loss	3.29	66.28	2.99	24.66
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

The internal rating tool assists management to determine whether objective evidence of impairment exists under IFRS 9, based on the following criteria set out by the bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower
- Breach of loan covenants or conditions;
- Initiation of Bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.3 Impairment and Provisioning Policies (continued)

The bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

	2020 TZS 000	2019 TZS 000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Cash and Balances with the Bank of Tanzania	4,020,640	4,683,086
Balances with other Banks	3,485,226	4,036,478
Loans and advances to customers	29,356,294	27,049,113
Other assets (excluding prepayments)	<u>1,028,447</u>	<u>1,013,575</u>
TOTAL	<u>37,890,607</u>	<u>36,329,519</u>

The above table represents a worst-case scenario of credit risk exposure to the bank at 31stDecember, 2020 and 2019, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, of the total maximum exposure of 77.47% is derived from loans and advances to customers (2019: 74.5 %), 9.20% represent balances with other banks (2019: 9.9%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loans and advances portfolio and debt securities based on the following:

92.58% of the loans and advances portfolio are considered to be neither past due nor impaired (2019: 92.62 %); A stringent selection process using widely accepted industry best practices upon granting loans and advances.

UCHUMI COMMERCIAL BANK LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.4 Loans and Advances

a) Loans and Advances are summarised as follows:

	31.12.2020		31.12.2019	
	Loans and advances to Customers TZS 000	Balances with Other Banks TZS 000	Loans and advances to customers TZS 000	Balances with Other Banks TZS 000
Neither past due nor impaired	25,998,433	3,485,226	24,180,586	4,036,478
Past due but not impaired	2,078,733	-	1,324,847	-
Impaired	2,251,334	-	1,936,800	-
Gross Amount	<u>30,328,501</u>	<u>3,485,226</u>	<u>27,442,233</u>	<u>4,036,478</u>
Less: Allowances for impairment	(972,207)	-	(393,120)	-
TOTAL	<u>29,356,294</u>	<u>3,485,226</u>	<u>27,049,113</u>	<u>4,036,478</u>

The total impairment provision for loans and advances is TZS 972 million (2019: TZS 393 million). This amount represents individually as well as portfolio impaired loans. Further information of the impairment allowance for loans and advances to customers is provided in Note 18.

During the year ended 31stDecember, 2020, the bank's total loans and advances increased by 8.53% (2019: 15.4%) as a result of the expansion of the lending business. When entering into new markets or new industries, the bank focused more on the business with small to medium individuals and companies with good performance records in order to contain the level of delinquency.

b) Loans and Advances Neither Past Due nor Impaired

The portfolio of loans and advances that were neither past due nor impaired can be analysed as follows:

	2020 TZS 000	2019 TZS 000
Classes		
General Loans	22,471,639	21,887,487
Salaried Loans	1,234,331	1,117,736
Uwezeshaji Loans	-	174
Overdrafts	4,543,797	4,436,836
Total loans and advances to customers	<u>28,249,767</u>	<u>27,442,233</u>
Amounts due from Banks	<u>3,485,226</u>	<u>4,036,478</u>

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.4 Loans and Advances

c) Loans and Advances Past Due but not Impaired

Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	General Loans	Salary loans	Uweze shaji Loans	Overdr aft	Total
	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000
31-Dec-20					
Especially mentioned (31-90 days)	<u>2,078,733</u>	<u>0</u>	<u>-</u>	<u>0</u>	<u>2,078,733</u>
Total	<u>2,078,733</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,078,733</u>
31-Dec-19					
Especially mentioned (31-90 days)	<u>1,324,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,324,847</u>
Total	<u>1,324,847</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,324,847</u>

Individually impaired loans and advances to customers before taking into consideration the anticipated cash flows from collateral held are TZS 2,215 million (2018: TZS 2,052 million).

The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

	General Loans	Salary Loans	Uwezeshaji Loans	Overdraft	Total
	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000
31.12.2020					
Substandard	559,880	16,698	-	30,779	607,357
Doubtful	608,365	38,484	-	0	646,849
Loss	765,529	62,726	64	132,566	960,884
TOTAL	<u>1,933,774</u>	<u>117,908</u>	<u>64</u>	<u>163,345</u>	<u>2,215,090</u>
31.12.2019					
Substandard	99,249	8,717	-	7,457	115,423
Doubtful	1,103,761	-	174	-	1,103,935
Loss	717,806	3,207	-	111,851	832,864
TOTAL	<u>1,920,817</u>	<u>11,924</u>	<u>174</u>	<u>119,308</u>	<u>2,052,233</u>

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1.5 Amounts Due from Banks

There were no amount of individually impaired loans and advances to the bank as at 31stDecember, 2020 (2019: Nil). No collateral is held by the bank and no impairment provision has been made against the gross amounts.

3.1.6 Debt Securities, Treasury Bills and Other Eligible Bills

There was no investment on Treasury bill made during the year.

3.2 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.

3.2.1 Foreign Exchange Risk

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

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

The bank operates wholly within Tanzania and its assets and liabilities are reported in the local currency. The bank's currency risk is managed within the Bank of Tanzania exposure guideline of 7.5% of core capital. The bank's currency position as at 31st December, 2019 was as follows:

UCHUMI COMMERCIAL BANK LTD

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NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market Risk (continued)

3.2.1 Foreign Exchange Risk (continued)

As at 31stDecember, 2020	TZS	USD	EURO	GBP	KES	Total
	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000
Financial Assets						
Cash and balances with Bank of Tanzania	3,603,533	364,711	20,509	6,267.00	25,620	4,020,640
Balances with other Banks	3,302,402	165,827	16,997	-	-	3,485,226
Loans and advances to customers	29,356,294	-	-	-	-	29,356,294
Other assets excluding prepayments	1,028,447	-	-	-	-	1,028,447
Total Financial Assets	37,290,676	530,538	37,506	6,267	25,620	37,890,607
Financial Liabilities						
Deposits from Customers	27,914,726	797,097	-	-	-	28,711,823
Other Liabilities (excluding statutory deductions and deferred facility fee)	227,129	-	-	-	-	227,129
Total financial liabilities	28,141,855	797,097	0	0	0	28,938,952
Net Position	9,148,821	(266,559)	37,506	6,267	25,620	8,951,655

UCHUMI COMMERCIAL BANK LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market risk (continued)

3.2.1 Foreign Exchange Risk (continued)

As at 31 st December, 2019	TZS TZS 000	USD TZS 000	EURO TZS 000	GBP TZS 000	KES TZS 000	Total TZS 000
Financial Assets						
Cash and balances with Bank of Tanzania	4,265,813	347,192	44,282	179	25,620	4,683,086
Balances with other Banks	3,370,257	186,744	26,744	-	-	3,583,745
Loans and advances to customers	27,049,113	-	-	-	-	27,049,113
Other assets excluding prepayments	1,072,426	-	-	-	-	1,072,426
Total Financial Assets	35,757,609	533,936	71,026	179	25,620	36,388,370
Financial Liabilities						
Deposits from Customers	27,266,231	400,964	-	-	-	27,667,195
Other Liabilities (excluding statutory deductions and deferred facility fee)	241,928	-	-	-	-	241,928
Total financial liabilities	27,508,159	400,964	-	-	-	27,909,123
Net Position	8,249,450	132,972	71,026	179	25,620	8,479,247

UCHUMI COMMERCIAL BANK LTD

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

FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market Risk (continued)

3.2.2 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 Banks Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate reprising that may be undertaken, which is monitored daily by 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 re-pricing or maturity dates. The bank does not bear an interest rate risk on off balance sheet items.

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**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2020
NOTES (CONTINUED)**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market Risk (continued)

3.2.2 Interest Rate Risk (continued)

The following is the Interest rate risk analysis of the Bank as at 31stDecember, 2020

	Non- interest Bearing TZS 000	Up to 1 Month TZS 000	1-3 Month TZS 000	3-12 Month TZS 000	Over 1 Year TZS 000	Total TZS 000
Financial Assets						
Balances with other Banks	1,337,438	400,000	464,765	1,283,023		3,485,226
Loans and advances to customers	308,676	1,411,252	2,483,917	8,028,516	17,123,933	29,356,294
Other assets (excluding prepayments)	-	601,736	216,923	70,981	138,807	1,028,447
Total Financial Assets	1,646,114	2,412,988	3,165,605	9,382,520	17,262,740	33,869,967
Financial Liabilities						
Deposit from customers	7,960,430	7,580,891	4,667,774	8,502,728	-	28,711,823
Other liabilities (excluding statutory deductions and deferred facility fee)	-	227,129	-	-	-	227,129
Total Financial Liabilities	7,960,430	7,808,020	4,667,774	8,502,728	-	28,938,952
Total Interest Re-pricing Gap	-6,314,316	(5,395,032)	-1,502,169	879,792	17,262,740	4,931,015

UCHUMI COMMERCIAL BANK LTD

**FINANCIAL STATEMENTS
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NOTES (CONTINUED)**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Market Risk (continued)

3.2.2 Interest Rate Risk (continued)

The following is the Interest rate risk analysis of the comparative year ended 31stDecember, 2019

	Non- interest Bearing	Up to 1 Month	1-3 Month	3-12 Month	Over 1 Year	Total
Financial Assets	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000	TZS 000
Balances with other Banks	490,272	850,000	600,573	1,642,900	-	3,583,745
Loans and advances to customers	523,900	1,047,800	3,345,836	8,404,228	13,727,349	27,049,113
Other assets (excluding prepayments)		664,279	127,443	144,417	136,287	1,072,426
Total Financial Assets	1,014,172	2,562,079	4,073,852	10,191,545	13,863,636	31,705,284
Financial Liabilities						
Deposit from customers	7,677,142	7,279,040	3,525,457	9,185,556	-	27,667,195
Other liabilities (excluding statutory deductions and deferred facility fee)		241,928	-	-		241,928
Total Financial Liabilities	7,677,142	7,520,968	3,525,457	9,185,556	-	27,909,123
Total Interest Re-pricing Gap	-6,662,970	-4,958,889	548,395	1,005,989	13,863,636	3,796,161

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2020
NOTES (CONTINUED)**

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity Risk

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

3.3.1 Liquidity Risk Management Process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that cash requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The bank maintains an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

3.3.2 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.

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**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2020
NOTES (CONTINUED)**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity Risk (continued)

3.3.3 Non-derivative Cash Flows

The following is the liquidity profile of the Bank as at 31stDecember, 2020

	Up to 1 Month TZS 000	3-Jan Month TZS 000	12-Mar Month TZS 000	Over 1 Year TZS 000	Total TZS 000
Financial Liabilities					
Deposits from customers	15,541,320	4,667,776	8,502,727	-	28,711,823
Other Liabilities (excluding statutory deductions and deferred facility fee)	227,129	-	-	-	227,129
Total Liabilities (contractual maturity dates)	15,768,449	4,667,776	8,502,727	-	28,938,952
Assets held for managing liquidity risk (contractual maturity dates)	3,859,102	3,065,605	9,242,397	17,917,860	34,084,964

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**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2020
NOTES (CONTINUED)**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative cash flows (continued)

The following is the liquidity profile of the Bank as at 31stDecember, 2019

	Up to 1 Month TZS 000	3-Jan Month TZS 000	12-Mar Month TZS 000	Over 1 Year TZS 000	Total TZS 000
Financial Liabilities					
Deposits from customers	14,956,182	3,525,457	9,185,556	-	27,667,195
Other Liabilities (excluding statutory deductions and deferred facility fee)	242,594	-	-	-	242,594
Total Liabilities (contractual maturity dates)	15,198,776	3,525,457	9,185,556	-	27,909,789
Assets held for managing liquidity risk (contractual maturity dates)	3,518,832	4,073,852	10,191,545	13,863,636	31,647,865

UCHUMI COMMERCIAL BANK LTD

**FINANCIAL STATEMENTS
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NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Liquidity Risk (continued)

3.3.3 Non-derivative cash flows (continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, Bank of Tanzania balances, and items in the course of collection, treasury bills, deposits and balances due from financial institutions and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended.

3.3.4 Off-balance sheet items

(a) Loan Commitments

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 29), are summarised in the table below.

(b) Financial Guarantees and Other Financial Facilities

Financial guarantees (Note 29) are also included below based on the earliest contractual maturity date.

As at 31stDecember, 2020	Not later than 1 Year TZS 000
Unutilised facilities and other commitments to lend	1,080,048
Acceptances, guarantees and letters of credit	-
TOTAL	<u>1,080,048</u>
 As at 31 st December, 2019	
Unutilised facilities and other commitments to lend	1,195,639
Acceptances, guarantees and letters of credit	-
TOTAL	<u>1,195,639</u>

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**FINANCIAL STATEMENTS
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NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair Values of Financial Assets and Liabilities

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the bank's statement of financial position at their fair value:

	Carrying value		Fair value	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019
	TZS 000	TZS 000	TZS 000	TZS 000
Financial Assets				
Cash and balances with Bank of Tanzania	4,020,640	4,683,086	4,683,086	4,683,086
Balances with other Banks	3,485,226	4,036,478	3,485,226	4,036,478
Loans and advances to customers	29,356,294	27,049,113	29,356,294	27,049,113
Other assets (excluding prepayments)	1,028,447	562,274	1,028,447	562,274
TOTAL	37,890,607	36,330,951	37,890,607	36,330,951
Financial Liabilities				
Deposits from customers	28,711,823	27,667,195	28,711,283	27,667,195
their liabilities (excluding statutory obligations)	227,129	241,928	227,129	242,592
TOTAL	28,938,952	27,909,123	28,938,952	27,909,787
Off-balance sheet financial instruments				
Loan commitment	-	-	-	-
Guarantees, acceptances and other financial facilities	-	-	-	-

(i) 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 deposits is a reasonable approximation of fair value. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) 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.

(iii) Investment Securities

The fair value for loans and receivables and held-to-maturity financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Investment securities (available-for-sale) disclosed in the table above comprises only those equity securities held at cost less impairment. The fair value for these assets is based on estimations using market prices and earnings multiples of quoted securities with similar characteristics. All other available-for-sale financial assets are already measured and carried at fair value.

NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair Values of Financial Assets and Liabilities (Continued)

(iv) 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.

(v) Off-balance Sheet Financial Instruments

The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

(c) Fair Value Hierarchy

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 while 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.

UCHUMI COMMERCIAL BANK LTD

**FINANCIAL STATEMENTS
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NOTES (CONTINUED)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair Values of Financial Assets and Liabilities (Continued)

3.4.1 Assets and Liabilities Measured at Fair Value

The following table analyses within the fair value hierarchy the bank's financial assets and financial liabilities (by class) measured at fair value at 31st December, 2020.

Fair Value Hierarchy	Level 1 TZS '000	Level 2 TZS '000	Level 3 TZS '000	Total TZS '000
31stDecember, 2020				
Available for sale financial assets				
- Investment securities – debt	-	-	<u>20,000</u>	<u>20,000</u>
Total	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>
31stDecember, 2019				
Available for sale financial assets				
-Investment securities – debt	-	-	<u>20,000</u>	<u>20,000</u>
Total	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>

There were no transfers between levels for the year ended 31stDecember, 2020 (2019: Nil).

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NOTES (CONTINUED)

4. CAPITAL MANAGEMENT OBJECTIVES

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the statement of financial position, 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 adopted by the Bank of Tanzania (BoT), for supervisory purposes. The required information is filed with the BoT on monthly basis.

The BoT requires each Community bank to: (a) hold the minimum level of the regulatory capital of TZS 2 billion by 31stDecember, 2020, and (b) maintain a ratio of core capital and total capital to the risk-weighted asset (the 'Basel ratio') at or above the internationally agreed minimum of 12.5% and 14.5% respectively.

The bank's regulatory capital as managed by its Treasury department is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Prepaid expenses, intangible assets and deferred charges are deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of the asset and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, considering 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.

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NOTES (CONTINUED)

5. CAPITAL MANAGEMENT: REGULATORY CAPITAL

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31stDecember, 2020 and 31stDecember, 2019 respectively. During those two periods, the bank complied with all of the externally imposed capital requirements to which they are subject.

	31-Dec-20	31-Dec-19
	TZS 000	TZS 000
Tier 1 capital		
Share Capital	9,076,261	7,773,022
Share Redemption Reserve	16,900	16,900
Retained Earnings	506,520	817,101
Prepaid	-421,259	-58,851
Deferred Tax	-84,746	-56,266
Intangible Assets	-188,263	-163,501
Total Qualifying Tier 1 Capital	<u>8,905,413</u>	<u>8,328,405</u>
Tier 2 Capital		
General Reserve		
Regulatory Risk Reserve	532,178	698,011
Revaluation Reserve	30,000	30,000
Total Qualifying Tier 2 Capital	<u>562,178</u>	<u>728,011</u>
Total Regulatory Capital (Tier 1 Plus Tier 2)	<u>9,467,591</u>	<u>9,056,416</u>
Risk-Weighted Assets		
On-Balance sheet	32,952,591	28,954,394
Off-Balance sheet	3,169,815	4,092,008
Total Risk- Weighted Assets	<u>36,122,406</u>	<u>33,046,402</u>
Capital Adequacy:		
Capital Adequacy as per Tier 1	24.65%	25.20%
Required Capital Adequacy (BoT minimum)	12.50%	12.50%
Capital Adequacy Tier 1 + Tier 2	26.21%	27.41%
Required Capital Adequacy (BoT minimum)	14.50%	14.50%

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing the financial statements the bank makes estimates and assumptions that could affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances. The most significant uses of judgment and estimates are as follows:

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS
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NOTES (CONTINUED)

6. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Impairment Losses on Loans and Advances

The bank reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in note 18.

Property and Equipment

Critical estimates are made by the directors in determining depreciation rates for equipment and their residual values. The rates used are set out in the accounting policies section of these financial statements under Note 2. There is no significant risk of these estimates changing in the next 12 months that may lead to a material change in the carrying value of property and equipment and intangible assets.

Deferred Tax Assets

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

	2020	2019
	TZS '000	TZS '000
7 INTEREST INCOME		
Interest on Loans and advances to customers	5,001,827	4,606,741
Interest from placement with other Banks	257,778	330,080
TOTAL	5,259,605	4,936,821
8 INTEREST EXPENSES		
Savings Deposits	117,730	110,061
Time Deposits	991,960	889,723
TOTAL	1,109,690	999,784

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**FINANCIAL STATEMENTS
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NOTES (CONTINUED)

	2020	2019
	TZS '000	TZS '000
9 FEES AND COMMISSION INCOME		
Commission Income	89,677	82,824
ATM Card Fees	6,993	32,234
Application Fees	232,492	268,812
Legal Fees	75,909	88,891
Ledger Fees	268,885	280,287
Salary Processing	18,918	19,309
TOTAL	692,874	772,357
10 FOREIGN EXCHANGE INCOME		
Foreign Currency Trading	27,558	19,311
TOTAL	27,558	19,311
11 OTHER OPERATING INCOME		
Insurance Income	36,831	29,167
Bad Debt recovered	10,373	2,918
MIRVAFT Grant Income	33,333	31,709
Other income	22,779	26,526
TOTAL	103,316	90,320
12 EMPLOYEE BENEFIT EXPENSES		
Salaries and Allowances	1,435,241	1,304,767
Social Security Costs	143,684	130,477
Medical	17,536	21,074
Gratuity	39,326	48,600
Leave Expenses	86,352	84,472
Staff welfare	26,681	23,102
Skill and Development Levy	61,889	58,715
Workers Compensation Fund	13,276	12,096
Terminal benefits	71,949	34,019
TOTAL	1,895,934	1,717,322

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**FINANCIAL STATEMENTS
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NOTES (CONTINUED)

	2020	2019
13 GENERAL AND ADMINSTRATIVE EXPENSES	TZS '000	TZS '000
ATM's Expenses	39,334	22,945
Unwinding interest on lease	47,928	59,028
Advertising and Marketing	101,822	97,391
Software Maintenance	80,623	73,435
Auditors' Remuneration	31,969	25,550
Directors' Fees & Other Emoluments	106,376	105,494
Training	85,498	68,687
Travelling	76,073	93,507
Maintenance Equipment	31,711	43,580
Fuel Motor Vehicle & Generator	19,745	28,457
Maintenance Vehicle & Generator	6,722	23,475
Communication Expenses	87,958	85,956
Stationery Expense	50,819	35,872
Insurance	65,491	66,557
Subscription, Professional Fees& levy	14,804	9,891
Legal Expense	43,817	35,598
Security	157,949	151,347
Premises Expenses	46,499	45,460
TISS, Swift and Bank Charges	73,043	55,477
Project Expenses MIVARF	-	793
Corporate Social Responsibility	16,752	16,093
Recruitment	7,750	11,710
Business Plan, Policies &AGM	53,108	19,353
Staff Uniform	20,860	18,678
Other administrative cost	6,951	15,900
Excise duty charges	5,418	3,826
Cleaning and Gardening	16,972	13,878
Reporting and publication	32,185	23,626
Service levy and other charges	16,949	11,071
Litigation expenses	-	70,000
Special duty expenses	20,924	22,332
Agency banking charges	6,667	2,062
Fine on Litigation	-	70,000
TOTAL	1,507,158	1,539,397
14 DEPRECIATION AND AMORTISATION		
Depreciation and Amortization (Note 21&22)	201,232	176,888

UCHUMI COMMERCIAL BANK LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2020**

NOTES (CONTINUED)

	2020	2019
15 INCOME TAX EXPENSE	TZS 000	TZS 000
(a) Tax expense for the year is arrived at as follows:		
Current income tax - current year	217,322	393,473
Current income tax -prior year	-	-
Deferred income tax - current year	-	-
Deferred income tax - prior periods	-	-
	<u>217,322</u>	<u>393,473</u>

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

	2020	2019
	TZS 000	TZS 000
Accounting (loss) / profit before tax	<u>790,252</u>	<u>1,319,008</u>
Tax effect of:		
Expenditure permanently disallowed	793,606	325,189
Less allowable expenses		
Bad debts recovered	(10,373)	(2,918)
Loan Written off	(417,273)	(4,200)
Wear and tear allowances	(431,806)	(325,505)
Taxable income	<u>724,495</u>	<u>1,311,578</u>
Income tax expense (30%)	<u>217,322</u>	<u>393,474</u>

(c) Tax Account

At 1 January	93,474	45,355
Payments made during the year	(363,474)	(345,354)
Charge to profit or loss	217,322	393,473
	<u>(52,678)</u>	<u>93,474</u>

	31.12.2020	31.12.2019
16 Cash and Balances with the Bank of Tanzania	TZS '000	TZS '000
Cash in Hand	1,553,397	1,643,411
Balances with Bank of Tanzania		
Clearing account - Local Currency	528,786	790,350
Clearing account - foreign Currency	238,169	367,440
Statutory Minimum Reserve	1,700,288	1,881,885
TOTAL	<u>4,020,640</u>	<u>4,683,086</u>

The SMR deposit is not available to finance the bank's day-to-day operations and is excluded from cash and cash equivalents for the purpose of the cash flow statement (Note 29).

Cash and balances with Bank of Tanzania are non-interest bearing.

UCHUMI COMMERCIAL BANK LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2020**

NOTES (CONTINUED)

17 BALANCES WITH OTHER BANKS	31.12.2020	31.12.2019
	TZS '000	TZS '000
Balance with local Banks	2,317,188	2,544,219
Balance with other Banks	479,195	1,048,245
Balance with Mobile Network Operators (MNOs)	424,180	148,681
Cheques and items in the course of clearing	264,663	295,333
TOTAL	3,485,226	4,036,478
18 LOANS AND ADVANCES TO CUSTOMERS		
Loans and advances to customers	29,811,493	27,021,063
Staff Loans	517,008	421,170
Gross Loans and advances	30,328,501	27,442,233
Less: Allowance for impairment	(972,207)	(393,120)
TOTAL	29,356,294	27,049,113
General Loans	23,578,103	21,494,367
Salaries Loans	1,234,331	1,117,736
Uwezeshaji loans	63	174
Overdrafts	4,543,797	4,436,836
TOTAL	29,356,294	27,049,113
Reconciliation of impairment allowance and provision is as follows		
Opening balance at 1st January	393,120	330,910
Impairment losses	579,087	62,210
		-
Balance as at 31st December,	972,207	393,120
Impairment allowance as for the year	579,087	62,210
Bad and doubtful debt written off	-	4,200
Total impairment loss for the year	579,087	66,410
19 UNQUOTED EQUITY INVESTMENT		
Investment in Shares	20,000	20,000
TOTAL	20,000	20,000

Investments in shares represent 20 ordinary shares in Umoja Switch Company Limited. The investment represents 7.69% of the Company's total issued and paid up ordinary share capital. The shares are accounted for at cost.

Umoja Switch Company Limited is a jointly controlled operation whereby 30 banks have pulled together resources to invest in a nationwide ATM network. Each Bank has an equal voting right in respect of decision making.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2020

NOTES (CONTINUED)

20 PROPERTY AND EQUIPMENT

	Land	Leasehold Improvement	Office Furniture & Fittings	Computer &Equipment	Motor Vehicle	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
COSTS						
As at 01 January 2020	29,367	642,138	125,059	733,971	129,743	1,660,278
Addition	-	111,942	2,931	214,100	-	328,973
As at 31 December 2020	29,367	754,080	127,990	948,071	129,563	1,989,071
Depreciation						
As at 01 January 2020	-	104,757	85,620	551,459	17,841	759,677
Charge for the year	-	29,096	9,648	94,091	12,947	145,782
As at 31 December 2020	-	133,853	95,268	645,550	30,788	905,459
Net Book Value						
As at 31st December, 2020	29,367	620,227	32,722	302,521	98,775	1,083,612
COSTS						
As at 01 January 2019	29,367	642,138	117,669	659,460	106,954	1,555,588
Addition	-	-	7,390	74,331	99,743	181,464
Less cost of damaged vehicle	-	-	-	-	(76,954)	(76,954)
As at 31 December 2019	29,367	642,138	125,059	733,971	129,743	1,660,098
Depreciation						
As at 01 January 2019	-	79,195	76,231	461,879	26,449	643,754
Charge for the year	-	25,562	9,389	89,580	16,534	141,065
Less depreciation of damaged vehicle	-	-	-	-	(25,142)	(25,142)
As at 31 December 2019	-	104,757	85,620	551,459	17,841	759,677
Net Book Value						
As at 31st December, 2019	29,367	537,381	39,439	182,512	111,902	900,421

None of the premises and equipment has been pledged as security for liabilities (2019: Nil).

UCHUMI COMMERCIAL BANK LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2020**

NOTES (CONTINUED)

21 INTANGIBLE ASSETS	31.12.2020	31.12.2019
	TZS 000	TZS 000
Cost		
As at 1 st January,	326,600	229,797
Additions	80,212	96,803
As at 31 st December,	406,812	326,600
Amortizations		
As at 1 st January,	163,099	127,276
Charge for the Year	55,450	35,823
As at 31 st December	218,549	163,099
Carrying Amount	188,263	163,501
22 RIGHT OF USE ASSET		
Costs		
At start of year	738,155	738,155
Additions	-	-
At end of year	738,155	738,155
Depreciation		
At 1 January	147,631	-
Charge for the year	147,631	147,631
	295,262	147,631
At 31 December	442,893	590,524
23 OTHER ASSETS		
Prepayments	421,259	58,851
Imprest	-	911
Western Union Payable	37,895	53,866
Staff Advances	291,800	232,134
Work in Progress	42,924	66,967
Stationary stock	11,010	15,151
Account Receivable	1,158	2,747
Mobile banking float	105,223	69,796
VAT Receivable	52,971	63,896
Inter Branch Receivable	33,260	-
Dormant account receivable	8,647	56,040
TOTAL	1,006,813	620,359
24 DEPOSITS FROM CUSTOMERS		
Current Accounts	3,591,256	4,159,431
Savings Accounts	13,356,277	12,335,342
Time Deposit Accounts	11,764,290	11,172,422
TOTAL	28,711,823	27,667,195

UCHUMI COMMERCIAL BANK LTD

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2020**

NOTES (CONTINUED)

	31.12.2020	31.12.2019
	TZS 000	TZS 000
25 OTHER LIABILITIES		
Uwezeshaji	57,648	57,648
Dividend Payable	64,355	31,815
Withholding and Other Taxes Payable	26,851	15,706
Gratuity & Terminal benefit Payable	-	19,841
Mobile Banking Collection payable	12,401	7,146
Balances due to other banks (Sundry credit)	54,772	48,189
Accrued expenses	19,170	6,733
Dormant account payable		54,850
Western union payable	666	666
Insurance premium payable	16,112	-
Agency banking payable	2,005	-
TOTAL	<u>253,980</u>	<u>242,594</u>
26 GRANT		
Income Grant	-	793
Depreciation on Capital Grant	33,333	30,916
Total grant Income	<u>33,333</u>	<u>31,709</u>
Capital Grant		
Motor Vehicle T.513DHZ	-	67,500
Vehicle T.513.DHZ got accident	-	(67,500)
New vehicle T.813 DQU	68,000	68,000
CCTV Camera	7,200	7,200
Motor Vehicle T.679 BJZ Market Value	30,000	30,000
Agency banking software	110,465	98,900
Addition-agency banking software	-	11,565
Total Capital Grant	<u>215,665</u>	<u>215,665</u>
Amortization		
Opening balance Motor vehicle	17,069	24,165
Opening balance CCTV Camera	4,680	3,240
Opening balance agency banking software	27,454	4,945
Less depreciation of damaged vehicle	-	(14,063)
Charge for the year Motor Vehicle (T.813 DQU)	6,800	3,967
Charge for the year Motor Vehicle (T.679 BJZ)	3,000	3,000
Charge for the year CCTV Camera	1,440	1,440
Charge for the year Agency banking software	22,093	22,509
Total Depreciation	<u>82,536</u>	<u>49,203</u>
Net Capital Grant	<u>133,129</u>	<u>166,462</u>
Grant-MIVARF		
Opening Balance	174	14,614
Received for the Year	-	-
Amount Used	(174)	(14,440)
Balance as at 31stDecember	<u>-</u>	<u>174</u>

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2020

NOTES (CONTINUED)

	31.12.2020	31.12.2019
27 LEASE LIABILITY	TZS 000	TZS 000
At start of the year	614,815	738,155
Finance Cost (Unwinding interest)	47,928	59,028
Payments	<u>(182,368)</u>	<u>(182,368)</u>
	<u>480,374</u>	<u>614,815</u>
28 SHARE CAPITAL		
Authorized Capital		
The bank increased the Authorized share capital from 10mil to 30mil during the year.		
30,000,000 Ordinary Shares of TZS 1,000 each	<u>30,000,000</u>	<u>10,000,000</u>
Issued and Fully Paid Up		
9,076,261 Ordinary Shares of TZS 1,000 each	<u>9,076,261</u>	<u>7,773,022</u>
TOTAL	<u>9,076,261</u>	<u>7,773,022</u>
29 CASH AND CASH EQUIVALENTS		
Cash and Balances with Bank of Tanzania (Note 16)	4,020,640	4,683,086
Less: SMR (Note 16)	(1,700,288)	(1,881,885)
Placement and deposits to other Banks (Note 17)	3,485,226	4,036,478
TOTAL	<u>5,805,578</u>	<u>6,837,679</u>

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

30 REVALUATION RESERVE

The bank maintains a Fixed Assets Revaluation Reserve to account for revaluation surpluses. If an asset carrying amount increases as a result of revaluation, the increase is credited directly to Fixed Asset Revaluation Reserve. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in income statement. If an asset's carrying amount decreases as a result of revaluation, the decrease is recognized in income statement. However, the decrease is debited directly to Fixed Assets Revaluation Account to the extent of any credit balance existing in the revaluation surplus in respect of that asset. During the year no revaluation was carried out.

31 OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2020

NOTES (CONTINUED)

31 OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

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

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

Commitments to Extend Credit

At the end of the reporting period the bank had TZS. 1,080 million (2019; TZS. 1,195 million) outstanding commitments to extend credit.

Legal Claims

The bank is currently involved in legal proceedings and litigations, current or pending, is not likely to have a material adverse effect to the bank.

Capital Commitments

There were no capital commitments neither approved but not contracted for, nor contracted for but not provided for in these financial statements.

32 RELATED PARTY DISCLOSURES

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

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

(i) Loans and Advances to Related Parties

Advances to shareholders and their related companies were as follows:

	31.12.2020	31.12.2019
	TZS 000	TZS 000
At start of year	810,946	497,151
Net movement during the year	93,528	313,795
At end of year	<u>904,474</u>	<u>810,946</u>
Interest Income Earned	<u>93,501</u>	<u>78,536</u>
Advances to key Management Personnel were as follows:		
At start of year	68,109	76,184
Net movement during the year	51,625	(8,075)
At end of year	<u>119,734</u>	<u>68,109</u>
Interest Income Earned	<u>8,156</u>	<u>7,383</u>

Loans and Advances to Related Parties were fully performing as at 31stDecember, 2020

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2020

NOTES (CONTINUED)

32 RELATED PARTY DISCLOSURES (Continued)

(ii) Deposits from Related Parties

	2020 TZS 000	2019 TZS 000
ELCT ND and its Institutions	5,237,149	5,615,974
Private shareholders	3,973,529	3,476,557
TOTAL	9,210,678	9,092,531

b) Deposits by Directors and key management personnel

At start of year	465,889	505,791
Net movement during the year	(98,732)	(39,902)
Balance as at 31 st December,	367,157	465,889
Interest expense incurred	37,806	47,973

c) Deposits by shareholders

At start of year	9,092,531	5,488,486
Net movement during the year	118,147	3,604,045
At end of year	9,210,678	9,092,531
Interest Expense Incurred	313,827	309,801

d) Key Management Compensation

Salaries and other short-term benefits	666,274	468,585
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Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the bank, directly or indirectly, including any director of the bank.

UCHUMI COMMERCIAL BANK LTD

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2020

NOTES (CONTINUED)

32 RELATED PARTY DISCLOSURES (Continued)

e) Directors' Remuneration

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

Name	2020	2020	2019	2019
	Directors Fees	Other Emoluments	Directors Fees	Other Emoluments
	TZS 000	TZS 000	TZS 000	TZS 000
Mr. Wilson N. Ndesanjo	2,000	4,500	2,000	2,100
Mr. Abel M. Mrema	2,000	4,200	2,000	4,500
Mr. Munguatosha J. Makyao	-	-	2,000	6,300
Mrs Janeth D. Mmari	2,000	3,900	2,000	3,300
Mrs.Ndenengo E. Mwendu	2,000	2,700	2,000	4,500
Mrs. Elizabeth M. Minde	2,000	3,600	2,000	3,000
Mr.Authur N. Shoo	2,000	6,000	2,000	3,900
Mrs.Aginatha F.Rutazaa	2,000	3,900	2,000	3,000
Dr. Heavenlight E. Kavishe	2,000	5,400	-	-
TOTAL	16,000	34,200	16,000	30,600

33 COUNTRY OF INCORPORATION

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

34 ASSETS PLEDGED AS SECURITY

As at 31stDecember, 2020, there were no assets which had been pledged by the bank to secure any liabilities and the bank did not have any secured liabilities.

35 FAIR VALUE

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

36 SUBSEQUENT EVENTS DISCLOSURE

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

As regarding to ongoing global issue of Covid 19 pandemic, there is no material impact for the bank and therefore no adjustment has been made in the Banks financial statements.