



VICTORIA FINANCE PLC

**ANNUAL REPORT AND GROUP CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR ENDED 31st DECEMBER 2021**

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FOR THE YEAR ENDED 31ST DECEMBER 2021**

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**ANNUAL REPORT AND GROUP CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2021**

CORPORATE INFORMATION

BOARD OF DIRECTORS

CHAIRMAN

Mr. Leonard Kitoka

DIRECTORS

Ms. Victoria Chale

Ms. Rose Funja

Mr. Abel Kaseko

Mr. Robert Butambala

Mr. Xavery Makwi

Mr. Moremi Marwa

COMPANY SECRETARY

Mr. Frank Mwalongo

CHIEF EXECUTIVE OFFICER

Mr. Julius Mcharo

REGISTERED OFFICE

5th Floor Mwanga Tower Building,
New Bagamoyo road, Kijitonyama,
P.O BOX 12102
Dar es Salaam

LEGAL ADVISORS:

APEX ATTORNEYS

Tancot House,
Sokoine/Pamba Road,
P.O BOX 34674,
Dar es Salaam

AUDITORS

AUDITAX INTERNATIONAL

PPF Tower, 7th Floor Garden Avenue
P. O. Box 77949
Dar es Salaam

BANKERS:

NCBA BANK TANZANIA LIMITED

Samora Branch, Dar es Salaam

NMB BANK PLC

Kariakoo Branch, Dar es Salaam

AKIBA COMMERCIAL BANK

Main Branch, Dar es Salaam

CRDB BANK PLC

Vijana Branch, Dar es Salaam

MUCOBA BANK PLC

Madibira Branch, Mbarali

AZANIA BANK LIMITED

Mawasiliano Towers Branch, Dar es
Salaam

TCB BANK LIMITED

Mlimani Branch, Dar es Salaam

MAENDELEO BANK PLC

Luther Branch, Dar es Salaam

ANNUAL REPORT AND GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2021

REPORT BY THOSE CHARGED WITH GOVERNANCE

1. INTRODUCTION

The Directors present this report and the audited financial statements for the financial year ended 31st December, 2021 which disclose the state of affairs of the Group.

2. INCORPORATION

Victoria Finance Plc was incorporated on 2nd October 2009 under the Tanzania Companies Act, 2002 as Victoria Microfinance Company Limited and later on, on 20th April 2010, changed the name to Victoria Finance Limited and in 2014 was incorporated as Victoria Finance Public Limited Company.

3. VISION, MISSION AND OBJECTIVES

VISION

“To be the preferred financial services partner in Tanzania”

MISSION

“To provide comprehensive financial solutions by meeting customers’ needs, realizing shareholders’ value and ultimately benefitting the society.

CORE OBJECTIVES:

- (i) To achieve consistent and sustainable profitability and shareholders’ value
- (ii) To acquire and maintain significant market share in our target markets.
- (iii) To attain high efficiency and productivity in our business operations.

4. PRINCIPAL ACTIVITIES

The principal focus of Victoria Finance Group is provision of financial services mainly microfinance. The Group is also carrying out insurance brokerage services through its subsidiary –Victoria Insurance Brokers Limited.

5. OBJECTIVES AND STRATEGIES

The main objectives and strategies of Victoria Finance Group are:

- (a) Achieving Significant Inclusive Financial Growth, through:
 - Increased Revenues
 - Significant Quality Portfolio
 - Improved Shareholders Returns
- (b) Improving Customer Experience, through:
 - Customer Satisfaction
 - Customer retention
 - Customers acquisitions
- (c) Increase use of Innovations & Technology, through:
 - Digitalization
 - Cost containment
 - Staff Competency & Productivity

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REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

6. DIRECTORS

The Directors who held office during the year and at the date of this report are shown below. In accordance with the Company's Articles of Association, Director Moremi Marwa is due for retirement in June, 2022 after serving for six years.

The members of the Board of Directors who served during the period and to the date of this report are indicated below.

NAME	APPOINTED	AGE	PROFESSION	NATIONALITY	NO. OF SHARES
DIRECTORS					
Mr. Leonard C. Kitoka	20-June-21	53	Mgt Consultant	Tanzanian	1,120,774
Ms. Victoria Chale	20-June-21	51	HR Consultant	Tanzanian	-
Ms. Rose Funja	21-June-20	40	IT Specialist	Tanzanian	-
Mr. Abel Kaseko	20-June-21	39	IT and Banker	Tanzanian	-
Mr. Robert Butambala	20-June-21	52	Accountant	Tanzanian	-
Mr. Moremi Marwa	16-Jun-19	45	Financial Analyst	Tanzanian	-
Mr. Xavery Makwi	20-June-21	53	Banker	Tanzanian	-
COMPANY SECRETARY					
Mr. Frank Mwalongo	2-Jan-12	45	Lawyer	Tanzanian	-

7. CORPORATE GOVERNANCE

VFP Board consists of seven (7) both Non-Executive and Independent Directors. Apart from the Chief Executive Officer, no other Director holds executive positions in the Company. The Board takes overall responsibility for the Company, including responsibility for identifying key risk areas, considering and monitoring significant 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 times a year. The Board delegates the day-to-day management of business to the Chief Executive Officer assisted by senior management.

The VFP Board has three Board committees namely Board Audit & Risk Committee, Board Credit & Investment Committee and Board Finance, Human Resources & Administration Committee.

BOARD AUDIT & RISK COMMITTEE MEMBERS

The Committee held four meetings out of four meetings planned during the year. The External Auditors were invited and attended one meeting to present audit findings and opinion on audited financial statements. The Chief Executive Officer, Chief Finance Officer and Internal Auditor also attended the meetings as invitees.

ANNUAL REPORT AND GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2021

REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

7. CORPORATE GOVERNANCE (CONTINUED)

BOARD AUDIT & RISK COMMITTEE MEMBERS (CONTINUED)

Members of the Committee that served during the year were as follows:

NAME	POSITION	PROFESSION	NATIONALITY
Mr. Robert Butambala	Chairman	Accountant	Tanzanian
Ms. Rose Funja	Committee member	IT Specialist	Tanzanian
Mr. Xavery Makwi	Committee Member	Banker	Tanzanian
Ms. Victoria Chale	Committee member	HR Consultant	Tanzanian
Mr. Frank Mwalongo	Secretary	Lawyer	Tanzanian

The Board Audit and Risk Committee reviews significant accounting policies and financial reporting systems to ensure that they are adequate and are complied with at all times. It reviews adequacy of internal control systems and monitors implementation of actions to address issues raised by internal auditors, external auditors and regulators.

The Committee assists the Board in evaluation and selection of External Auditors at least annually and approves recruitment of the Internal Auditor. It can also recommend termination of existing Auditors whenever it is found that the performance is not in line with the assigned duties and responsibilities and/or there is no independence for the auditors to discharge their duties in a professional manner.

BOARD CREDIT & INVESTMENT COMMITTEE

The Board Credit and Investment Committee held three meetings during the year out of four meetings planned. The Committee was reconstituted during the year due to change in Board members with some retiring and new ones being admitted. The Chief Executive Officer and Chief Operation Officer participated in the meetings as invitees. Members of the Credit Committee that served during the year were as follows: -

NAME	POSITION	PROFESSION	NATIONALITY
Mr. Xavery Makwi	Chairman	Banker	Tanzanian
Mr. Leonard Kitoka	Committee member	Mgt Consultant	Tanzanian
Mr. Moremi Marwa	Committee member	Accountant	Tanzanian
Mr. Abel Kaseko	Committee member	IT and Banker	Tanzanian
Mr. Frank Mwalongo	Secretary	Lawyer	Tanzanian

The main function of the Board Credit Committee is to monitor performance and quality of credit portfolio, appraise and approve loans within its credit approval limit and recommend to the Board for approval facilities beyond its limit. The Committee reviews Credit Policy at least once a year and ensures that it contains sound fundamental principles that facilitate the identification, measurement, monitoring and control of credit risk as well as having appropriate plans and strategies for credit risk management.

BOARD FINANCE, HUMAN RESOURCES AND ADMINISTRATION COMMITTEE

The Committee held three meetings out of four meetings planned during the year. The Committee was reconstituted during the year due to change in Board members with some retiring and new ones being admitted. The Chief Executive Officer and Chief Finance Officer also attended the meetings as invitees.

ANNUAL REPORT AND GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2021

REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

7. CORPORATE GOVERNANCE (CONTINUED)

BOARD FINANCE, HUMAN RESOURCES AND ADMINISTRATION COMMITTEE (CONTINUED)

Members of the Committee that served during the year were as follows:

NAME	POSITION	PROFESSION	NATIONALITY
Mr. Moremi Marwa	Chairman	Accountant	Tanzanian
Ms. Victoria Chale	Committee member	HR Consultant	Tanzanian
Ms. Rose Funja	Committee member	IT Specialist	Tanzanian
Mr. Abel Kaseko	Committee member	IT and Banker	Tanzanian
Mr. Frank Mwalongo	Secretary	Lawyer	Tanzanian

The main function of this Committee is to develop, review and monitor the financial strategic plan and management practices. The Committee ensures that there is a succession plan for executives and other key positions. It is also responsible for reviewing and recommending reward strategy and annual compensation for the Board, senior management and other employees.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors is mandated to oversee the Management to efficiently discharge specific functions of the Group. The members of the Board are aware of their obligation for good corporate governance at all times and the need to work for the best interest of the Group. All Board members are non-executive directors and meet at least after every three months to discuss the affairs of the Group. The Board of Directors consists of 7 members and the Secretary to the Board. The Board takes overall responsibility for the Group, 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 operational, and in compliance with sound corporate governance principles. The Board delegates the day-to-day management of the business to the Chief Executive Officer who is assisted by the management team. The management team is invited to attend board meetings and facilitate the effective control of the Group's operational activities.

The Group 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 had five meetings while the Board Audit and Risk Committee had three meetings during the year. The Board Credit and Investment Committee met three times while Board Finance, Human Resources & Administration met four times during the year.

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REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

7. CORPORATE GOVERNANCE (CONTINUED)

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

Attendance to the meetings is detailed in the tables below:

BOARD MEETINGS

S. NO	MEETING NO.	DATE	BOARD ATTENDANCE
1	67	29 th January, 2021	6 out of 7
2	68	16 th April, 2021	6 out of 7
3	69	14 th May, 2021	7 out of 7
4	70	2 nd August, 2021	5 out of 7
5	71	29 th October 2021	6 out of 7
6	72	5 th December, 2021	6 out of 7

BOARD MEMBERS' ATTENDANCE IS SUMMARIZED BELOW:

NAME OF DIRECTOR	DIRECTORS	BARC	BCC	BFHA
Mr. Leonard Kitoka	6 out of 6	NA	2 out of 3	NA
Ms. Victoria Chale	5 out of 6	4 out of 4	NA	2 out of 3
Ms. Rose Funja*	6 out of 6	3 out of 4	NA	3 out of 3
Mr. Abel Kaseko	6 out of 6	NA	3 out of 3	3 out of 3
Mr. Robert Butambala	6 out of 6	4 out of 4	NA	NA
Mr. Moremi Marwa	6 out of 6	NA	1 out of 3	3 out of 3
Mr. Xavery Makwi	1 out of 6	3 out of 4	1 out of 3	NA

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

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

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

The Board assessed the internal control systems throughout the financial year ended 31 December 2021 and is of the opinion that they met accepted criteria. The Board carries risk and internal control assessment through the Board Audit and Risk Committee.

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REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

7. CORPORATE GOVERNANCE (CONTINUED)

INTERNAL AUDIT FUNCTION

The Group has an established internal audit function headed by an in-house Internal Auditor, who reports to the Board of Directors through the Board Audit and Risk Committee.

The Internal Audit function provides an independent and objective assurance that is guided by a philosophy of adding value to improve the operations of the Group. It assists in accomplishing objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Group's governance, risk management and internal control. Both the internal audit activity and responsibilities are established and defined by the Board of Directors as part of their oversight role.

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Group's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the stated goals and objectives of the Group. This includes:

- Evaluating risk exposure relating to achievement of the organization's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board.
- Evaluating specific operations at the request of the Board or management, as appropriate.

EXECUTIVE MANAGEMENT

The existing Group's management structure has the Chief Executive Officer (CEO) who is the overall in charge of the Group. He is assisted by the General Manager-Insurance (GM), the Chief Operations Officer (COO); the Chief Finance Officer (CFO), Head of Legal & Compliance (HLC), Head of Information & Communication Technology (HICT) and Internal Auditor (IA).

ANNUAL REPORT AND GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2021

REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

7. CORPORATE GOVERNANCE (CONTINUED)

EXECUTIVE MANAGEMENT (CONTINUED)

The current management team is composed of the following members:

CHIEF EXECUTIVE OFFICER

Julius Mcharo is a professional banker with over twenty-six years' experience in banking, microfinance and financial markets where he ascended the leadership ladder to become the Chief Executive Officer of a regional Bank-Commercial Bank of Africa (Tanzania) Limited, a position he held until December 2015. He worked for both international banks and local banks including Standard Chartered Bank, Citibank, TIB Bank and Commercial Bank of Africa.

He has served in a number of Boards including IODT, Victoria Insurance Brokers and Mawinyi Investment Limited. He holds B.com (Finance), MBA, CPA (T) and Certificate of Directorship.

GENERAL MANAGER –VICTORIA INSURANCE BROKERS

Elinipa Elias started her career in 2011 as Reinsurance Officer with Insurance Group of Tanzania Limited. She later joined MGen Tanzania Limited in 2013 as Marketing Officer and then promoted to Business Unit Manager from 2015 until when she joined Victoria Insurance Brokers in March 2018. She holds a Bachelor Degree in Sociology from the University of Dar es Salaam. She is also the holder of CII Certificate from Chartered Insurance Institute (UK) and still pursuing her Diploma at the same Institute.

CHIEF OPERATING OFFICER

Hermenegild P. Kiyagi is the Chief Operations Officer, (COO) of Victoria Finance Plc. He is responsible for formulating strategies, planning and quality management of loan portfolio. He oversees the operations department which vests the portfolio management functions.

He has extensive experience in Microfinance of more than 19 years in microfinance business in Tanzania. His past experience includes being a Chief Operational Officer at Fanikiwa Microfinance Limited, branch manager and credit officer with Pride Tanzania. He holds Bachelor of Commerce in Finance from the University of Dar Es Salaam, (1996) and Certificates in various courses in Banking and Microfinance.

CHIEF FINANCE OFFICER

CPA Simon T. Justine is the Chief Finance Officer, (CFO) of Victoria Finance Plc. He is responsible for providing leadership, direction and management of the finance and accounting team. Simon started his career journey 10 years ago, with a regional bank, KCB Bank (Tanzania) Limited, then progressed to working as a Senior Accountant with a microfinance bank, EFC Tanzania MFC Limited and later worked with Ernst & Young - Tanzania, specializing in the audit of clients within the financial services sector. He has experience working as the Head of Finance for a group of companies, VGK Company Ltd and Wazo Road Haulage Ltd within the extraction and logistics industries respectively.

He holds a Bachelor of Commerce (Accounting) from the University of Dar es Salaam (UDSM), an Associate Certified Public Accountant in Public Practice (ACPA-PP) and an active member of the National Board of Accountants and Auditors (NBAA).

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REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

7. CORPORATE GOVERNANCE (CONTINUED)

EXECUTIVE MANAGEMENT (CONTINUED)

ICT OFFICER

Noel Mathew Sumbe is an ICT Engineer and experienced Systems Analyst for over two years. He specializes in network and systems administration and quite knowledgeable in a variety of applications and operating systems. He previously worked both at Aga Khan Foundation and NPK Technologies as IT Officer and System Analyst respectively before joining Vision Max Company as System Analyst. He joined Victoria Finance Plc in October 2020 as an ICT Officer in charge of all Company's ICT operations. Noel holds Bachelor of Science in Computer Engineering and IT from University of Dar es Salaam.

LEGAL AND COMPLIANCE OFFICER

Robi Simon Magaigwa is an Advocate of the High Court of Tanzania and the current Legal and Compliance Officer. Has more than eight years of professional legal practice. He worked as Senior Advocate with both RMS Attorneys and FCB Consultancy Limited before joining Victoria Finance. She holds Bachelor of Law from Mzumbe University and a Post Graduate Diploma in legal training and practice from Law School of Tanzania.

INTERNAL AUDITOR

CPA Khadija J Nkondo is the Head of Internal audit of Victoria Finance Plc, she is responsible for quality assurance and overseeing adherence to regulations, laws, policies and procedures. Khadija started her career 9 years ago with Pride Tanzania as Credit Officer, then worked with Fanikiwa Microfinance as Supervisor and later worked with Amana Bank as Internal Auditor.

She holds a bachelor degree in Accountancy from Institute of Finance Management (IFM), a Graduate Certified Public Accountant (GA) and an active member of National Board of Accountants and Auditors (NBAA).

DIRECTORS REMUNERATION

Remuneration of all directors is subject to annual review by members of the Group to ensure that levels of emoluments and compensation are appropriate. The non-executive directors are not eligible for pension scheme membership and are not part of VFP remuneration scheme.

Information on aggregate amounts of the emoluments and fees paid during the year is disclosed below:

S/N	DIRECTORS	AMOUNT (TZS)
1	Mr. Leonard C. Kitoka	1,750,000
2	Ms. Victoria Chale	1,500,000
3	Ms. Rose Funja	1,500,000
4	Mr. Abel Kaseko	1,500,000
5	Mr. Robert Butambala	1,750,000
6	Mr. Moremi Marwa	1,750,000
7	Mr. Xavery Makwi	1,750,000

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REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

8. SHARE CAPITAL STRUCTURE

Victoria Finance PLC has 20 million authorized shares of TZS 250 each. Currently, the Group has 60 shareholders out of which eleven (11) shareholders each holding at least 2.0% of the total issued and paid-up shares of the Company. The total number of shares issued and paid up as at 31st December, 2021 was 5,386,723 (2020: 5,172,577). The shares of the company as of 31st December 2021 and 2020 are held as follows:

NAME	NO. OF SHARES 2021	% OF HOLDINGS 2021	NO. OF SHARES 2020	% OF HOLDINGS 2020
Leonard C. Kitoka	1,120,774	20.81%	1,063,653	20.60%
Blandina P. Mususa	757,078	14.05%	757,078	14.60%
Farida Kangesa	549,672	10.20%	224,849	4.30%
VG Holding Company Ltd	439,818	8.16%	439,818	8.50%
Christopher Mageka	178,641	3.32%	169,536	3.30%
Christopher Athuman	158,632	2.94%	158,632	3.10%
Julius Charles Mcharo	116,629	2.17%	128,629	2.50%
Godfrey Gugai JB	115,177	2.14%	115,177	2.23%
William Haji	114,750	2.13%	114,750	2.22%
Christopher Mduma	114,578	2.13%	108,738	2.10%
Raymond Mbilinyi	111,103	2.06%	105,441	2.04%
Other shareholders (49 members with holdings less than 2%)	1,609,871	29.89%	1,786,276	34.53%
Total Share Capital	5,386,723	100.00%	5,172,577	100.00%

9. STOCK EXCHANGE INFORMATION

The Group is not listed on trading window of the stock exchange but listed under Acceleration window which is a non- trading category of emerging enterprises nurtured and profiled for consideration for the listing in the both Enterprise Growth Market or the Main Market.

10. BUSINESS PERFORMANCE

The Group performance for the year is summarized below:

DESCRIPTION	GROUP 2021	GROUP 2020
Profit before taxation	614,019	675,498
Tax charge	(193,849)	(203,898)
Net profit	420,170	471,600
Earnings per share (EPS)	80	90
Return on Equity (ROE)	13.43%	16.33%

11. KEY PERFORMANCE INDICATORS (KPIs)

During the year 2021, VFP did not attain good scores in most of the key performance indicators. The key reason for the performance below target remained to be scarcity of adequate loanable fund for growth of the group assets. Also, the impact of COID-19 continued to adversely affect the performance targets in terms of profitability, when compared to projected Profit Before Tax (PBT).

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REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

11. KEY PERFORMANCE INDICATORS (KPIs) (CONTINUED)

Below is the summary of Victoria Finance Plc key financial highlights:

KEY INDICATORS	31-Dec-21	31-Dec-20	Variance
Return On Equity	13.43%	16.37%	-2.06%
Operational Efficiency Ratio	139.12%	142.90%	-3.78%
Operating Expense/ Loan Portfolio	9.31%	10.86%	-1.55%
Personnel Expense/ Loan Portfolio	13.77%	11.00%	2.77%
Debt To Equity Ratio	86.50%	129.67%	-43.17%
Portfolio To Total Assets	80.46%	77.75%	2.71%

12. DIVIDEND

The Board of Directors recommends for the payment of dividend of TZS 27 per share, for the year ended 31st December 2021 (2020: TZS 27). The reminder of profit shall be re-invested to finance the Group's planned growth for 2022. The Directors continue to mobilize both equity and debt finance for lending to new products and for strategic technological initiatives.

The Group's subsidiary, Victoria Insurance Brokers Limited declared dividend of TZS 68.8million (TZS 344 per share) for the year ended 31st December 2021, (2020: TZS 242).

13. CURRENT AND FUTURE DEVELOPMENT PLANS

The Strategic Plan 2020-2024 (the Plan) was developed and approved by the Board of Directors of Victoria Finance Plc in December 2019. The main objective of the Strategic Plan was to redefine the new growth frontiers by consolidating gains achieved in the last ten years and open up new avenues of opportunities underpinned by the digitalization of financial services in the Group

The Strategic Plan continues to be driven by three main strategic objectives. The first strategic objective is to improve an inclusive financial growth, which means leveraging on existing resources to maximize profitability by increasing revenues and minimizing costs in the targeted new markets and products. The company intends to use additional resources to improve the loan portfolio and acquire more customers who in turn will increase revenues and incomes. The second strategic objective is to improve customer experience in the Group hence improve retention and loyalty. This means improving customer journeys across all channels and business functions in attracting customers to create a competitive advantage in the market. The third strategic objective is the increase use of innovations and technology to drive value additions in microfinance business and aligning with the dynamics of the market.

14. STAKEHOLDERS' RELATIONSHIPS

The Group continued to maintain good relationship with all stakeholders including customers, banks, microfinance institutions, vendors and regulators such as Bank of Tanzania (BOT), Tanzania Revenues Authority, Social Security Funds, and Tanzania Insurance Regulatory Authority Municipal Councils, Higher Education Students' Loans Board, BRELA, OSHA, Workers Compensation Fund, and Ministry of Trade and Industry.

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REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

15. SOLVENCY

The Board of Directors has reviewed the financial position of the Group for the year ended 31st December 2021 and the existing long term, short-term obligations and meanings ascribed in the Companies Act No. 12 of 2002 and consider the Group to be a going concern.

16. CASH FLOWS AND LIQUIDITY

VFP Management has set out various strategies that will ensure the long-term sustainable funding which can be used to lend to the customers and maintain the optimal level of business operation. One of the strategies is engaging different Financial Institutions both within and outside the country, who are able to lend to VFP at an affordable cost. We are currently in discussion with several institutions which some of the discussions are in very advanced stage.

17. EMPLOYEE WELFARE

FINANCIAL ASSISTANCE

During the year, the Group offered its employees with staff loans at an interest rate of 10% per annum.

MEDICAL BENEFITS

During the year, the Group continued to offer its employees with medical insurance cover for the whole year with Jubilee Insurance Limited.

MANAGEMENT/EMPLOYEE RELATIONSHIP

During the year, the relationship between management and employees remains good with sound collaboration and teamwork.

GENDER PARITY

The Group is an equal opportunity employer as at 31 December, 2021, the Group had the following distribution of employees by gender.

GENDER	2021	2020
Female	17	13
Male	15	14
Total	32	27

PERSONS WITH DISABILITIES

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

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REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)

17. EMPLOYEE WELFARE (CONTINUED)

EMPLOYEES BENEFIT PLAN

The Group's contributions to a publicly administered pension plan on mandatory basis which qualifies to be a defined contribution plan.

18. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 19 of these financial statements.

19. CORPORATE SOCIAL RESPONSIBILITY (CSR)

Victoria Finance PLC continued to give back to the community in support of various developmental causes in areas of education, health and environmental conservation. The CSR initiatives are guided by the Victoria's policy that requires Victoria Finance to spend up to 0.5% of its profit into community support in social activities.

The Corporate Social Responsibility has become an integral part of our operations. As a corporate citizen, Victoria Finance believes that by giving back to our communities is an opportunity be closer to our customers and create a lasting bond.

During the year, Group spent TZS3million to support procurement of desks for a primary School at Dakawa in Morogoro. Further, spent TZS15million in customer trainings on financial literacy, effective group leadership, business management skills and business opportunity in farming for customers in Dar es Salaam, Madibira, Rujewa, Igurus and Mlimba.

20. AUDITORS

During the year 2021, AUDITAX INTERNATIONAL was appointed as Group's auditors for the third time. The auditors have indicated their willingness for reappointment for the year ending 31st December 2022.

By order of the Board



Leonard Chacha Kitoka
Chairman

+

14th April 2022

Date

ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2021

STATEMENT OF DIRECTORS' RESPONSIBILITY

The Group's directors are responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position as at 31st December 2021, and the statement of comprehensive income, the statement of changes in equity and statement of cash flow for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in the manner required by the Tanzania Companies Act, CAP 212 of 2002.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors have made an assessment of the Group's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on **26th March, 2022** and were signed on its behalf by:



Director



Chairman

**ANNUAL REPORT AND GROUP FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2021**

DECLARATION OF 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/Governing Body/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 Simon Justine being the Head of Finance of Victoria Finance PLC. hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31st December 2021 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 Victoria Finance PLC. as on that date and that they have been prepared based on properly maintained financial records.

Signed by: [Signature]

Position: Chief Finance Officer

NBAA Membership No.: ACPA-PP3515

Date: 26th March 2022

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VICTORIA FINANCE PUBLIC LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of Victoria Finance Plc, set out on page 18 to 61 which comprise the Statement of Financial Position as at 31st December 2021, the Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash flows for the year then ended, and the Summary of Significant Accounting Policies and other explanatory notes.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Victoria Finance Plc as at 31st December 2021, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Companies Act, 2002.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the international Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. There were no key audit matters to report during the year ended 31st December 2021.

Other Information included in the Group's Annual Report

The other information comprises the Group Information, Director's Report, Statement of Directors' Responsibilities and Declaration by Head of Finance. The other information does not include the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance thereon.

In connection with our audit of financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF VICTORIA FINANCE PUBLIC LIMITED (CONTINUED)

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our Objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VICTORIA FINANCE PUBLIC LIMITED (CONTINUED)

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements.

We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion. We communicate with those charged with governance 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.

Report on other legal and regulatory requirements

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is CPA Khalfani Mbwambo



Auditax International
Certified Public Accountants (T)
Dar es Salaam



Signed by: Khalfani Mbwambo (ACPA 3224)

21st April 2022

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

		GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2020 TZS000	COMPANY 2020 TZS000
Interest income	Note				
Interest income	6	1,780,755	1,759,975	1,971,813	1,956,839
Interest expenses	7.1	(496,309)	(488,915)	(433,374)	(431,260)
Net interest income		1,284,446	1,271,060	1,538,439	1,525,579
Provision for Bad and Doubtful Debts	7.2	(160,774)	(160,774)	(138,950)	(138,950)
Net interest income after impairment charges		1,123,672	1,110,285	1,399,489	1,386,629
Non-interest income					
Fees & Commissions	8	614,303	87,913	571,080	127,973
Other income	8	445,563	445,563	279,353	279,189
Non-interest income		1,059,866	533,477	850,433	407,163
Total Operating Income		2,183,538	1,643,762	2,249,921	1,793,791
Personnel expenses	9	(910,854)	(761,354)	(807,518)	(650,088)
Administrative expenses	10	(658,665)	(514,723)	(766,905)	(641,932)
Total Operating Expenses		(1,569,519)	(1,276,077)	(1,574,423)	(1,292,019)
Profit before taxation		614,019	367,684	675,498	501,772
Tax expense	11	(193,849)	(119,517)	(203,898)	(151,859)
Profit after taxation		420,170	248,167	471,600	349,913
Other Comprehensive Income		-	126,300	-	-
Total Comprehensive Income		420,170	374,467	471,600	349,913
Total income for the year attributable to:					
Equity holders		420,170	-	471,600	-
Non-controlling interest		6	-	7	-
Basic and diluted earnings per share – TZS	22.1	80	47	90	67

The annexed notes 1 to 31 form an integral part of these financial statements.

VICTORIA FINANCE PLC
CONSOLIDATED STATEMENT OF FINANCIAL
POSITIONAS AT 31 DECEMBER 2021

	Note	GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2020 TZS000	COMPANY 2020 TZS000
ASSET					
Current Assets					
Current Assets					
Cash and cash equivalents	12	45,748	44,673	211,252	178,265
Short Term Investments	12	322,990	142,990	442,785	338,785
Net Loans	13	5,165,680	5,165,680	5,653,167	5,653,167
Prepayments	14	91,062	82,414	88,476	81,513
Other Accounts Receivables	15	263,432	33,912	220,283	91,854
Deferred Tax assets	11	179,566	149,122	262,565	280,019
Other Assets	16	383,477	383,477	385,517	385,517
Total Current Assets		6,451,956	6,002,269	7,264,044	7,009,120
Non-Current Assets					
Property and equipment	17	192,423	153,340	187,242	158,509
Long-term Lease	23	449,452	348,972	496,011	385,102
Equity Investments (Net)		-	366,350	-	50,000
Total Non-Current Assets		641,875	868,662	683,254	593,610
Total Assets		7,093,831	6,870,930	7,947,298	7,602,730
LIABILITIES AND EQUITY					
Liabilities					
Borrowings	18	2,874,786	2,874,786	3,806,941	3,806,941
Cash Collateral/Savings	19	130,406	130,406	188,630	188,630
Tax liabilities	21	50,809	66,277	135,186	168,127
Lease Liability	23	450,747	351,621	482,189	374,368
Other Accounts Payables	20	174,895	124,230	165,623	128,862
Total Liabilities		3,681,642	3,547,320	4,778,569	4,666,928
Equity					
Ordinary share capital	22	1,346,681	1,346,681	1,303,144	1,303,144
Share premium		122,253	122,253	87,423	87,423
Retained earnings		1,943,256	1,854,677	1,778,161	1,545,234
Total equity and Reserves		3,412,189	3,323,610	3,168,729	2,935,802
Non-controlling interest	24	6	-	7	-
Total Liabilities and Equity		7,093,831	6,870,930	7,947,298	7,602,730

The annexed notes 1 to 31 form an integral part of these financial statements.



Director



Chairman

VICTORIA FINANCE PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

GROUP	Share Capital	Share Premium	Retained Earnings	Non-Controlling Interest	Total Equity
	----- TZS 000 -----				
Balance as at 1 Jan 2020	1,245,835	41,576	1,306,560	-	2,593,971
Profit for the year	-	-	471,600	1	471,601
Capital received	57,309	45,847	-	-	103,157
Dividend Paid	-	-	(115,109)	-	(115,109)
Balance as at 31st December 2020	1,303,144	87,423	1,663,051	1	3,053,620
Balance as at 1 Jan 2021	1,303,144	87,423	1,663,051	1	3,053,620
Profit for the year	-	-	420,170	6	420,176
Capital received	43,537	34,829	-	-	78,366
Dividend Paid	-	-	(139,966)	-	(139,966)
Balance as at 31st December 2021	1,346,681	122,253	1,943,255	7	3,412,195

The annexed notes 1 to 32 form an integral part of these financial statements.

VICTORIA FINANCE PLC
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2021

COMPANY	Share Capital	Share Premium	Retained Earnings	Total Equity
			TZS 000	
Balance as at 1 Jan 2020	1,245,835	41,576	1,195,321	2,482,732
Profit for the year	-	-	349,913	349,913
Capital received	57,309	45,847	-	103,157
Dividend Paid	-	-	(115,109)	(115,109)
Balance as at 31st December 2020	1,303,144	87,423	1,430,125	2,820,693
Balance as at 1 Jan 2021	1,303,144	87,423	1,430,125	2,820,693
Profit for the year	-	-	374,467	374,467
Fair Value Gain - Investment in Subsidiary	-	-	190,050	78,366
Capital received	43,537	34,829	-	(139,965)
Dividend Paid	-	-	(139,965)	
Balance as at 31st December 2021	1,346,681	122,253	1,854,677	3,133,560

The annexed notes 1 to 31 form an integral part of these financial statements.

VICTORIA FINANCE PLC (VFP)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

		GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2020 TZS000	COMPANY 2020 TZS000
CASH FLOW FROM OPERATING ACTIVITIES					
Profit Before Tax	Note	614,018	367,684	675,498	501,772
Adjustments:					
Depreciation of Fixed assets	17	42,194	34,483	30,179	24,765
(Gain)/Loss on disposal	17	-	-	22,749	22,912
Interest on Lease Liability	6.2	37,510	30,116	9,457	7,343
Provision for Loan impairment		160,774	160,774	138,950	138,950
Cash flow before changes in working capital		854,496	593,057	876,833	695,743
WORKING CAPITAL CHANGES					
Decrease in loans & advances	13	487,486	487,486	(1,662,488)	(1,662,488)
Decrease in Intragroup receivables	27.2	-	-	-	14,888
Increase in other assets	16	2,040	2,040	(109,820)	(109,820)
Increase in other prepayments	14	2,585	901	(32,031)	(35,429)
Increase in other Tax Payables	21.1	9,147	9,147	2,095	6,584
Increase / (Decrease) in other receivables	15	(43,150)	57,942	(129,850)	(60,141)
Increase in accounts payable	20	125	(13,779)	8,994	(7,033)
(Decrease) in Collateral savings	19	(58,224)	(58,224)	(22,510)	(22,510)
Prior year adjustment		(91,205)	(91,205)		
Cash flow after change in working capital		1,163,301	987,365	(1,068,775)	(1,180,206)
Corporate Tax Paid		(305,655)	(280,965)	(112,500)	(82,500)
Withholding Tax Paid		(34,875)	(4,712)	(20,346)	(1,008)
Net cash generated from operating activities		822,771	701,687	(1,201,621)	(1,263,714)
CASH FLOW FROM INVESTING ACTIVITIES					
Additional to Fixed Asset	17	(47,374)	(29,265)	(115,848)	(96,882)
Dividend received			48,310		
Proceed from Disposal of assets	17			3,106	1,200
Net cash flow used in investing activities		(47,374)	19,045	(112,742)	(95,682)
CASH FLOW FROM FINANCING ACTIVITIES					
Cash injection from shareholders	22	25,650	25,650	103,157	103,157
Dividend paid		(84,466)	(84,466)		
Lease Rental		(69,724)	(59,233)	(47,388)	(39,342)
(Increase)/Decrease in borrowings	18	(932,155)	(932,155)	1,172,407	1,172,407
Net cash flow used in financing activities		(1,060,695)	(1,050,205)	1,228,176	1,236,223
CASH AND CASH EQUIVALENTS					
Net (decrease)/increase in cash and cash equivalent		(285,299)	(329,473)	(86,187)	(123,174)
Cash and cash equivalent brought forward		654,037	517,136	740,225	640,309
Cash and cash equivalents carried forward	12	368,738	187,663	654,037	517,136

1 REPORTING ENTITY

Victoria Finance PLC (the "Group" or "Company") is a company domiciled in Tanzania. The financial statements of the Group are for year ended 31st December 2021. These consolidated financial statements comprise of the Group and its subsidiary (together referred to as the "Group").

The Group is primarily involved in financial services which comprise of microfinance and insurance brokerage services to the underserved community of Tanzania.

The Group registered office address is:

**5th Floor, Mwanga Tower Building,
New Bagamoyo road, Kijitonyama, Kinondoni
P.O BOX 12102
Dar es Salaam, Tanzania**

Both the parent company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRS). 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.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the Tanzania Companies Act, 2002. Details of the Group's accounting policies are included in Note 5.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the financial instruments at fair value through profit or loss and through other comprehensive income which are measured at fair value.

c) Functional and presentation currency

These financial statements are presented in Tanzanian shillings, which is the Group's functional currency and presentation currency. Except as indicated, financial information presented in Tanzania shillings has been rounded to the nearest thousands ('000').

d) Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

NOTES TO THE GROUP CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED
31 DECEMBER 2021

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

d) Use of estimates and judgements (continued)

i. *Judgements, assumptions and estimation uncertainties*

Information about judgements, assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2021 is included in the following notes:

- Note 28 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used;
- Note 23 – impairment losses: number of factors driving estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk; recognition, valuation and measurement of Expected Credit losses.
- Note 37 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Note 27 – recognition and measurement of property, plant and equipment and leases: key assumptions about residual values, useful lives, lease terms, extension options and incremental borrowing rate.

ii. *Measurement of fair values*

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in 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: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

d) Use of estimates and judgements (continued)

iii. *Expected credit loss allowance*

As detailed in Note 5, the Bank's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgments and estimates in determining expected credit loss include:

- The Bank's criteria for assessing if there has been a significant increase in credit risk; and
- Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgment to be applied by the credit risk management team based upon counterparty information they receive from various sources including relationship managers and on external market information.

Expected credit losses

Expected credit losses are determined for all financial assets that are classified at amortised cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

Measurement

Expected credit losses are computed as unbiased, probability weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument. The Group has adopted a simplified approach based on historical roll rates or loss rates.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices among others. These assumptions are incorporated using the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)**d) Use of estimates and judgements (continued)****iii. Expected credit loss allowance (continued)**

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to the credit risk.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgment. As a practical expedient, the Group may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance). Although non-integral credit enhancements do not impact the measurement of expected credit losses, a reimbursement asset is recognised to the extent of the expected credit losses recorded.

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired (POCI) instruments) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Instrument	Location of expected credit loss
Financial assets held at amortized cost	Loss provisions: netted against gross carrying value ¹
Financial assets held at FVOCI – Debt instruments	Other comprehensive income (FVOCI expected credit loss Reserve) ²
Loan commitments	Provisions for liabilities and charges ³
Financial guarantees	Provisions for liabilities and charges ³

1. Purchased or originated credit impaired assets are credit impaired on initial recognition. An expected credit loss provision will be recognised only if there is a significant increase in credit risk from that considered at initial recognition.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

d) Use of estimates and judgements (continued)

iii. *Expected credit loss allowance (continued)*

2. Debt and treasury securities classified as FVOCI are held at fair value on the face of the balance sheet. The expected credit loss attributed to these instruments is held as a separate reserve within OCI and is recycled to the profit and loss account along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised

3. Expected credit loss on loan commitments and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the expected credit loss on these components, expected credit loss amounts on the loan commitment are recognised together with expected credit loss amounts on the financial asset. To the extent the combined expected credit loss exceeds the gross carrying amount of the financial asset, the expected credit losses recognised as a liability provision.

Recognition

12 months expected credit losses (Stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk.

For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in credit risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

d) Use of estimates and judgements (continued)

iii. *Expected credit loss allowance (continued)*

We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

Credit impaired (or defaulted) exposures (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

Evidence that a financial asset is credit impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions;
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower; and
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

d) Use of estimates and judgements (continued)

iii. *Expected credit loss allowance (continued)*

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Expert credit judgment

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and expert credit assessment and including forward-looking information. The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime PD as at the reporting date, with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure

The Group uses below criteria for determining whether there has been a significant increase in credit risk:

- A quantitative test based on movement in PD
- Qualitative indicators and a backstop of 30 days past due for all financial assets (regardless of the change in internal credit grades)

For individually significant financial assets within Stage 3, the Group will consider all judgments that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/ forbearance/ modification options.

The difference between the loan carrying amount and the discounted expected future cash flows will result in the stage 3 credit impairment amount. The future cash flow calculation involves significant judgments and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis.

For financial assets which are not individually significant, such as the small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis.

Additionally, if the account is unsecured and the borrower has other credit accounts with the Group that are considered credit impaired, the account may also be credit impaired.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

d) Use of estimates and judgements (continued)

iii. *Expected credit loss allowance (continued)*

Expert credit judgment (continued)

Where various models are used, judgment is required to analyse the available information provided and select the appropriate model or combination of models to use.

Expert credit judgment is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within credit impairment in the statement of profit and loss with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Group would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur.

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment if it is recognised in profit or loss and in the carrying value of the expected credit loss allowance. During the year the Group did not have any modified financial instruments.

Grouping financial assets measured on a collective basis

The Group calculates the allowance for ECL either on a collective or an individual basis.

Asset classes where the Group calculates ECL on an individual basis include:

- All Stage 3 assets, regardless of the class of financial assets
- The large and unique exposures of the business lending portfolio

Asset classes where the Group calculates ECL on a collective basis include:

- The smaller and more generic balances of the Group's small business lending
- Stage 1 and 2 lending

The Group groups these exposures into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, such as Product type (buy to let/owner occupied), Property type (prime, standard grade, low grade), Geographic location, Exposure value, Borrower's industry, Internal credit grade and Collateral type.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

d) Use of estimates and judgements (continued)

iii. *Expected credit loss allowance (continued)*

Inputs and assumptions in ECL

To ensure completeness and accuracy, the Group obtains the data used from third party sources (Rating Agency, Economist Society, etc.) and a team of economists within its Credit Department verifies the accuracy of the inputs to the Group's ECL models including determining the weights attributable to the multiple scenarios.

These are the inputs used by the Group;

Months historic loan loss, Inflation rates, Collateral Values, Macro Economic variables (GDP, currency depreciation, Balance of payment deficit), Population growth and FDIs.

Assumptions used include;

Days past Due, Adverse media information, Observable struggle in Cash flows, Changes in industry dynamics and Adverse regulatory changes.

Given the degree of uncertainty surrounding the economic impact of coronavirus and the lack of reliable data to model the impact, as well as operational and timing challenges in incorporating the latest available macroeconomic inputs into the ECL models, the model output is then tested with current period actuals to ascertain if there are any material deviation. During December 2021, the model output was tested and there was no material deviation from the current period ECL and therefore there were no any overlays made.

Considering the significant changes in the macroeconomic situation due to the Covid-19 crisis, the Group took into consideration the socio-economic developments, new customer concession issued and business going concern into the assumption There were no significant changes in the model output compared to pre-Covid 19 period.

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Bank or a third-party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where the Group has granted a concession compared to the original terms of the loans are considered credit impaired if there is a detrimental impact on cash flows. The modification loss is recognised in the statement of profit and loss within credit impairment and the gross carrying value of the loan reduced by the same amount.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

d) Use of estimates and judgements (continued)

iii. *Expected credit loss allowance (continued)*

Forborne loans (continued)

If modifications are substantial, the loan is derecognised. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original EIR as calculated before the modification of terms. The Group also reassesses whether there has been a significant increase in credit risk, and whether the assets should be classified as Stage 3.

Derecognition decisions and classification between Stage 2 and Stage 3 are determined on a case-by case basis. If these procedures identify a loss in relation to a loan, it is disclosed and managed as an impaired Stage 3 forborne asset until it is collected or written off. Once an asset has been classified as forborne, it will remain forborne for a minimum 24-month probation period. In order for the loan to be reclassified out of the forborne category, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing
- The probation period of two years has passed from the date the forborne contract was considered performing
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- Regular payments of more than an insignificant amount of principal or interest have been made during at least half of the probation period
- The customer does not have any contracts that are more than 30 days past due

Write-offs of credit impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision.

Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of profit and loss. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognized in the statement of profit and loss.

Improvement in credit risk/curing

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12 month expected credit losses (stage 1).

For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

d) Use of estimates and judgements (continued)

iii. *Expected credit loss allowance (continued)*

Improvement in credit risk/curing (continued)

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk.

Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original PD based transfer criteria are no longer met.

Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where management actions led to instruments being classified as stage 2, requiring that action to be resolved before loans are reclassified to stage 1.

A forborne loan can only be removed from the disclosure (cured) if the loan is performing (stage 1 or 2) and a further two-year probation period is met whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

In order for a forborne loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default based upon the forborne contract terms;
- The customer is likely to repay its obligations in full without realising security; and
- The customer has no accumulated impairment against amount outstanding.

Determination of the default

An account is considered to be in default when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. These accounts are closely monitored and subject to a collection process.

Loan impairment for secured loans utilizes the forced sale value of the collateral without discounting. For unsecured products, individual provisions are raised for the entire outstanding amount at 180 days past due. For all products there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

iv. *Determination of fair values*

In determining the carrying amounts of certain assets and liabilities, the Group makes assumptions of the effects of uncertain future events on those assets and liabilities at the end of the reporting period. The Bank's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. This disclosure excludes uncertainty over future events and judgments in respect of measuring financial instruments. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty are set out below:

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

e) Use of estimates and judgements (continued)

iv. *Determination of fair values (continued)*

Fair value of financial instruments

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

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within the profit and loss account or within other comprehensive income until the instrument is sold or becomes impaired.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active including for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Bank's financial instruments is based on observable market prices or derived from observable market parameters.

v. *Useful life, residual value, lease terms and cost of assets*

Property and equipment and leases

Critical estimates are made by management in determining the useful lives and residual value for property and equipment and additionally lease terms, extension options and incremental borrowing rate for leases.

Acquired intangible

Critical estimates are made by management in determining the useful life and cost of the acquired customer relationships giving rise to the acquired intangible.

Capitalized software

Critical estimates are made by management in determining the useful life of the capitalized software.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

f) Use of estimates and judgements (continued)

vi. Taxes

Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax assets are recognized on tax losses not yet used and on temporary differences where it is probable that there will be taxable profit against which these can be offset. Management has made judgments as to the probability of taxable profit being available for offset at a later date.

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

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

i. New and amended Standards that are effective for the current year/New and amended standards adopted by the Group and Company

Revision of TFRS 1: The Directors' Report

On 22nd June, 2020 NBAA through its Governing Board revised TFRS 1 - 'The Directors' Report' for the purpose of accommodating issues from the current environment. Among other things, amendment to TFRS 1 changed the name of the standard from "The Directors' Report" into "Report by Those Charged with Governance". The revised standard became operative for financial statements covering accounting periods beginning on or after 1st January, 2021.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when a RFR instrument is designated as a hedge of a risk component.

These amendments had no impact on the financial statements of the Group since it doesn't apply hedge accounting to its benchmark interest rate exposures. The Group intends to use the practical expedients in future periods if they become applicable.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the International Accounting Standards Board, IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.

ii. New and revised Standards in issue but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

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

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. New and revised Standards in issue but not yet effective (continued)

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.

Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group shall apply the standard when it becomes effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. New and revised IFRS Standards in issue but not yet effective (continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment - Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Bank will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

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

3 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ii. New and revised Standards in issue but not yet effective (continued)

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (Continued)

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Bank.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 INCOME AND EXPENSE RECOGNITION

4.0.1 Effective Interest Rate

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortized cost. Interest income on interest bearing financial assets measured at FVOCI under IFRS9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The company recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

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

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

4.1 FEE AND COMMISSION INCOME

The Company earns fees and commission income from financial services it provides to its customers. Fees and commission income are recognized at an amount that reflects the consideration to which the Company expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. Disclosure of fees are found on note 7 which forms part of the report.

4.2 USE OF ESTIMATES AND JUDGMENT

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Group and the Company accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 USE OF ESTIMATES AND JUDGMENT (CONTINUED)

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are explained in Note

4.3 FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Tanzanian shillings, which is the Group functional currency and presentation currency. All amounts have been rounded to the nearest thousands ('000'), except when otherwise indicated.

4.4 FOREIGN CURRENCY TRANSLATION

Foreign currency transactions are translated into Tanzanian Shillings using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with closing rate as at the reporting date. On-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition.

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 recognized in statement of profit or loss.

4.5 OPERATING ASSETS

4.5.1 PROPERTY AND EQUIPMENT

Property and equipment is stated at historical cost less accumulated depreciation. Depreciation is provided so as to write off the cost on a straight-line basis over the expected useful economic lives of the assets concerned.

The estimated useful lives of significant items of property and equipment are as follows:

Description of Items	Useful Life (Years)	Period of Depreciation
Computers	4	4
Office Equipment	4 - 8	8
Furniture	8	8
Motor Vehicles	4 - 8	8

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An item of property, plant and equipment is de-recognized 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 the income statement in the year the asset is de-recognized. The assets' residual values, useful lives and depreciation methods are reviewed and adjusted where appropriate at each financial year-end. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.5 OPERATING ASSETS (CONTINUED)

4.5.2 INTANGIBLE ASSETS

Intangible assets with definite useful life are stated at cost less accumulated amortization and impairment (if any). These are amortized from the month, when these assets are available for use, using the straight-line method, whereby the cost of the intangible assets is amortized on the basis of the estimated useful life over economic benefits are expected to flow to the Group. The residual value, useful life and amortization method is reviewed and adjusted, if appropriate, at each balance sheet date.

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

4.6 TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at normal value, less any write down for amounts expected to be irrecoverable.

4.7 PROVISIONS

A provision is recognized in the statement of financial position when the company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. A provision for restructuring is recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for. Provisions are not recognized for future operating losses.

4.8 EMPLOYEE BENEFITS

The Group contributes to the Social Security Fund Schemes; these are National Social Security Fund (NSSF) and Public Service Social Security Fund. These are defined contribution schemes registered under the Social Security Contribution Acts. The Group's obligation under the schemes are limited to specific contributions legislated from time to time and are currently 10% of the employees' gross salary. The Group's contributions are charged to the income statement in the period to which they relate.

4.9 SHARE CAPITAL

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 FINANCIAL INSTRUMENTS

4.10.1 Recognition and initial measurement

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

4.10.2 Classification and subsequent measurement of the financial assets

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: –

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 FINANCIAL INSTRUMENTS (CONTINUED)

4.10.2 Classification and subsequent measurement of the financial assets (Continued)

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for de-recognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets. Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features; prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features)

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 FINANCIAL INSTRUMENTS (CONTINUED)

4.10.2 Classification and subsequent measurement financial assets (Continued)

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual paramount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

4.10.3 Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on de-recognition is also recognized in profit or loss.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.10 FINANCIAL INSTRUMENTS (CONTINUED)

4.10.3 De-recognition

Financial assets

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

The Group enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not de-recognized.

Financial liabilities

The Group de-recognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also de-recognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On de-recognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

4.10.5 Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

4.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Goodwill is tested annually for impairment. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

4.12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank, cash on hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if any.

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

4.13 LOANS AND RECEIVABLES

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortized cost using the effective interest method. Loans and receivables that are included in the statement of financial position are loans and advances to banks and loans and advances to customers. Reference is made to Note 3.12 *Financial Instruments* above.

4.14 LOANS AND BORROWINGS

These are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these loans and borrowings liabilities are measured at amortized cost using the effective interest method. Reference is made to Note 3.12 *Financial Instruments* above.

4.15 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Under the IFRS 9 framework, the Group is required to develop models to estimate expected losses. The so-called Expected Credit Loss (ECL) model enabled a Company to trace financial assets after initial recognition until their final maturity.

The Group recognizes loss allowances for ECLs on:

- financial assets measured at amortized cost;
- debt investments measured at FVOCI; and
- contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 IMPAIRMENT LOSSES ON LOANS AND ADVANCES (CONTINUED)

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Three different stages are recognized:

Stage 1: Starting from the initial recognition of the asset; a provisioning level is measured or estimated as the ECL using a 12-month horizon;

Stage 2: This stage includes financial instruments which have had a significant increase of credit risk since initial recognition. For these assets, the life time expected credit losses are estimated;

Stage 3: Financial assets in this stage have objective evidence of impairment, i.e. classified as doubtful or default, at the reporting date and life time expected credit losses are estimated.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 IMPAIRMENT LOSSES ON LOANS AND ADVANCES (CONTINUED)

The table below shows the general approach for recognizing expected credit losses in the three different stages;

Table 1: Three stages under IFRS 9 for allowance

	Stage 1	Stage 2	Stage 3
Loss Allowance	Expected credit losses (12 months)	Life Time Expected Loss	Life Time Expected Loss
Effective interest rate applicable to	Gross carrying amount	Gross carrying amount	Net carrying amount

As the table indicates, the provision calculation differs per stage. In Stage 1, the expected credit loss is calculated over a period of 12 months while in Stage 2 and 3, the expected loss is based on the estimated life time. Moreover, in Stage 1 and 2 institutions are allowed include future interest income in their calculations while in Stage 3 this is prohibited.

4.17 WRITE-OFF AND REVERSAL OF IMPAIRMENT

To the extent a loan is irrecoverable, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively with the event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement during the period.

4.18 NON-FINANCIAL INSTRUMENTS

Other non-financial assets, other than deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. 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.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognized in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19 TAXATION

Tax expenses

Current and deferred taxes are recognized as income or an expense and included in statement of profit or loss and other comprehensive income for the period, except to the extent that the tax arises from:

- a transaction or event which is recognized, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax for current and prior periods is, to the extent unpaid, recognized as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognized as an asset. Current tax liabilities/ (assets) for the current and prior periods are measured at the amount expected to be paid to/ (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted as at the balance sheet date and that are expected to apply when the related deferred tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized. Where permitted deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income. Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

4.20 LEASES

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date.

Leases in which the Group is a lessee

The Group classify all leases as finance leases and recognizes new assets (right to use) and liabilities except those of short term (12 months or less) and low value which are classified as operating leases. For the finance leases, the Group will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. For operating leases, the Group recognizes operating lease expense on a straight-line basis over the term of the lease, and recognizes assets and liabilities only to the extent that there is a timing difference between actual lease payments and the expense recognized.

In addition, the Group does not recognize provisions for operating leases that it assesses to be onerous. Instead, the Group includes the payments due under the lease in its lease liability.

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

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 LEASES (CONTINUED)

Leases in which the Group is a lessor

The Group assesses the classification of leases in which the Group is a lessor. Based on the information available, the Group classifies leases as either operating lease or finance lease and account for them accordingly.

4.21 COMPARATIVES

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

4.22 EARNINGS PER ORDINARY SHARE

The Group measures earnings per share on an underlying basis. This differs from earnings defined in IAS 33 Earnings per share. Underlying earnings is profit/(loss) attributable to ordinary shareholders adjusted for profits or losses of a capital nature; amounts consequent to investment transactions driven by strategic intent; and other infrequent and/or exceptional transactions that are significant or material in the context of the Group's normal business earnings for the period.

5 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed through its operations to the following financial risks:

- Credit risk
- Fair value or cash flow interest rate risk
- Foreign exchange risk
- Other market price risk, and
- Liquidity risk.

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

5.1 PRINCIPAL FINANCIAL INSTRUMENTS

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Investments in quoted and unquoted equity securities
- Trade and other payables
- Bank overdrafts
- Floating-rate bank loans
- Fixed rate bank loans
- Interest rate swaps, and
- Forward currency contracts.

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.2 FINANCIAL INSTRUMENTS BY CATEGORY

<i>Financial assets</i>	Fair Value through Profit/Loss		Amortized Cost	
	2021 TZS '000	2020 TZS '000	2021 TZS '000	2020 TZS '000
Cash and cash equivalent	-	-	368,738	654,037
Investment in subsidiary	366,350	50,000	-	-
Other accounts receivables	-	-	263,432	220,283
Loans	-	-	5,165,680	5,653,167
<i>Financial Liabilities</i>	Fair Value through Profit/Loss		Amortized Cost	
	2021 TZS '000	2020 TZS '000	2021 TZS	2020 TZS
Other payables	-	-	178,895	165,623
Loans and borrowings	-	-	2,874,786	3,806,941

5.3 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings. Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates their fair value. For details of the fair value hierarchy, valuation techniques, and significant unobservable inputs related to determining the fair value of loans and borrowings, which are classified in level 3 of the fair value hierarchy.

5.4 FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Financial instruments measured at fair value comprises of the investment in subsidiary.

Management has elected FVOCI classification for financial instruments measured at fair value where changes in fair value are recognized in OCI and are never recycled to profit and loss, even if the asset is sold or impaired

Fair value has been defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IFRS 13 *Fair Value*). For the purposes of fair value estimation, fair value was considered to be the expected price at which the subject business would change hand between a willing buyer and a willing seller, neither being under a compulsion to conclude the transaction and both having full knowledge of all the relevant facts.

To determine the fair value, the subsidiary's historical financial statements, such as its statements comprehensive income and statement of financial position was reconstructed to establish the true economic potential and earning power of the business. Figures which required adjustments was account receivables, property, plant and equipment, impairment loss, tax receivables, bank balances, etc. to take care of collectability or realization challenges.

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

5.5 CASH IN BANK AND SHORT-TERM DEPOSITS

The significant amount of cash and short-term deposits is held with the following institutions:

	31-Dec-21		31-Dec-20	
	Cash at Bank TZS'000	Short-term Deposits TZS'000	Cash at Bank TZS'000	Short-term Deposits TZS'000
ACB Bank Plc	570	-	2,066	-
AZANIA BANK (T) LTD	2,000	-	-	-
CRDB Bank Plc	30,172	-	112,069	-
Maendeleo Bank Plc	-	130,000	-	-
MUCOBA Plc	275	-	38,139	-
NCBA Bank	372	-	23,320	-
NCBA Bank (USD)	826	-	1,494	-
NMB Bank Plc	2,520	-	10,301	-
TCB Bank	-	82,990	-	14,311
TCB Bank- USD	142	-	-	338,785
Mobile Wallets	8,653	-	9,036	-
Petty Cash (in premises)	219	-	514	-
Short term Investment	-	110,000	-	104,000
	<u>45,748</u>	<u>322,990</u>	<u>196,939</u>	<u>457,096</u>

5.6 GENERAL OBJECTIVES, POLICIES AND PROCESSES

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives quarterly reports from the Financial Controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's internal auditors also review the risk management policies and processes and report their findings to the Board Risk and Audit Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables.

Credit risk is the single largest risk for the Company's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralized in a credit risk management team, which reports to the Chief Executive Officer and the Board of Directors. Other receivables are not having standard credit characteristics; they differ depending on whether they are normal staff and sundry debtors or deposits, "governed by specific debtor and deposits terms" or the creditworthiness of entity/individual from which they are receivable.

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risks).

Foreign exchange risk

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency) with the cash generated from their own operations in that currency.

Where group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

	Functional currency of individual entity			
	TZS '000		USD	
	2021	2020	2021	2020
Foreign currency financial assets				
Cash at Bank	967	338,785	421	146,724
Foreign currency financial liabilities				
Borrowings from Abroad	354,389	745,276	154,283	324,033
Net Foreign Currency Financial Assets (Liabilities)	(353,421)	(406,491)	(153,862)	(177,309)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its maturing obligations when they fall due. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and or controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to liquidity management. It is unusual for micro finance organizations ever to be completely matched since business transacted is often of an uncertain term and of different types.

The Group's liquidity management process, as carried out within the Group and monitored by a separate Finance team, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active role 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 requirements; and managing the concentration and profile of portfolio maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

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.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. All liquidity policies and procedures are subject to review and approval by the Board of Directors.

Maturity profile of non-derivative financial liabilities based on the contractual cash flows, "undiscounted" including interest and excluding impact of netting is as follows:

Capital Disclosures

The Group monitors "adjusted capital" which comprises all components of equity (i.e. share capital, share premium, non-controlling interest, retained earnings, and revaluation reserve) other than amounts in the cash flow hedging reserve.

The Group's objectives when maintaining capital are: -

- to safeguard the entity'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 provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital Disclosures (Continued)

Consistent with other players in the industry, the Group monitors capital on the basis of the debt to adjusted capital ratio. This ratio is calculated as net debt adjusted capital as defined above. Net debt is calculated as total debt (as shown in the consolidated statement of financial position) less cash and cash equivalents. Due to recent market uncertainty, the Group's strategy is to preserve a strong cash base and achieve a debt-to-adjusted-capital ratio of approximately 100-200% (2020: 100-200%).

The objective of this strategy is to secure access to finance at reasonable cost by maintaining a high credit rating. The debt-to-adjusted-capital ratios at 31 December 2021 and at 31 December 2020 were as follows:

	GROUP 2021 TZS '000	GROUP 2020 TZS '000
Borrowings	2,874,786	3,786,968
Less: Cash and Cash Equivalents	368,738	654,037
Net Debt	<u>2,506,047</u>	<u>3,132,931</u>
Total Equity	3,442,184	3,048,702
Less: Amount in the cash flow hedging reserves	-	-
Total Adjusted Capital	<u>3,442,184</u>	<u>3,048,702</u>
Debt to adjusted capital ratio (%)	<u>73%</u>	<u>103%</u>

The decrease in the debt to adjusted capital ratio during 2021 resulted primarily from the repayment of the borrowings and the improvement of equity arising from increase in retained earnings.

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

	GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2020 TZS000	COMPANY 2020 TZS000
6.0 Interest Income				
a. Interest- Loans to Customers	1,741,891	1,741,891	1,939,725	1,939,725
b. Interest -Bank deposits	38,864	18,084	32,087	17,113
Total Interest Income	1,780,755	1,759,975	1,971,813	1,956,839
7.1 Interest Expenses				
a. Interest - Banks and financial institutions	29,877	29,877	33,885	33,885
b. Interest - Microfinance Service Providers	138,495	138,495	23,651	23,651
c. Interest- Borrowings from Abroad	48,897	48,897	66,387	66,387
d. Interest - Borrowings Local	236,993	236,993	294,554	294,554
e. Interest others/Processing fees	4,536	4,536	5,440	5,440
f. Interest on Lease Liability	37,510	30,116	9,457	7,343
Total Interest Expenses	496,309	488,915	433,374	431,260
7.2 Provision for Bad and Doubtful Debts	(160,774)	(160,774)	(138,950)	(138,950)
Net Interest Income after impairment	1,123,672	1,110,285	1,399,489	1,386,629
	GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2020 TZS000	COMPANY 2020 TZS000
8. Non-Interest Income				
a. Commission on Insurance	526,389	-	443,107	-
b. Fees on Loans	87,913	87,913	127,973	127,973
c. Other Operating Income	357,271	357,271	251,693	251,693
d. Gain on disposal of assets	-	-	248	85
e. Dividend income from subsidiary	48,310	48,310		
f. Income from Written off Loans	39,982	39,982	27,412	27,412
Total Non-Interest Income	1,059,866	533,477	850,433	407,163

VICTORIA FINANCE PLC

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

	GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2020 TZS000	COMPANY 2020 TZS000
9. Personnel Expenses				
a. Salaries and Wages	734,415	609,630	651,974	521,559
b. Social Security	74,563	60,686	66,254	53,530
c. Skills and Development Levy	27,289	24,201	28,227	22,790
d. Workers Compensation fund	6,431	5,290	6,625	5,353
e. Medical Expenses	68,157	61,547	54,438	46,855
Total Personnel Expenses	910,854	761,354	807,518	650,088
10. Administrative Expenses				
Auditor's fee	35,591	29,091	29,798	24,190
Printing And Stationery	19,888	14,805	24,958	13,927
Water And Electricity	15,913	13,609	14,510	13,295
Software Lease fee	33,872	33,872	12,200	12,200
Communication	25,509	22,594	27,949	23,666
Board Expenses	47,307	35,557	36,010	23,960
Office Expenses	115,542	47,344	76,762	20,345
Staff Training Expenses	5,550	5,100	37,183	36,744
Loan Recovery Expenses	35,229	35,229	23,940	23,940
Transport and travelling	60,602	57,135	42,833	41,336
Office Rent	11,606	11,606	44,197	41,532
Depreciation	42,194	34,483	30,180	24,765
Depreciation Expense-Right of use	53,828	43,398	12,722	9,878
Professional Consultancy	12,174	12,174	13,729	13,729
Trading License	1,900	1,900	2,696	2,696
City Service Levy	4,104	2,463	6,418	5,049
Loss on Disposal of fixed Assets	-	-	22,997	22,997
Provision for Loss on fraud	-	-	188,539	188,539
Penalties and fines	-	-	36	-
Legal Fees	57,099	57,099	54,618	54,618
Customer Training	15,292	15,292		
Other Administrative Expenses	65,466	41,972	64,629	44,525
Total Administrative Expense	658,665	514,723	766,905	641,932

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

11	Corporate Taxation	GROUP 2021 TZS 000	COMPANY 2021 TZS 000	GROUP 2020 TZS 000	COMPANY 2020 TZS 000
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The Major Components of Income Tax for The Year Ended 31 Dec 2021 are:

Current Income Tax	237,388	163,207	302,784	251,635
Deferred Income Tax Charged/(Released)	(43,539)	(43,690)	(98,886)	(99,776)
	193,849	119,517	203,898	151,859

**Reconciliation of Tax on Profit
and Current Tax**

Profit Before Tax	614,018	367,684	675,498	501,772
Tax @ 30%	184,206	110,305	202,650	150,532
Accelerated Wear and Tear	(4,827)	(1,627)	-	-
Non-deductible expenses	14,469	10,839	14,805	28,838
Reconciled Current Tax	193,849	119,517	217,455	179,370

Deferred Income Tax
Deferred Income Tax At 31 Dec Relates Accelerated Wear and
Tear As follows:

Accelerated Wear and Tear	(4,827)	(1,627)	-	-
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Deferred Tax Movement				
At 1 January 2021	262,565	280,019	163,679	180,243
Charged/(Released) During the Year	(5,112)	(2,080)	3,816	4,706
General Provision	(77,887)	(128,817)	95,070	95,070
At 31 December 2021	179,566	149,122	262,565	280,019

12 Cash And Cash Equivalents

Mobile Wallet Balance	8,653	8,653	9,036	9,036
Bank Balances	36,876	35,816	201,701	168,818
Petty Cash	219	205	514	411
Total Cash and Cash Equivalents	45,748	44,673	211,252	178,265

Short Term Investments

Bank Call	142,990	142,990	338,785	338,785
Short term Investments	180,000	-	104,000	-
Total Short -Term Investments	322,990	142,990	442,785	338,785
Total Cash and Cash Equivalents	368,738	187,663	654,037	517,051

VICTORIA FINANCE PLC

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

13. Gross Loans	GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2020 TZS000	COMPANY 2020 TZS000
a. Loans to Customers	2,642,110	2,642,110	4,237,577	4,237,577
b. Loans to Staff	225,352	225,352	154,830	154,830
c. Accrued Interest Receivables – Loans	2,021,306	2,021,306	1,155,715	1,155,715
d. Accrued Penalty Receivables – Loans	639,242	639,242	362,624	362,624
Total gross Loans	5,528,010	5,528,010	5,910,745	5,910,745
Impairment on Loans	362,330	362,330	257,579	257,579
Net Loans and Advances	5,165,680	5,165,680	5,653,167	5,653,167
14. Prepayments:				
Rent	3,360	3,360	8,486	8,486
General Office Insurance	115	94	1,124	1,124
Medical Insurance	34,426	31,625	31,400	27,277
External Loan Process fee	6,573	6,573	16,266	16,266
Prepayment- Core System	30,521	30,521	28,359	28,359
Other Prepaid Expenses	12,766	10,241	-	-
Fidelity guarantee	3,300	-	2,842	-
Total Prepayments	91,062	82,414	88,476	81,513
15. Other Accounts Receivables				
Intercompany Receivable	-	-	-	-
Account Receivable	45,063	33,912	101,703	91,854
Commission on Insurance Receivable	218,370	-	118,580	-
Total Other Accounts Receivables	263,432	33,912	220,283	91,854
16. Other Assets				
Cheque Inward A/C	190,130	190,130	190,130	190,130
Cheque Outward A/C	175,764	175,764	175,764	175,764
Solar Unsold Stock	12,892	12,892	17,828	17,828
Salary Advances to Staff	4,692	4,692	1,795	1,795
Total Other Assets	383,477	383,477	385,517	385,517

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

17.1 Property And Equipment – Group

	Computer	Equipment	Furniture TZS000	Motor Vehicle	Software	Total
Cost						
At January 2021	91,784	64,015	128,256	23,000	2,959	310,013
Additional during the year	13,092	7,207	12,609	2,350	12,116	47,374
Disposals						-
Balance as at 31st December 2021	104,876	71,222	140,865	25,350	15,075	357,388
Depreciation						
At 1st January 2021	59,073	23,240	32,718	6,771	969	122,771
Charge during the year	13,458	8,989	15,713	3,042	992	42,194
Depreciation on disposals						-
At 31st December 2021	72,530	32,229	48,431	9,813	1,961	164,965
Net book value						
31st December 2021	32,346	38,993	92,434	15,537	13,114	192,423
31st December 2020	32,711	40,774	95,538	16,229	1,990	187,242

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

17.2 Property And Equipment – Company

Cost	Computer TZS 000	Equipment TZS 000	Furniture TZS 000	Motor Vehicle TZS 000	Total TZS 000
At January 2021	82,361	55,517	108,547	23,000	269,425
Additional during the year	9,672	7,207	10,036	2,350	29,265
Disposals	-	-	-	-	-
Balance as at 31st December 2021	92,034	62,724	118,583	25,350	298,690
Depreciation					
At 1st January 2021	54,084	19,693	30,368	6,771	110,917
Charge during the year	11,005	7,479	12,908	3,042	34,483
Depreciation on disposals	-	-	-	-	-
At 31st December 2021	65,089	27,172	43,276	9,813	145,351
Net book value					
31st December 2021	26,944	35,552	75,307	15,537	153,340
31st December 2020	28,277	35,824	78,179	16,229	158,509

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

	GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2020 TZS000	COMPANY 2020 TZS000
18 Borrowings				
a. Borrowings in Tanzania	2,055,980	2,055,980	2,826,389	2,826,389
b. Borrowing Abroad	354,389	354,389	743,276	743,276
c. Special funds	342,432	342,432	216,391	216,391
d. Accrued Interest payable	121,986	121,986	20,885	20,885
Total Borrowings	2,874,786	2,874,786	3,806,941	3,806,941
19 Cash Collateral/ Savings				
Client's Fund	23,428	23,428	20,528	20,528
Collateral Savings	106,977	106,977	168,102	168,102
Total Cash Collateral/ Savings	130,406	130,406	188,630	188,630
20 Other Payables and Accruals				
Account Payable	58,125	29,712	45,565	44,851
Director's fee Payable	8,750	3,250	14,000	8,000
Intercompany Payables	-	-	-	-
Auctioneer Payable	4,560	4,560	4,968	4,968
Audit Fee Payable	7,345	4,445	10,908	8,218
Dividend Payable	21,079	21,079	-	-
Insurance Premium Payable	605	605	16,889	16,889
Bonus Payable	10,000	-	13,979	0
Statutory Deductions Payables	31,420	27,568	35,451	22,073
Other Tax Liabilities	33,011	33,011	23,863	23,863
Total Other Payables and Accruals	174,895	124,230	165,623	128,862
21.0 Corporate Tax				
Tax (Payable)/ Receivable Balance	(135,186)	(168,127)	(31,726)	(63,715)
Prior Year Tax Paid	158,127	158,127	77,140	63,715
Provisional Tax Paid During the Year	85,528	58,528	101,838	82,500
Withholding Tax Paid Directly to TRA	34,571	4,712	20,346	1,008
Corporate Tax Expense	(193,849)	(119,517)	(302,784)	(251,635)
Corporate Tax (Payable)/ Receivable	(50,809)	(66,277)	(135,186)	(168,127)

VICTORIA FINANCE PLC

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

	GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2019 TZS000	COMPANY 2019 TZS000
22.0 Share Capital				
Authorised Share Capital 80,000,000 Shares of Tzs 250 Each	<u>20,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>	<u>20,000,000</u>
Issued And fully Paid Capital 5,386,723 Shares of Tzs 250 Each	1,346,681	1,346,681	1,303,144	1,303,144
Share Premium	<u>122,253</u>	<u>122,253</u>	<u>87,423</u>	<u>87,423</u>
Share Capital	<u>1,468,933</u>	<u>1,468,933</u>	<u>1,390,568</u>	<u>1,390,568</u>
22.1 Basic And Diluted Earnings Per Share				
Net Profit for The Year	420,170,157	248,166,851	471,600,412	349,912,847
Weighted Average Ordinary Shares	5,279,649	5,279,649	5,212,577	5,212,577
Basic And Diluted Earnings Per Share	<u>80</u>	<u>47</u>	<u>90</u>	<u>67</u>
23 Leases				
i) Amounts recognized in balance sheet				
23.1 Right -of -use Assets				
At the start of the year	496,011	385,102	-	-
Additions (new leases)	7,268	7,268	508,733	394,980
Depreciation charge	<u>(53,828)</u>	<u>(43,398)</u>	<u>(12,722)</u>	<u>(9,878)</u>
	<u>449,452</u>	<u>348,972</u>	<u>496,011</u>	<u>385,102</u>
23.2 Lease Liability	<u>450,747</u>	<u>351,621</u>	<u>482,188.86</u>	<u>374,367.67</u>
	<u>450,747</u>	<u>351,621</u>	<u>482,189</u>	<u>374,368</u>
23.3 ii) Amounts recognized in the statement of profit or Loss				
Depreciation charge of right of use asset	53,828	43,398	12,722	9,878
Interest Expense on lease liability	<u>37,510</u>	<u>30,116</u>	<u>9,457</u>	<u>7,343</u>
	<u>91,337</u>	<u>73,514</u>	<u>22,179</u>	<u>17,221</u>

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

24.1 Non-controlling interest

The group's principal subsidiaries at 31 December 2021 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business

Name of entity	Country of incorporation	Principal activities	Group interest	NCI*
Victoria Insurance Brokers Limited	Tanzania	Insurance brokerage	99.9985%	0.0015%
			2021	2020
Profit attributable to the NCI				
Group profit (TZS 000)			420,170	471,600
NCI (%)			0.0015%	0.0015%
Profit attributable to NCI			6	7

NIC* Non-controlling Interest

- 24.2** Set out below is summarized financial information for each subsidiary that has non-controlling interests that are material to the group. The amounts disclosed for each subsidiary are before inter-COMPANY eliminations

	VIB 2021 TZS000	VIB 2020 TZS000
Summarized statement of financial position		
Current assets	415,072	276,458
Current liabilities	(67,931)	(26,950)
Net current assets	347,141	249,508
Non-current assets	139,613	28,974
Non-current liabilities	83,161	-
Net non-current assets	222,774	28,974
Net assets	569,915	278,482
Accumulated non-controlling interest in net assets	179	179
	2021 TZS000	2020 TZS000
Summarised statement of comprehensive income		
Revenue	547,220	458,244
Expenses	(302,062)	(285,354)
Profit/ (loss) Before Taxation	245,158	172,890
Profit / (loss) allocated to NCI	4	3

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

	GROUP 2021	COMPANY 2021	GROUP 2020	COMPANY 2020
25 Number Of Outreach				
As At January 2021	3	3	2	2
Opened / (Closed) During the Year	-	-	1	1
As At 31 December, 2021	3	3	3	3

	GROUP 2021 TZS000	COMPANY 2021 TZS000	GROUP 2020 TZS000	COMPANY 2020 TZS000
26 Related Party Transactions				
Salaries and Directors' fees				
Fees to directors	18,500	13,000	14,000	8,000
Salaries to management	232,642	232,642	264,336	206,400
Total payments	251,142	245,642	278,336	214,400
Loans and advances				
Shareholders / Board Members	99,964	99,964	187,371	187,371
Management	70,960	45,751	62,652	36,652
Total related party lending	170,924	145,715	250,023	224,023

26.1 Compensation of Directors and Key Management

Key management personnel comprise of Chief Executive Officer and heads of departments who are reporting directly to the Chief Executive Officer.

26.2 Loan and Advance Credit Arrangement

Loan and advance credit arrangement with shareholders, Board of directors, Chief Executive Officer, and heads of departments who are reporting directly to the Chief Executive Officer. Loans are offered at arm's length except for Management which are special concessionary terms as per staff loan guidelines.

27 Settlement of liabilities (Payments) on behalf of another party

In the year ending 31 December 2021, the COMPANY did settle TZS 56 Mn liability (Payments) on behalf of related party (2020: TZS11Mn).

27.1 Transactions with related Victoria Insurance Brokers were as follows:

	GROUP 2021 TZS 000	COMPANY 2021 TZS 000	GROUP 2020 TZS 000	COMPANY 2020 TZS 000
Carryforward Receivable from Related Party	-	-	-	27,312
Payments made on behalf of subsidiaries	-	56,415	-	11,133
Payments received from of subsidiaries	-	(56,422)	-	(38,445)
Due from related parties	-	(7)	-	27,312

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

27.2 Intra group Settlement:

TYPE OF UNCONTROLLED TRANSACTIONS	BASIS FOR ALLOCATION	YEARS OF OPERATIONS		
		2019	2020	2021
Personnel Expense	Actual amount per person	-	-	-
Fixed Deposit	Market rate	50,826	40,000	110,000
Tax Advance	Actual cost	-	-	-
Fixed Assets	Actual cost	-	-	-
Rent	Area Occupied	-	-	-
Electricity	Headcount	1,132	-	-
Water	Headcount	82	820	-
Security	Headcount	592	592	-
Internet	Headcount	953	953	-
Communication	Actual amount per person	2,400	-	-
Medical	Actual premium per person	6,657	7,554	-
Staff loans	Staff rate	23,141	44,300	37,439
Other Office Expenses	Headcount	4,800	-	-

27.3 Payment for Expenses

Payment for expenses include salaries expense for the subsidiaries staff include of General Manager, Principal Insurance Officer and Assistant Marketing Officer.

28 CONTINGENT LIABILITY

During the year, the Group had one court case involving customer with total contingent liability of TZS90million at High Court of Tanzania. The Company is contesting the ruling by the District Magistrate court to award one of customers a claim of TZS90million for unfair recovery measures undertaken by the company in 2019. The Group made an appeal to the ruling and the case was yet to be determined until the date of issue of these financial statements and hence Management cannot establish the exact amount that shall be paid after completion.

30 SUBSEQUENT EVENTS

The spread of COVID-19 is still likely to have serious impact on the credit loss and loan impairment, employment benefits including terminal benefits, liquidity and ability of the Company to dispose the collaterals hence impacting financial reporting and disclosures. The Management is taking all possible precautions to protect the company assets, employee and customers from the impact. The assessment of the impact and performance of the loan stress testing will be done on quarterly basis to determine the impact of COVID-19 which shall be discussed at Management and Board level to determine the course of actions to be taken including policy changes and strategies.

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

31.0 GENERAL

31.1 PRESENTATION

Figures have been rounded off to the nearest thousand Tanzanian Shillings.

31.2 DATE OF AUTHORISATION

These financial statements were authorized for issue by the Board of Directors in their meeting held on **26th March, 2022**.



Director

Date: 14th April 2022



Director

Date: 14th April 2022