

FINCA MICROFINANCE BANK LIMITED
REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2024

FINCA MICROFINANCE BANK LIMITED

**ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

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FINCA MICROFINANCE BANK LIMITED

CORPORATE INFORMATION

DIRECTORS	Name	Position	Nationality	Status	Gender and Age	Qualifications/Expertise
	Nasama Massinda*	Chairperson	Tanzanian	Appointed on 12-Oct-19	Female , 67	Legal, Capital Markets, Banking, Capital Markets Regulatory Expertise.
	Volker Renner*	Member	Germany	Appointed on 31-May-17	Male , 57	Business Administration, Credit Risk Management, and internal control.
	Mary Pascal Mabiti*	Member	Tanzanian	Appointed on 11-Jun-19	Female , 48	Finance and Audit Expertise.
	Jeffrey Peter Smith	Member	American	Appointed on 1-Oct-21	Male , 68	Back-office Operations (IT, IS, Risk/Audit Compliance, HR, Data Management), Restructuring/Executive Management.
	Muhammad Siddique Ahmed*	Member	Pakistani	1 Appointed on 4-Jun-22	Male , 47	International experience in Auditing and Risk Management.
	Lucas Flores Soares*	Member	Italian	Appointed on 11 August 2023	Male , 45	Finance & Operations Expertise.
	Vusal Verdiyev	Member	Azerbaijan	Resigned in September 2024	Male , 43	Banking expertise, MSME banking, Digital Financial Services, Risk Management.

*Independent Directors

KEY MANAGEMENT	Name	Position	Nationality
	Edward Talawa	Chief Executive Officer	Tanzanian

REGISTERED OFFICE AND PRINCIPAL PLACE
 Plot No.34/1, 8th Floor, TAN House
 Victoria, Bagamoyo Road
 P.O. Box 78783

FINCA MICROFINANCE BANK LIMITED

OF BUSINESS Dar es Salaam, Tanzania

AUDITOR BDO East Africa
ZO Spaces, 4th Floor
Plot No. 4, New Bagamoyo Road
P.O. Box 9912
Dar es Salaam, Tanzania
PF 101

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

NBC Bank Limited
Head Office
Sokoine Drive
P.O. Box 1863
Dar es Salaam, Tanzania

CRDB Bank Plc
Headquarters
Ally Hassan Mwinyi Road,
P.O. Box 268
Dar es Salaam, Tanzania

PRINCIPAL BANKERS Diamond Trust Bank (Tanzania) Limited
Samora Avenue
P.O. Box 115
Dar es Salaam, Tanzania

PRINCIPAL BANKERS Citibank (Tanzania) Limited
Citibank House Toure Drive, Oyster Bay
P.O. Box 71625
Dar es Salaam, Tanzania

KCB Bank Tanzania Limited
Harambee House, Ali Hassan Mwinyi Road
Kaunda Drive
P.O. Box 804

Bank of Tanzania
2 Mirambo street
P.O. Box 11884
Dar es Salaam, Tanzania

Exim Bank (Tanzania) Limited
Exim Tower, Ghana avenue
P.O Box 1431,
Dar es salaam, Tanzania.

LAWYERS Leo Attorneys
5th Floor, Jamila House, Barakani Road, Mikocheni,
P.O. Box 78572

FINCA MICROFINANCE BANK LIMITED

CORPORATE INFORMATION (CONTINUED)

Dar es Salaam

KZR Law Chambers
P.O. Box 988
Mwanza, Tanzania

Mwakingwe & Bank Advocates
NHC Building, Uhuru Bendera Road
P.O. Box 92
Iringa, Tanzania

E&S Associates Co. Limited
Bunju A, Kilungule Street, House No.BNJ/KLGL/1329
P.O. Box 31570
Dar es Salaam, Tanzania

**PRINCIPAL
FINANCIERS**

FINCA Microfinance Holdings (FMH)

FINCA MICROFINANCE BANK LIMITED

**REPORT BY THOSE CHARGED WITH GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2024**

1. INTRODUCTION

The Directors present their report together with the audited financial statements of FINCA Microfinance Bank Limited for the year ended 31 December 2024, which disclose the state of affairs of the Bank.

2. INCORPORATION

The Bank was incorporated on 12 September 2000 under the Companies Act, 2002 as a Bank limited by guarantee not having a share capital. However, in September 2011 the Bank converted to a Bank limited by shares.

3. COMPANY SECRETARY

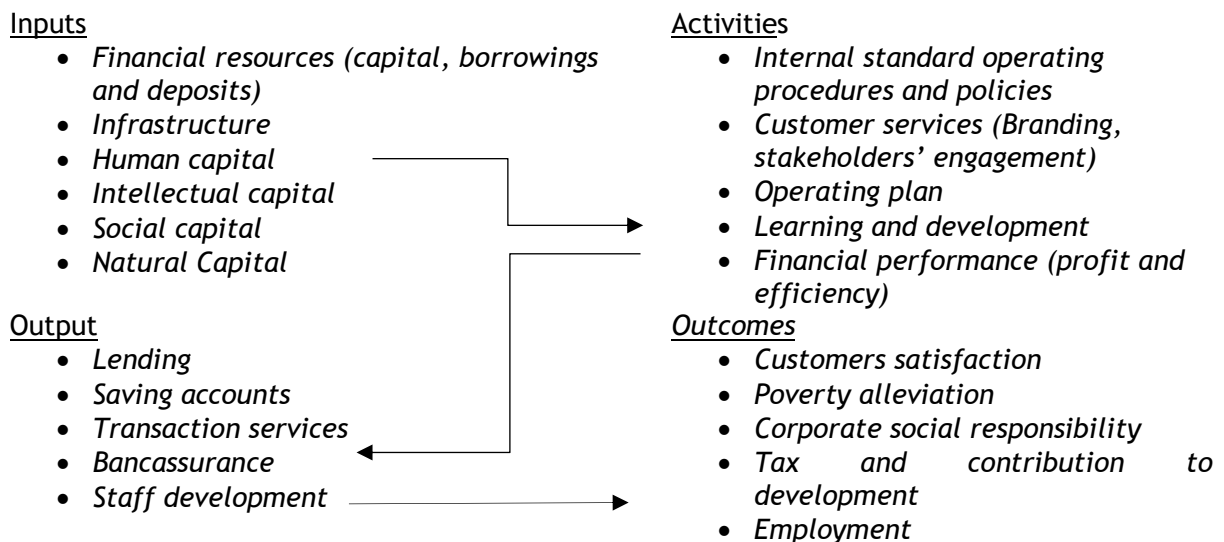
The Company Secretary for the year ending December 2024 was Advocate Beatus Malawa who also works as the legal counsel of the bank. The company secretary plays a leading role in good governance by helping the Board and its committees’ function effectively and in accordance with their terms of reference and best practice. Providing support goes beyond scheduling meetings to proactively manage the agenda and ensuring the presentation of high-quality up-to-date information in advance of meetings. The Company Secretary assists the Chairperson with all development processes including board evaluation, induction, and training. All Directors have access to the advice and services of the company secretary. Both the appointment and removal of the Company Secretary is a matter for the Board as a whole.

4. PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of banking and related financial services stipulated under the Banking and Financial Institutions Act, 2006. The Bank’s mission is to alleviate poverty through lasting solutions that help people build assets, create jobs and raise their standard of living and become number one financial institution serving low-income individuals and borrowers.

Operating model of the Bank

The Bank is transforming business model to leverage technology and focusing on process improvements, while maintaining the human touch and warm relationships that define FINCA Microfinance Bank Limited. The Bank is focused to provide innovative and impactful financial services to enable low-income individuals and communities to invest in their futures.



FINCA MICROFINANCE BANK LIMITED

REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2024

4. PRINCIPAL ACTIVITIES (CONTINUED)

Inputs to the Bank operating model

- Financial resources (capital, borrowings and deposits): The financial resources (from shareholders, lenders and local depositors) are key inputs in our lending business where funding is sourced internally and externally to support our borrowing customers. For 2024, financial resources were mainly through capital and local deposits.
- Infrastructure: The infrastructure used by the Bank include the premises (mostly leased), IT hardware, motor vehicles and digital devices (Including agents and third parties' transactional platforms).
- Human capital: Staff remain the core of our operating model as they are the face of the business to our stake holders. As of December 2024, the Bank had 249 staff (Male: 135 Female:114). The staff are motivated, and the Bank has invested into staff development through online and classroom trainings.
- Intellectual capital: The Bank's intellectual capital includes the value of its employees' knowledge, skills, business training, procedures, copy rights, licenses, patents, and other proprietary information that provides the Bank with competitive advantage. It includes all the innovations done across the Bank including products designs and applications.
- Social capital: As part of the society the Bank has invested in giving back to the community. It has allocated financial resources through corporate social responsibility (CSR) campaigns target women, marginalized rural communities and education institutions.
- Natural capital: These are renewable and non-renewable environments resources and processes that provide goods or services to support the past, current and future prosperity of the bank. They include air, water, land, biodiversity and ecosystem.

Activities of the Bank's operating model:

To transform the input into intended output the Bank has established various activities and processes that are part and parcel of the operating model. These include the internal standard operating procedures and policies, customer services (branding, stakeholders' engagement), operating plan, learning and development and financial performance (profit and efficiency).

Output of the Bank's operating model:

The Bank principal output are the loans which are offered in form of various products (micro business loans, business loans, small enterprise loans, education provider loans, school fees loans, pamoja loans, social financial group loan, lien loans, salary loans and digital loans i.e. customer songesha/dapa and Insurance premium fund loan). The Bank also offers saving accounts, transaction services, and bancassurance.

Outcomes of the Bank's operating model

The outcome of the operating model includes customers satisfaction, poverty alleviation, corporate social responsibility, tax and contribution to development and employment. This is the FINCA organizational mission.

Value creation

The value chain of the Bank's operating model is centred on its ability to mobilize funds (from public depositors and international lenders) to finance value creating economic activities in the country. Also, the delivery channels have improved the customers' experience by making the transactional services conveniently available.

FINCA MICROFINANCE BANK LIMITED

REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2024

5. CORPORATE GOVERNANCE

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

The Board is required to meet at least four times a year. The Board delegates day-to-day management of the business to the Chief Executive Officer who is assisted by senior management. Senior management is invited to attend board meetings and facilitate the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

The Board has a statutory duty to promote the success of Bank for the benefit of the stakeholders. In promoting the success of Bank, Directors must have due regard to the long-term consequences of their decisions, the legitimate interests of employees, the need to foster effective business relationships with suppliers, customers and various stakeholders, the impact of the Bank's operations on the community, the environment, and the desire to maintain a reputation for high standards of business conduct.

The Board believes that good corporate governance is the core driver of sustainable corporate performance and creates shared value by ensuring the right balance between organizational growth and long-term stakeholders' value.

The Board of Directors regularly reviews its corporate governance arrangements and practices and ensures that the same reflects evolving good corporate governance norms, the developments in regulation, best market practice and stakeholders' expectations.

Corporate governance framework enables the Board to oversee the strategic direction of Bank, financial goals, resource allocation, risk appetite and to hold the executive management accountable for execution.

The Board met once in each quarter which resulted into four meetings during the year. These meetings are preceded by the committees which presents their deliberations to the main Board. Also, the Board received the monthly performance and advised the management on the way forward for future performance.

The Bank is set and committed to healthy corporate governance practices, which strengthens and maintains confidence in what it does, thereby contributing to optimal long-term value creation for shareholders and other stakeholders.

The Board recognizes its collective responsibility for the long-term success of the Bank. It has set a reasonable environment which enables it to take an active role in directing the operations of the Bank. It has in place a formal schedule of matters reserved to it.

This includes overall strategy formulation, implementation guidance and monitoring of the outcome, corporate structure and capital composition structure, financial reporting and control, oversight and review of risk management and internal control systems, significant contracts, succession planning and new Board appointments for compliance with good corporate governance principles.

FINCA MICROFINANCE BANK LIMITED

REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2024

5. CORPORATE GOVERNANCE (CONTINUED)

The roles of the Board and Board committee chair and the Bank and group operations through Chief Executive Officer (CEO) are separate. The Chair is responsible for the leadership and management of the Board and for ensuring that the Board and its committees' function effectively. The CEO bears overall responsibility for the implementation of the strategy agreed by the Board, the operational management of the Bank and the business enterprises connected with it. Senior management team is also in place to support this.

The senior management team is encouraged and invited to attend Board and Board committee meetings to facilitate effective communication and assist the Board with its deliberations and provide critical insights and analysis of various business units within the Bank.

The independence of the Board is assessed annually based on the National Board of Accountants and Auditors, Tanzania (NBAA) regulations. In addition, through the Regulator, Bank of Tanzania (BOT), all members of the Board are evaluated. The Board has not received any complaints regarding their standing from any of the regulatory and professional bodies during the year.

Appointment of members of the Board are made on merit, and candidates are considered against objective criteria, having due regard to the benefits of the diversity of the Board. A rigorous selection process is followed in relation to the appointment of Directors and certain specified senior appointments.

The Board maintains regular dialogue with analysts and investors and have seen value in keeping shareholders, investors and other stakeholders informed of the Bank's financial performance. The Bank and Board strive to continuously publish all relevant information to the market in a timely, effective and non-discriminatory manner.

Key activities of the Board during the year included:

- Approve the approach and oversee the implementation of key policies pertaining to the Bank's capital adequacy assessment process, liquidity and funding plans;
- Oversee implementation of the Bank's governance framework and periodically review that it remains appropriate in the light of material changes to the Bank's size, complexity, geographical footprint, business strategy, markets and regulatory requirements;
- Establish along with senior management the Bank's risk appetite, considering the competitive and regulatory landscape and the Bank's long-term interests, risk exposure and ability to manage risk effectively;
- Approved the new organization structure and staff re-alignment as well as the new operating model;
- Diagnostic study of the Bank's ICT framework and approve the ICT Strategy;
- Review of business performance and business challenges;
- Review and approval of annual budget; and
- Review of operating plans to support the budget as well as approval of new products.

The Board recognizes the importance of integrity, transparency and accountability. During the year the Board constituted three sub-committees for improving corporate governance by delegating specific tasks from the main Board to a smaller group to allow deep dive in critical matters and detailed understanding of key decisions and their impact. These sub-committees are the Audit Committee, Credit and Risk Committee and Human Resource Committee.

FINCA MICROFINANCE BANK LIMITED**REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024****5. CORPORATE GOVERNANCE (CONTINUED)***Board structure*

A Board-approved policy specifies the governance principles that ensure a balance of power and authority at the Board level. Board composition is driven by the following principles:

- The Board will be of an appropriate size to allow efficient decision making given the size of the business;
- The Chairperson of the Board must be a non-executive director;
- The Chairperson must not have been an executive officer of the Bank in the last three years;
- The Board must comprise non-executive directors; and
- The Board should consist of Directors with a broad range of expertise, skills and experience appropriate to the Bank's business from a diverse range of backgrounds.

During the year, the Board consisted of sufficient members with the right mix of skills, experience and knowledge to perform their roles.

Board committees

The committees for the Board consist of the Audit Committee, Human Resources Committee and Credit and Risk Management Committee. The activities of the committees are governed by the respective committee charters which are approved by the Board. The Committee purpose and responsibilities are shown below:

i. **Audit Committee**

The Board Audit Committee reviews significant accounting policies and financial reporting systems to ensure that they are adequate and always complied with. It reviews the 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. It also recommends 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. The Internal Audit Manager reports directly to the Audit Committee. The committee composition is indicated below:

Name	Position	Nationality
Muhammad Siddique Ahmed	Chairperson	Pakistani
Volker Renner	Member	Germany
Lucas Wilkens Flores Soares	Member	Italian

ii. **Credit and Risk Management Committee**

The main function of the Credit and Risk Committee is to assist the Board in reviewing risk management strategies and policies and recommend them for approval. It provides the Board with regular assessment of the Bank risk profile and monitors the implementation of risk management action plans. The committee also reviews adequacy and effectiveness of balance sheet management and its related risks through the Asset Liability Management Committee (ALCO) presented by management. The composition of the Credit and Risk committee is indicated below

Name	Position	Nationality
Jeffrey Peter Smith	Chairperson	American
Mary Mabiti	Member	Tanzanian

FINCA MICROFINANCE BANK LIMITED

**REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024**

5. CORPORATE GOVERNANCE (CONTINUED)

iii. Human Resource Committee

The main function of this committee is to develop, review and enhance the Bank’s approach to human resources management practices. The Committee ensures that there is a succession plan for executive and other key positions within the Bank. It is also responsible for reviewing and recommending reward strategy and annual compensation for the Board, senior management and other employees of the Bank. The composition of the committee is indicated below.

Name	Position	Nationality
Mary Mabiti	Chairperson	Tanzania
Jeffrey Peter Smith	Member	American

6. MANAGEMENT

The management of the Bank is under the Chief Executive Officer assisted by senior management and is organized in the following departments:

- Finance and Administration
- Credit
- Human Resources
- Legal
- Internal Audit
- Risk Management and Compliance
- Information Systems and Operation
- Commercial
- Research and development.

7. CAPITAL STRUCTURE

The Bank capital structure for the year under review is shown below.

	2024 TZS ‘000	2024 TZS ‘000
Authorized share capital		
45,000,000 (2023: 45,000,000) ordinary shares of TZS 1,000 each	<u>45,000,000</u>	<u>45,000,000</u>
Issued and fully paid capital		
37,894,772 (2023: 37,894,772) ordinary shares of TZS 1,000 each	<u>37,894,772</u>	<u>37,894,772</u>

8. SHAREHOLDERS OF THE BANK

The total number of shareholders during the year was two. There were no Directors holding shares in the Bank.

Shareholding structure of the Bank is as follows:

	2024	2023
FINCA Microfinance Holding Company LLC	37,894,771	37,894,771
FINCA International LLC	<u>1</u>	<u>1</u>
	<u>37,894,772</u>	<u>37,894,772</u>

FINCA MICROFINANCE BANK LIMITED**REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024****9. MACRO-ECONOMIC OVERVIEW***Global economy*

According to IMF World Economic update, January 2025, Global growth is projected at 3.3 percent both in 2025 and 2026, below the historical (2000-19) average of 3.7 percent. The forecast for 2025 is broadly unchanged from that in the October 2024 World Economic Outlook (WEO), primarily on account of an upward revision in the United States offsetting downward revisions in other major economies. Global headline inflation is expected to decline to 4.2 percent in 2025 and to 3.5 percent in 2026, converging back to target earlier in advanced economies than in emerging market and developing economies.

Medium-term risks to the baseline are tilted to the downside, while the near-term outlook is characterized by divergent risks. Upside risks could lift already-robust growth in the United States in the short run, whereas risks in other countries are on the downside amid elevated policy uncertainty. Policy-generated disruptions to the ongoing disinflation process could interrupt the pivot to easing monetary policy, with implications for fiscal sustainability and financial stability. Managing these risks requires a keen policy focus on balancing trade-offs between inflation and real activity, rebuilding buffers, and lifting medium-term growth prospects through stepped-up structural reforms as well as stronger multilateral rules and cooperation.

Regional economy

Sub-Saharan African countries are implementing difficult and much needed reforms to restore macroeconomic stability, and while overall imbalances have started to narrow, the picture is varied. Policymakers face three main hurdles. First, regional growth, was projected 3.6 percent in 2024, is generally subdued and uneven, although it is expected to recover modestly next year to 4.2 percent. Second, financing conditions continue to be tight. Third, the complex interplay of poverty, scarce opportunities, and weak governance--compounded by a higher cost of living and short-term hardships linked to macroeconomic adjustment--are fuelling social frustration. Within this environment, policymakers face a difficult balancing act in striving for macroeconomic stability while also working to address development needs and ensure that reforms are socially and politically acceptable. Protecting the most vulnerable from the costs of adjustment and realizing reforms that create sufficient jobs will be critical to mobilize public support.

Tanzania Economy:

According to the Bank of Tanzania, The Monetary Policy Committee (MPC) assessed the performance of the Tanzania economy and observed that it continued to perform impressively. The Fitch Ratings assessment and the IMF review made in December 2024 also confirmed the impressive performance. The Fitch Ratings assessment affirmed the country rating at B+ with stable outlook. The IMF made the review under the Extended Credit Facility (ECF) and the Resilience and Sustainability Facility (RSF) programs implemented by the government.

Further, according to the Bank of Tanzania January economic updates, the economy maintained robust performance in 2024, growing at an average of 5.6 percent in the three quarters of 2024. Growth in the third quarter was 5.9 percent, compared to 5.6 percent in the corresponding quarter in 2023. Activities that contributed to this growth include agriculture, financial and insurance services, construction, and mining and quarrying. The Bank of Tanzania projects strong growth in the fourth quarter, with a likelihood of attaining the projected growth of 5.4 percent in 2024. The outlook is linked to good performance in agriculture—supported by favourable weather, adequate supply of inputs and their efficient utilization as well as increases in exports, and public and private investments.

FINCA MICROFINANCE BANK LIMITED**REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024****9. ENVIRONMENTAL FOOTPRINT**

The Bank embraces a culture of responsible living, with the ultimate intention of building a sustainable work environment that has minimal or nil adverse effects on the environment. Among the efforts done by the Bank to minimize ecological footprint are:

- Maintaining the paperless banking operation by continuing with the Digital Field Automation (DFA) services to all customers to open bank accounts without submitting hard papers. DFA also allows disbursement of loans without paper-works.
- Scaling out the web and mobile - based banking solutions that have cut off the amount of paper used.
- Monitoring a centralized printing system to track and control the number of printouts monthly.
- Scaling out digital lending solutions in partnership with mobile network operators where large number of Tanzanians access the financial services (credit and savings) via mobile phone.
- Adopting collaboration technologies within the Bank's communication systems, such as videoconference kits to cut the number of hours and material resources spent travelling, by air or road for meetings and the use of electronic reports for management meetings.
- The Bank has also ensured an efficient use of power within all its premises including placing reminders on power and air conditioning switches for staff to turn off power when not in use.
- The Bank has invested in solar energy systems as its power backup to minimize the use of fuel generators when there is electric power cut-off which improved environmental air pollution.

10. FUTURE DEVELOPMENT PLANS

The Bank will continue focusing on the current core business, particularly the bottom of the pyramid to improve its profitability while being innovative in service and products delivery mechanism to ensure sustainability and good customer experience through all the touch points. The year 2024 showed a realignment of the Bank's portfolio between digital and traditional book to ensure effective utilization of capital and increase in the local funding base (deposits). In 2025, the primary focus is on financially excluded and underserved individuals including women and youth, entrepreneurs, and small-scale farmers offering them products and services to manage their ongoing obligations, cope with shocks and build assets for their future. Group loan or pamoja portfolio segment to be a driver of social impact and financial sustainability with innovative digital solutions to increase outreach beyond the frontier. The Bank aims at supporting all sectors including agriculture, retail and trade, value chains, education and service.

Strategic focus of the Bank for 2025 be on:

- Customers segmentation to provide a wide range of products and services tailored to their needs with a specific approach to each segment.
- Enhance the capacity and competence of staff to serve financially excluded and underserved customers.
- Enhance IT technology infrastructure in the banking operations and continue improvement of the internal operational efficiency in serving customers.
- Provide financially excluded and or underserved customers with innovative and competitive financial products relevant to their needs.
- Enhance omnichannel banking to provide consistent and positive customer experience across the customer journey to last-mile customers across the country.
- Creating partnerships that add more value to customers and improve the Bank's operational efficiency.

11. RESULTS AND DIVIDEND

During the year, the Bank made profit after tax of TZS 475,487,000 (2023: profit TZS 317,333,000). The Directors do not propose payment of dividend for the year ended 31 December 2024 (2023: Nil).

FINCA MICROFINANCE BANK LIMITED**REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024****12. PERFORMANCE FOR THE YEAR**

The following is a summary highlighting the Bank's performance.

	2024	2023
Branches	21	21
Total number of staff	249	233
Gross outstanding portfolio (TZS `000)	72,974,482	67,788,549
Gross outstanding portfolio - Digital book (TZS 000)	22,332,016	28,976,818
Gross outstanding portfolio - Traditional book (TZS 000)	50,642,466	38,811,731
Total current and demand accounts (TZS `000)	77,788,382	70,724,762
Total assets (TZS `000)	96,944,349	92,824,928
Portfolio At Risk > 1 day (PAR 1)	14.60%	20.50%
Portfolio At Risk over 30 days (PAR 30)	8.64%	11.91%
Portfolio yield	125.0%	137.0%
Portfolio yield -Digital book	280.3%	261.0%
Portfolio yield - Traditional book	44.5%	48.9%
Debt/Equity	0.00%	36.6%
Total deposits/gross loans and advances	106.6%	104.3%
Capital/assets	39.1%	40.8%

The Bank's results are set out on **page 21** of the financial statements. Sector performance has been noted by the Central Bank, and they have been implementing various accommodative monetary stance to improve the performance. The Bank is continuing to invest on technology and innovations to improve efficiency service delivery and thus improving ability to withstand both internal as well as external shocks.

13. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The efficiency of any internal control system 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 Bank's system 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 2024 and is of the opinion that they met acceptable criteria.

The Board carries risk and internal control assessment through the Audit Committee, Credit & Risk Committees.

FINCA MICROFINANCE BANK LIMITED

REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2024

14. SOLVENCY

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

15. EMPLOYEES' WELFARE

Management and employees' relationship

Relationship between employees and management continued to be cordial for the year 2024. There were no unresolved complaints received by management from the employees during the year.

A healthy relationship continues to exist between management and the employees. The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribe, religion and disability which do not impair ability to discharge duties. The management of the Bank proposed a thirteenth cheque to all employees in December 2024, which has been approved and effected aiming at boosting the employee morale.

Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development both individually and as a group, with the goal to benefit both the Bank and employees.

During the year the Bank spent TZS 29 million for staff training to improve employees' technical skills and hence effectiveness (2023: TZS 58 million) for face-to-face training. However, the Bank put more emphasis on mandatory training to equip employees with necessary knowledge and skills to reduce Bank's business risks and comply with national policies and Government guidelines. These training are required under law and the Bank policy as part of everyday work. The Bank also embraced technology in ensuring that all staff are efficiently reached out in the training programs. In 2024 the video conference system facilitated the virtual digital training across the branch network which resulted to reduced training expenses.

Medical assistance

All members of staff with a maximum number of four beneficiaries (dependents) for each employee were availed medical insurance. The Bank used National Health Insurance Fund (NHIF) as medical insurer during the year.

Health and safety

A safe working environment is ensured for all employees and contractors by providing adequate and proper personal protective equipment, training and supervision as necessary.

Financial assistance to staff

Loans are available to all confirmed employees depending on the assessment and the discretion of management as to the need and circumstances. Management has established a policy that provides loans to staff and these loans are limited by the size of the loan portfolio.

FINCA MICROFINANCE BANK LIMITED

**REPORT BY THOSE CHARGED WITH GOVERNANCE (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024**

15 EMPLOYEES' WELFARE (CONTINUED)

Persons with disabilities

Applications for employment by disabled person are always considered, bearing in mind the aptitudes of the applicant concerned. In the event that member of staff becomes disabled, the Bank makes necessary efforts to ensure that the respective staff's employment with the Bank continues and appropriate training is arranged. It is the policy of the Bank that training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employees benefit plan

All eligible employees are members of the National Social Security Fund (NSSF). The fund is a defined contribution pension scheme with the Bank having no legal or constructive obligation to pay further top-up contributions.

Diversity and inclusion strategy

The Bank strives to maintain a workplace free of harassment and sensitive to the diversity of its employees. During the year the Bank promoted one female staff into branch manager's position. As of December 2024, the Bank had 249 employees, out of whom 114 were female and 135 were male (2023: 233 employees out of which 106 were female and 127 were male).

16. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in **note 25** to these financial statements.

17. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political or charitable donations during the year (2023: Nil).

18. CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Bank is committed to its stakeholders to conduct its business responsibly creating sustainability and positive impact. It forms an integral part of the country's cultural and financial fabric and invests in a range of social projects.

19. AUDITOR

The auditor, BDO East Africa were appointed during the year and have expressed their willingness, continue in office in accordance with section 170(2) of the Companies Act, 2002. BDO East Africa with PF No 101 and TIN 100-354-285 is an audit firm registered by the National Board of Accountants and Auditors of Tanzania (NBAA).

BY ORDER OF THOSE CHARGED WITH GOVERNANCE



Nasama Massinda

Chairperson

.....31st March.....2025



Mary Pascal Mabiti

Director

FINCA MICROFINANCE BANK LIMITED

**STATEMENT OF RESPONSIBILITIES BY THOSE CHARGED WITH GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2024**

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


The Directors are responsible for the preparation of the financial statements that give true and fair view in accordance with the IFRS Accounting Standards as issued by the International Accounting Standards Board and the requirements of the Companies Act, 2002; the Banking and Financial Institution Act 2006 together with its Regulations; and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with IFRS Accounting Standards and in the manner required by the Companies Act, 2002, the Banking and Financial Institution Act, 2006 together with its Regulations. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its financial results. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

As set out in note 28 to the financial statements, the Directors have considered the shortfall on the Bank's capital adequacy ratios as at 31 December 2024 and their impact on the Bank's ability to continue as a going concern. The Directors have taken and are taking specific targeted measures to restore the capital position to ensure compliance with regulation.


Having made an assessment of the Bank's ability to continue as a going concern, nothing else has come to the attention of the Directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Signed on behalf of the Board of Directors:



Nasama Massinda
Chairperson

31st March
.....2025



Mary Pascal Mabiti
Director

31st March
.....2025

FINCA MICROFINANCE BANK LIMITED

**DECLARATION BY THE CHIEF FINANCE OFFICER
FOR THE YEAR ENDED 31 DECEMBER 2024**

The National Board of Accountants and Auditors (NBAA) according to the power conferred to it 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 Professional Accountant responsible for the preparation of financial statements of the entity concerned.

It is the duty of a Chief Finance Officer, to assist the Directors to discharge the responsibility of preparing financial statements of the Bank showing a true and fair view of the financial position and performance in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board and the requirements of the Companies Act, 2002 and the Banking and Financial Institution Act 2006 together with its Regulations. Full legal responsibility for the preparation of the financial statements rests with the Directors as stated under the Statement of Director’s Responsibilities on an earlier page.

I, Diana Msangi, being the Acting Chief Finance Officer of Finca Microfinance Bank Limited hereby acknowledge my responsibility of ensuring that the financial statements for the year ended 31 December 2024 have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board and the requirement of Companies Act, 2002 and the Banking and Financial Institutions Act,2006 together with its Regulations.

I thus confirm that the financial statements comply with IFRS Accounting Standards as issued by the International Accounting Standards Board and the requirement of Companies Act, 2002 and the Banking and Financial Institutions Act,2006 together with its Regulations as on that date and that they have been prepared based on properly maintained financial records.



Diana Msangi
Ag. Chief Finance Officer
NBAA Registration No. ACPA 5935

31st March
.....2025



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Finca Microfinance Bank Limited

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Finca Microfinance Bank Limited (the Bank), which comprise:

- the statement of financial position as at 31 December 2024, and
- the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and the requirements of Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 together with its regulations.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in *the Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the National Board of Accountants and Auditors (NBAA) Code of Ethics which is consistent with the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be key audit matters to be communicated in our report.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the audit of the financial statements (continued)

Key Audit Matters (continued)

KEY AUDIT MATTER	AUDIT RESPONSE
<p>1 Estimation of Expected Credit Losses on loans and advances to customers</p>	
<p>Loans and advances to customers constitute a significant portion of the total assets of Finca Microfinance Bank Limited. As disclosed in note 3.1, management exercise significant judgment when determining both when and how much to record as loan impairment. This is because a number of significant assumptions and inputs go into the determination of expected credit loss (ECL) impairment amounts on loans and advances to customers as required by IFRS 9 Financial Instruments.</p> <p>The key areas where we identified greater levels of management judgment and therefore increased levels of audit focus in the Bank's implementation of IFRS 9 include:</p> <ul style="list-style-type: none"> i. The judgments made to determine the categorization (staging) of individual loans and advances accounts in line with IFRS 9. In particular, the identification of a Significant Increase in Credit Risk ("SICR") and Default require consideration of quantitative and qualitative criteria. This is a key area of judgement as this determines whether a 12-month or lifetime PD is used; ii. Where there is uncertainty in respect of the respective models' ability to address specific trends or conditions due to inherent limitations of modelling based on past performance, the timing of model updates, and macroeconomic events, additional provisions are made via management overlays. Significant judgement was made in determining the management overlays; ii. Identification and measurement of economic scenarios to measure ECLs on a forward-looking basis reflecting a range of future economic conditions; 	<p>In evaluating the impairment against loans and advances, we assessed the judgements and assumptions used by the Directors and our procedures included the following:</p> <ul style="list-style-type: none"> i. We considered Bank's credit control processes to identify impaired loans and advances and tested operating effectiveness of the relevant key controls in the process; ii. We obtained an understanding of the Bank's methodology for determining expected credit losses, including enhancements in the year, and evaluated this against the requirements of IFRS 9, Financial Instruments; iii. We tested the design and implementation of critical controls across all ECL-related processes, particularly the allocation of assets into stages and management overlays; iv. On a sample of contracts, we assessed the identification of loans and advances that had experienced a significant increase in credit risk or met the Bank's default definition criteria for classification purposes. This was completed by reviewing documentation and credit performance to determine whether the staging of such facilities was in accordance with Bank policy and IFRS 9, Financial Instruments; v. We assessed the reasonableness of management overlays, taking into account industry and client-specific risk. We recalculated the management overlays and assessed their completeness in light of our understanding of the model and data



limitations;

INDEPENDENT AUDITOR’S REPORT (CONTINUED)

Report on the audit of the financial statements (continued)

Key Audit Matters (continued)

KEY AUDIT MATTER	AUDIT RESPONSE
<p>1 Estimation of Expected Credit Losses on loans and advances to customers</p> <p>iv. Modelling for estimation of ECL parameters:</p> <ul style="list-style-type: none"> • Probabilities of Default (PDs) • Loss Given Default (LGD); and Exposure at Default (EAD). <p>Because of the significance of these estimates, judgments and the size of loans and advances portfolio, the audit of loan impairment provisions is considered a key audit matter.</p> <hr/> <p>Refer to note 3.1 of the accompanying financial statements.</p>	<p>vi. We tested the assumptions, inputs and formulae used in the ECL models with the support of our internal credit risk specialists (including assessing the appropriateness of model design and formulae used), considering alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default;</p> <p>vii. We corroborated the assumptions used for the determination of forward-looking information (FLI) in the models using publicly available information;</p> <p>viii. We tested the data used in the ECL calculation by reconciling to source systems; and</p> <p>ix. We assessed the adequacy and appropriateness of disclosures for compliance with the accounting standards.</p> <p>We found that the assumptions and judgements applied in determining the expected credit loss on loans and advances were appropriate and that the amount raised was reasonable and adequate</p>

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor’s report is company information, report by those charged with governance statement of responsibility by those charged with governance and declaration of head of finance. The other information does not include the financial statements and our auditor’s report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the audit of the financial statements (continued)

Other Information (continued)

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

We also

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



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Report on the audit of the financial statements (continued)

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

Report on Other Legal and Regulatory Requirements

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


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

As required by Banking and Financial Institutions Act, 2006 and its regulations, we report to you based on our audit, that:

As at 31 December 2024, the core capital and total capital to total risk weighted assets ratio was 11.27% and 11.27% respectively against the required minimum of 12.5% and 14.5% respectively. Both regulatory ratios of 12.5% and 14.5% are inclusive of regulatory required buffer of 2.5% for each ratio.

Except for the above exceptions, nothing has come to our attention that causes us to believe that the Bank has not complied with the Banking and Financial Institutions Act, 2006 and its regulations including computation of its capital position.

Signed by:

Signed by:

 94842E67D7BB413...

Ali Selemani ACPA 1874
 For and behalf of BDO East Africa
 Dar es Salaam, Tanzania

Date 31st March 2025

FINCA MICROFINANCE BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2024

	Notes	2024 TZS '000	2023 TZS '000
Interest and similar income	5	82,557,643	86,229,360
Interest and similar expense	6	<u>(9,586,014)</u>	<u>(8,755,062)</u>
Net interest income		<u>72,971,629</u>	<u>77,474,298</u>
Impairment charge on financial instruments	17(b)(ii)	<u>(1,713,017)</u>	<u>(4,840,631)</u>
Net interest income after impairment charge on financial instruments		<u>71,258,612</u>	<u>72,633,667</u>
Fees and commission income	7	1,166,390	742,916
Fees and commission expense	8	<u>(125,454)</u>	<u>(229,997)</u>
Net fee and commission income		<u>1,040,936</u>	<u>512,919</u>
Net income from lending activities		<u>72,299,548</u>	<u>73,146,586</u>
Grant income	9	77,418	121,255
Other income	10	40,384	87,308
Personnel expenses	11	(7,610,059)	(7,300,565)
Operating expenses	12	(62,418,594)	(63,376,029)
Depreciation and amortisation	20,21 & 22	<u>(2,000,538)</u>	<u>(2,213,908)</u>
Profit before tax		388,159	464,647
Income tax credit/(charge)	13(a)	<u>87,328</u>	<u>(147,314)</u>
Profit for the year		475,487	317,333
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>475,487</u></u>	<u><u>317,333</u></u>

FINCA MICROFINANCE BANK LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2024

	Notes	2024 TZS '000	2023 TZS '000
Assets			
Cash and bank balances	15(a)	13,690,594	14,381,561
Investment in fixed deposits	16	7,123,698	7,570,479
Loans and advances to customers	17	68,421,383	64,299,839
Other assets	18	2,226,958	2,356,252
Intangible assets	22	380,163	839,742
Property and equipment	20	1,722,856	1,136,972
Right of-use-assets	21(a)	2,290,789	1,619,797
Tax recoverable	13(d)	475,033	267,572
Work in progress	19	263,531	352,714
Deferred Tax asset	13	349,344	-
Total assets		96,944,349	92,824,928
Liabilities			
Deposits from banks	23	3,801,910	5,414,416
Deposits from customers	23	73,986,472	65,310,346
Borrowings	24	-	3,330,029
Lease liabilities	21(b)	2,100,356	1,391,183
Other liabilities	27	7,205,844	8,034,925
Due to related parties	25(b)	33,300	107,825
Deferred grant	26	68,816	146,234
Tax payable	13(d)	182,194	-
Total liabilities		87,378,892	83,734,958
Equity			
Share capital		37,894,772	37,894,772
Accumulated losses		(28,329,315)	(28,804,802)
Total equity		9,565,457	9,089,970
Total liabilities and equity		96,944,349	92,824,928

The financial statements on pages 22 to 78 were approved and authorised for issue by the Board of Directors on31st March.....2025 and were signed on its behalf by:



Nasama Massinda
Chairperson



Mary Pascal Mabiti
Director

FINCA MICROFINANCE BANK LIMITED**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2024**

	Share capital TZS'000	Accumulated losses TZS'000	Regulatory reserve* TZS'000	Total TZS'000
At 1 January 2023	37,894,772	(29,122,135)	-	8,772,637
Total comprehensive income for the year	-	317,333	-	317,333
Regulatory reserve*	-	-	-	-
At 31 December 2023	<u>37,894,772</u>	<u>(28,804,802)</u>	<u>-</u>	<u>9,089,970</u>
At 1 January 2024	37,894,772	(28,804,802)	-	9,089,970
Total comprehensive income for the year	-	475,487	-	475,487
Regulatory reserve*	-	-	-	-
At 31 December 2024	<u>37,894,772</u>	<u>(28,329,315)</u>	<u>-</u>	<u>9,565,457</u>

*Regulatory reserve represents the surplus of loan provision computed as per Bank of Tanzania regulation over the impairment of loans and advances as per IFRS Accounting Standards as issued by the International Accounting Standards Board. The reserve is not distributable. No Regulatory reserve has been made because the bank's IFRS impairment is higher than BOT provision.

FINCA MICROFINANCE BANK LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2024

	Notes	2024 TZS '000	2023 TZS '000
Cash flows from operating activities			
Profit before tax		388,159	464,647
<i>Adjustments for:</i>			
Depreciation of right of-use-assets	21(a)	997,401	975,540
Depreciation of property and equipment	20	543,558	468,731
Amortization of intangible assets	22	459,579	769,637
Impairment on financial instruments	7(b)(ii)	2,900,990	5,656,114
Interest income	5	(82,557,643)	(86,229,360)
Interest expense	6	9,586,014	8,755,062
(Gain)/Loss on disposal of property and equipment	10	(2,748)	946
Unrealised foreign exchange (gain)/loss		(6,166)	376,005
Foreign exchange on cash and cash equivalents		(210,245)	441,915
Grant income	9	(77,418)	(121,255)
Gain on lease modifications	10	(36,139)	(59,006)
Operating cash flows before movements in working capital		(68,014,658)	(68,501,024)
Changes in working capital:			
Increase in loans and advances to customers		(7,733,678)	(7,969,628)
(Increase)/decrease in other assets		129,294	(1,082,823)
(Decrease)/increase in other liabilities		(829,078)	3,324,878
Net movement in related party balances		(74,525)	(41,641)
(Increase)/decrease in investment in fixed deposits		(826,744)	2,133,998
Increase in customer deposits		6,852,397	12,883,200
Cash used in operations		(70,496,993)	(59,253,040)
Tax paid	13(d)	(287,282)	(969,590)
Interest received		83,243,757	85,485,286
Interest paid		(9,620,073)	(8,940,106)
Net cash generated from operating activities		2,839,409	16,322,550
Cash flows from investing activities			
Purchase of property and equipment	20	(923,599)	(393,284)
Payment towards capital work in progress	19	(118,348)	(403,428)
Proceeds on disposal of property and equipment		4,435	1,461
Net cash used in investing activities		(1,037,512)	(795,251)
Cash flows from financing activities			
Repayment on borrowings- principal	24	(3,020,731)	(2,428,672)
Repayment on lease liabilities - principal	21(d)	(980,930)	(904,401)
Net cash (used in)/generated from financing activities		(4,001,661)	(3,333,073)
Net increase in cash and cash equivalents		(2,199,764)	12,194,226
Cash and cash equivalents at 1 January		17,721,538	5,969,227
Effect of foreign exchange rate changes on cash and cash equivalents		210,245	(441,915)
Cash and cash equivalents at 31 December	15(b)	15,732,019	17,721,538

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2024****1. REPORTING ENTITY**

FINCA Microfinance Bank Limited (“the Bank”) is a limited liability company incorporated in the United Republic under the Companies Act, 2002. It is operating as a microfinance bank licensed under the Banking and Financial Institutions (Microfinance Activities) Regulation, 2014 and regulated by the Bank of Tanzania. Details of the address of its registered office and principal place of business are disclosed on page one whilst its principal activities are described in The Report of Directors by those charged with Governance.

2. MATERIAL ACCOUNTING POLICY INFORMATION**a) Basis of preparation**

The financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board under the historical cost basis except for certain financial instruments that are measured at fair value. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

b) Statement of compliance

The financial statements of FINCA Microfinance Bank Limited have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 together with its regulations.

c) Changes in accounting policies and disclosures*i) New and amended standards effective for the current year*

The Bank has applied a number of amendments to the standards issued that are mandatorily effective for an accounting period that begins on or after 1 January 2024:

Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

The bank has adopted the amendments to IAS 1. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

The bank has adopted the amendments to IAS 16. The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

Lease Liability in a Sale and Leaseback requires a seller-lessee to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. The new requirements do not prevent a seller-lessee from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease.

**FINCA MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2024**

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

c) Changes in accounting policy and disclosures (continued)

Non-current Liabilities with Covenants (Amendments to IAS 1)

The bank has adopted the amendments to IAS 1. The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

The amendments:

- Specifies that if the right to defer settlement for at least 12 months is subject to an entity complying with conditions after the reporting period, then those conditions would not affect whether the right to defer settlement exists at the end of the reporting period (the reporting date) for the purposes of classifying a liability as current or non-current; and
- for non-current liabilities subject to conditions, an entity is required to disclose information about:
 - ❖ the conditions (for example, the nature of and date by which the entity must comply with the condition);
 - ❖ whether the entity would comply with the conditions based on its circumstances at the reporting date;
 - ❖ whether and how the entity expects to comply with the conditions by the date on which they are contractually required to be tested.

i) New and revised standards in issue but not yet effective

New Standard or Amendment	Effective for annual periods beginning on or after
IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information	1 January 2025
IFRS S2 - Climate-related Disclosures	1 January 2025
IFRS 18 - Presentation and Disclosures in Financial Statements	1 January 2027
IFRS 19 - Subsidiaries without Public Accountability: Disclosures	1 January 2027
Amendments to IAS 21 - Lack of Exchangeability (Amendments to IAS 21)	1 January 2025
Amendments IFRS 9 and IFRS 7 - Amendments IFRS 9 and IFRS 7 regarding the classification and measurement of financial instruments.	1 January 2026
Annual IFRS improvement _ Volume 11 - Annual Improvements to IFRS Accounting Standards – Volume 11	1 January 2026

Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2024

IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S1 sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)
- c) Changes in accounting policy and disclosures (continued)
- i) New and revised standards in issue but not yet effective (continued)

Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2024 (continued)**IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information**

Application of IFRS S1 is optional however the National Board of Accountants and Auditors of Tanzania (NBAA) has mandated application of this standard in Tanzania. The NBAA has mandated application of the standard effective for accounting periods beginning on or after 1 January 2025. The Directors are still evaluating the impact of application of this standard to the financial statements.

IFRS S2 Climate-related Disclosures

IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

Application of IFRS S2 is optional however the National Board of Accountants and Auditors of Tanzania (NBAA) has mandated application of this standard in Tanzania. The NBAA has mandated application of the standard effective for accounting periods beginning on or after 1 January 2025. The Directors are still evaluating the impact of application of this standard to the financial statements.

IFRS 18 - Presentation and Disclosures in Financial Statements

IFRS 18 replaces IAS 1, carrying forward many of the requirements in IAS 1 unchanged and complementing them with new requirements. In addition, some IAS 1 paragraphs have been moved to IAS 8 and IFRS 7. Furthermore, the IASB has made minor amendments to IAS 7 and IAS 33 Earnings per Share.

IFRS 18 introduces new requirements to:

- present specified categories and defined subtotals in the statement of profit or loss
- provide disclosures on management-defined performance measures (MPMs) in the notes to the financial statements
- improve aggregation and disaggregation.

An entity is required to apply IFRS 18 for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. The amendments to IAS 7 and IAS 33, as well as the revised IAS 8 and IFRS 7, become effective when an entity applies IFRS 18. IFRS 18 requires retrospective application with specific transition provisions.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)****c) Foreign currencies**

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest, impairment and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

d) Income recognition

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

i) Net interest income

Effective interest rate - Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial assets.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not Expected Credit Loss (ECL). For purchased or originated credit impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

ii) Amortised cost and gross carrying amount.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)****e) Income recognition (continued)**

iii) Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating-rate instruments to reflect movements in market rates of interest. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. For information on when financial assets are credit impaired.

iv) Presentation

- Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes interest on financial assets and financial liabilities measured at amortised cost.
- Interest expense presented in the statement of profit or loss and OCI includes interest on financial liabilities measured at amortised cost.
- Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

f) Fee and commission income and expenses

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission income - including account servicing fees and sales commissions - is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

A contract with a customer that results in a recognised financial instrument in the bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)****g) Net trading income**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences.

h) Leases

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

The Bank as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Bank has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments.
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)****h) Leases (continued)**

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The basis for determining future lease payments changes as required by interest rate benchmark reform, the Bank remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

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

i) Income tax expense

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

The Bank has determined that interest and penalties related to income taxes, including uncertain tax treatments, do not meet the definition of income taxes, and therefore has accounted for them under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and has recognised the related expenses in 'other expenses'.

a) Current tax

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

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)****i) Income tax expense (continued)****b) Deferred tax**

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- temporary differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination, and which affects neither accounting nor taxable profit
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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

Deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on business plans for individual the Bank. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

h) Financial assets and liabilities**i) Recognition and initial measurement**

The bank initially recognises loans and advances and deposits on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date on which the bank becomes a party to the contractual provision of the assets or liabilities.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)****h) Financial assets and liabilities (continued)**

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. The fair value of the financial instrument at initial recognition is generally its transaction price. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

ii) Classification

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL.

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

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

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

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

On initial recognition of an equity investment that is not held for trading, the bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets.

FINCA MICROFINANCE BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

- how the performance of the portfolio is evaluated and reported to the Bank’s management.
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed.
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank’s stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank’s claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rates.

The Bank holds a portfolio of long-term fixed rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty.

The Bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

h) Financial assets and liabilities (continued)

FINCA MICROFINANCE BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

The Bank’s financial assets classified into the measurement categories are as following.

Financial assets	Business Model	SPPI	Measurement Category
Cash and bank balances	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost
Loans and advances to banks	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost

Financial assets	Business Model	SPPI	Measurement Category
Loans to customers	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost
Investment in fixed deposits	Hold to collect contractual cash flows	Cash flows are solely payments of principal and interest	Amortized cost

Financial assets are not reclassified subsequently to their initial recognition, except in the period after the bank changes its business model for managing financial assets.

iii) Derecognition

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of;

- the consideration received (including any new asset obtained less any new liability assumed) and
- any cumulative gain or loss that had been recognised in Other Comprehensive Income (OCI) is recognised in profit or loss.

Any cumulative gain or loss recognised in Other Comprehensive Income in respect of equity investment securities designated as at fair value through other comprehensive income (FVOCI) is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability when assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

h) Financial assets and liabilities (continued)

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

- c) In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised. The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

- iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset is substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised (see (iii)) and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset;
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place (see below for write-off policy). This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred, and modification fees received adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset if such a modification is carried out because of financial difficulties of the borrower (see (vii)), then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method (see (b)).

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**h) Financial assets and liabilities (continued)**

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024*****Financial liabilities***

The Bank derecognises a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability. If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

iv) Interest rate benchmark reform

Financial assets (continued)

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform, then the Bank updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- the change is necessary as a direct consequence of the reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis i.e. the basis immediately before the change.

If changes are made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, then the Bank first updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Bank applies the policies on accounting for modifications set out above to the additional changes.

v) Offsetting

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

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

vi) Fair value measurement

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

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

vi) Fair value measurement (continued)

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data, or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure.

Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

vii) Impairment

The bank recognises loss allowances Expected Credit Losses ("ECL") on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments.
- lease receivables.
- financial guarantee contracts issued; and
- loan commitments issued.

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

The Bank recognises loss allowances at an amount equal to lifetime ECLs, except for the following cases.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

- For which the amount recognised will be 12-month ECLs.
- Other financial instruments for which credit risk has not increased significantly since initial recognition.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in the following areas, which are discussed in detail below:

- assessing whether the credit risk of an instrument has increased significantly since initial recognition.
- incorporating forward-looking information into the measurement of ECLs.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit impaired.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial instruments for which lifetime ECL are recognised but that are not credit-impaired are referred to as 'Stage 2 financial instruments. Financial instruments allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit impaired. Financial instruments for which lifetime ECL are recognised and that are credit-impaired are referred to as 'Stage 3 financial instruments.

Measurement of expected credit loss allowance

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive).
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

When discounting future cash flows, the following discount rates are used:

- financial assets other than purchased or originated credit-impaired (POCI) financial assets; the original effective interest rate or an approximation thereof.
- POCI assets: a credit-adjusted effective interest rate; and

Measurement of ECL is affected by the number of factors including how the Bank define certain terms referred into the standards as well as inputs used in measuring ECL. Below is the discussion of some of the key terms that will affect measurement of ECL as well discussion of key inputs to the ECL model.

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

viii) Impairment (continued)

Definition of default

Under IFRS 9, the Bank considers at a minimum both quantitative and qualitative information to determine financial asset that are in default. For term loans, the borrower who is more than 90 days past due will generally be regarded as being in default. Overdrafts, specifically the digital loans, which are short term in nature are considered in defaults when the customer is more than 90 days past due. This approach is largely consistent with the definition that is required by the Bank of Tanzania, the regulator.

Significant increase in credit risk

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information.

Assessing whether credit risk has increased significantly since initial recognition of a financial instrument requires identifying the date of initial recognition of the instrument. For certain facilities e.g. overdraft, the date when the facility was first entered could be a long time ago. Modifying/restructuring the contractual terms of financial instrument may also affect this assessment.

Credit risk grade

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. At transition, the Bank puts financial instruments without significant increase in credit risk in the 12-months ECL bucket irrespective of the obligor's credit risk rating at origination. However, where significant increase in credit risk has been observed, such credits shall be moved to Lifetime ECL. This is in line with the guidance issued by the Bank of Tanzania.

Restructured/Modified financial assets.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see (iii)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

viii) Impairment (continued)

When the terms of financial assets are modified and the modification does not result in de-recognition, the determination of whether to the asset's credit risk has increased significantly is affected by the stage it was at the time of the modification. Financial assets restructured while under lifetime ECL shall not be moved to 12-months ECL unless it complies with the requirements of staging and migration referred and credit risk grade paragraph above. For financial assets which have been restructured while under 12-months ECL and there is evidence of significant increase credit risk the Bank treat those assets as originated credit impaired financial asset. This policy is in line with the Bank of Tanzania requirement.

Inputs into measurement of ECLs

The key inputs into measurement of ECL are like to be the term structure of the following variables which are derived from internally developed statistical models and other historical data that leverage Bank of Tanzania impairment requirements. The inputs are adjusted to reflect forward-looking information as described below:

Probability of Default (PD): PD are estimates at a certain date, which are calculated based on statistical models. The statistical model has been based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD of certain customers.

Loss given default (LGD): LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider among others, the structure, and collateral, seniority of claims that is integral to the financial asset.

Exposure at Default (EAD): EAD represents the expected exposure in the event of a default. The Bank derives EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation and prepayments. EAD of financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD considers the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract which is been estimated based on historical observations and forward-looking forecast. The EAD is also in line with the Bank of Tanzania requirements.

As described above and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECLs considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if for risk management purpose the Bank considers a longer period.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include industry, instrument type, collateral type and remaining term to maturity. The groupings are subject to regular review to ensure that the exposures within a particular group remain appropriately homogenous.

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

i) Financial assets and liabilities (continued)

viii) Impairment (continued)

Incorporating Forward-looking information

Under IFRS 9, the Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since initial recognition and its measurement of ECLs. The Bank shall take into consideration the impact of Macroeconomic factors on how they relate to the inputs into ECLs models and how they impact them. The Bank formulates one economic scenario, a base case as there was no possibility of obtaining the other scenarios without undue cost and efforts. The base case is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the OECD and the International Monetary Fund and selected the National Bureau of statistics.

A comprehensive review is performed at least annually on the design of the scenario by a panel of experts that advises the Bank's senior management. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The key driver for credit risk for wholesale portfolios is GDP growth.

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
GDP-Base case	6.92	4.54	4.84	4.66	5.06	5.43	6.	6.3	6.5	6.5	6.5

Credit-impaired financial assets

At each reporting date, the bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as stage 3 financial assets). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

Credit-impaired financial assets (continued)

- significant financial difficulty of the borrower;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the bank on terms that the bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

A traditional loan that is overdue for 90 days or more is considered impaired while the short-term loan issued digital are considered impaired if it is in overdue for more than 90 days.

In addition, a loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets at both amortised and FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the bank's procedures for recovery of amounts due.

viii) Designation at fair value through profit or loss (FVTPL)

Financial assets

On initial recognition, the Bank has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, that would otherwise arise.

Financial liabilities

The Bank has designated certain financial liabilities as at FVTPL in either of the following circumstances:

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 14 sets out the amount of each class of financial asset or financial liability that has been designated as at FVTPL. A description of the basis for each designation is set out in the note for the relevant asset or liability class.

FINCA MICROFINANCE BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

i) Property and equipment

a) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

b) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day serving of property and equipment are recognised in profit or loss as incurred.

c) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives for the current and comparative periods are as stated. Leasehold improvement over the term of the lease furniture and fittings, motor vehicles and computer equipment are depreciated 5 years period.

j) Intangible assets

Software acquired by the Bank is measured at cost less accumulated amortisation and any accumulated impairment losses. Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

j) Intangible assets (continued)

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

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

l) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial 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 is largely independent of the cash inflows of other assets. 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.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

m) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

n) Employee benefits

i) Pension obligations

The Bank subscribes to a defined contribution scheme and pays contributions to a publicly administered pension insurance plan on a statutory basis. The contributions are recognized as employee benefit expense when they are due.

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

2. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

o) Employee benefits (continued)

The Bank's obligations under the scheme are limited to 10% of the employees' gross emoluments with the other 10% contribution being borne by the employees. The Bank's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

ii) Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

iii) Termination benefits

Termination benefits are expensed at the earlier of when the Bank can no longer withdraw the offer of those benefits and when the Bank recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

p) Grants

Grants received are mainly to support various strategic projects including credit scoring, Digital Fields Automation (DFA) and mobile savings (Haloyako) and channels expansions (agent banking).

Grants to support strategic initiatives were recorded in the statement of income as grant income. Grants to finance lending operations or the purchase of fixed assets are shown as direct additions to equity and the corresponding asset account. Grants for future project implementation are deferred until the project implementation is affected, upon which they will be recognized in the income statement.

q) Cash and bank balances

Cash and bank balances include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments. Cash and bank balances are carried at amortised cost in the statement of financial position.

r) Comparatives

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

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks, including credit risk and the risks of changes in debt and equity market prices, foreign currency exchange rates, liquidity risk and interest rates.

The Board has overall responsibility for the establishment and oversight of the Bank's risk management framework. During the year 2024 the Board strengthen the Board Credit and Risks Management Committee to enable it deliberates all assets and liabilities matters plus the credit issues at once in one committee to unsure all risks is viewed from all angles and addressed immediately. All Board committees still have non-executive members and report regularly to the Board on their activities.

The Bank's risk management policies established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank's Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

3.1 Credit risk

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

3.1.1 Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Bank Credit Committee. The Credit Committee is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with branches, covering collateral requirements (for individual loans), credit assessment, risk grading and reporting, documentary and legal procedures.
- Establishing the authorisation structure for approval and renewal of credit facilities. Authorisation limits are allocated to business unit credit officers. Larger facilities require approval by executive committee or Board of directors;
- Reviewing and assessing credit risk. The Bank's Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branch concerned. Recapitalisation and reviews of facilities are subject to the same review process;
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against the respective loan group credit exposures. The current risk-grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation;

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.1 Management of credit risk (continued)

- The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by the Bank's Board of Directors;
- Reviewing compliance of branches with agreed exposure limits. Regular reports are provided to Bank operation manager/credit committee on the credit quality of local portfolios and appropriate corrective action is taken;
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Bank in the management of credit risk.

Each branch is required to implement Bank credit policies and procedures, with credit approval authorities delegated from the Bank credit committee.

Each branch manager reports on all credit related matters to management and the credit committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios.

Internal Audit undertakes regular audits of branches and the Bank's credit processes.

The Bank Credit Committee determines the loans that are uncollectible; Head of Risk Management does an independent review of these loans; Management Board recommended to the Board for approval. Final write-off proposal is compiled and submitted to Board for approval; and finally, the Board approves the write-off. The credit committee's determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

3.1.2 Credit quality analysis

Compliance with the Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with management and reported to the Audit Committee.

The following table sets out information about the credit quality of financial assets measures at amortised costs, FVOCI debt instruments (Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

3.1 Credit risk (continued)

3.1.2 Credit quality analysis (continued)

	31 December 2024			
	Stage 1 TZS'000	Stage 2 TZS'000	Stage 3 TZS'000	Total TZS'000
Loans and advances to customers				
Grade 1: Current	58,838,737	754,458	109,279	59,702,474
Traditional loans	43,579,131	754,458	109,279	44,442,868
Digital loans	15,259,605	-	-	15,259,605
Grade 2: Especially mentioned	111,170	5,181,085	15,585	5,307,840
Traditional loans	111,170	1,178,149	15,585	1,304,904
Digital loans	-	4,002,936	-	4,002,936
Grade 3: Substandard	-	2,347,236	1,646	2,348,882
Traditional loans	-	446,652	1,646	448,298
Digital loans	-	1,900,584	-	1,900,584
Grade 4: Doubtful	-	1,526,476	5,853	1,532,329
Traditional loans	-	357,586	5,853	363,439
Digital loans	-	1,168,890	-	1,168,890
Grade 5: Loss	-	-	4,082,957	4,082,957
Traditional loans	-	-	4,082,957	4,082,957
Digital loans	-	-	-	-
	58,949,907	9,809,255	4,215,320	72,974,482
less: allowance for impairment	(1,174,762)	(563,251)	(2,815,086)	(4,553,099)
Traditional loans	(890,798)	(563,251)	(2,815,086)	(4,269,135)
Digital loans	(283,964)	-	-	(283,964)
Carrying amount	<u>57,775,145</u>	<u>9,246,004</u>	<u>1,400,234</u>	<u>68,421,383</u>
Other financial assets				
Cash and bank balances	13,690,594	-	-	13,690,594
Investment in fixed deposits	7,128,817	-	-	7,128,817
	20,819,411	-	-	20,819,411
less: allowance for impairment	(5,119)	-	-	(5,119)
Carrying amount	<u>20,814,292</u>	<u>-</u>	<u>-</u>	<u>20,814,292</u>

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

3.1 Credit risk

(continued)

3.1.2 Credit quality analysis (continued)

	31 December 2023			
	Stage 1 TZS'000	Stage 2 TZS'000	Stage 3 TZS'000	Total TZS'000
Loans and advances to customers				
Grade 1: Current	53,067,596	217,574	30,428	53,315,598
Traditional loans	32,960,274	217,574	30,428	33,208,276
Digital loans	20,107,322	-	-	20,107,322
Grade 2: Especially mentioned	4,003,720	4,158,048	13,762	8,175,530
Traditional loans	131,920	1,290,268	13,762	1,435,950
Digital loans	3,871,800	2,867,780	-	6,739,580
Grade 3: Substandard	-	2,823,007	4,055	2,827,062
Traditional loans	-	757,457	4,055	761,512
Digital loans	-	2,065,550	-	2,065,550
Grade 4: Doubtful	-	330,778	1,770	332,548
Traditional loans	-	330,778	1,770	332,548
Digital loans	-	-	-	-
Grade 5: Loss	-	-	3,137,811	3,137,811
Traditional loans	-	-	3,137,811	3,137,811
Digital loans	-	-	-	-
	57,071,316	7,529,407	3,187,826	67,788,549
less: allowance for impairment	(625,494)	(692,131)	(2,171,085)	(3,488,710)
Traditional loans	(619,859)	(692,131)	(2,171,085)	(3,483,075)
Digital loans	(5,635)	-	-	(5,635)
Carrying amount	<u>56,445,822</u>	<u>6,837,276</u>	<u>1,016,741</u>	<u>64,299,839</u>
Other financial assets				
Cash and bank balances	14,381,561	-	-	14,381,561
Investment in fixed deposits	7,586,566	-	-	7,586,566
	21,968,127	-	-	21,968,127
less: allowance for impairment	(16,087)	-	-	(16,087)
Carrying amount	<u>21,952,040</u>	<u>-</u>	<u>-</u>	<u>21,952,040</u>

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.3 Collateral held and other credit enhancements.

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security, and the Bank generally requests corporate borrowers to provide it. The Bank uses a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The acceptability of collateral for credit risk mitigation is guided by the Bank's procedures and policies. The main types of collateral taken include mortgages both surveyed and unsurveyed, cash collaterals, fixed assets, inventories, motor vehicles and other household goods.

3.1.4 Valuation of collaterals

The Bank has a panel of valuers who undertake valuation of property and other assets to be used as Collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. Valuation of collateral are performed between 3 to 5 year intervals. The bank has a policy of performing valuation to collaterals with a value of TZS 30 million and above.

3.1.5 Expected credit loss measurement

The Bank aligns the classification criteria for assets that are past due or impaired in line with regulatory guidelines. In the determination of the classification of accounts, performance is the primary consideration. The classification of an account reflects a judgment about risks of default and loss associated with the credit facility. The classification process establishes a consistent approach to problem recognition, problem labelling, remedial action and the initiation of credit write-offs.

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

A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the bank.

- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****3. FINANCIAL RISK MANAGEMENT (CONTINUED)****3.1 Credit risk (continued)****3.1.5 Expected credit loss measurement (continued)**Significant increase in credit risk

The Bank decision on whether expected credit losses are based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk since initial recognition. An assessment of whether credit risk has increased significantly is made at each reporting date. When making the assessment, the Bank uses the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of expected credit losses. This forms the basis of stage 1, 2 and 3 classification and subsequent migration. The Bank applies qualitative and quantitative criteria for stage classification and for its forward and backward migration.

Quantitative criteria

The quantitative criteria is based on relative and not absolute changes in credit quality as stated in the table above driven by ratings and days past due.

The Bank considers that financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of a default occurring over the next 12 months may be a reasonable approximation of the changes in the lifetime risk of a default occurring and could be used to determine whether credit risk has increased significantly since initial recognition.

The Bank's quantitative credit grading, as compared to Bank of Tanzania (BOT) prudential guidelines, into five prudential guidelines categories is as follows:

Days past due	BOT Guidelines	IFRS 9 credit staging
0 to 5 days overdue	Current	Stage 1
6 to 30 days overdue	Especially mentioned	Stage 1
31 to 60 days overdue	Substandard	Stage 2
61 to 90 days overdue	Doubtful	Stage 2
More than 90 days	Loss	Stage 3

The appropriateness of using changes in the risk of a default occurring over the next 12 months to determine whether lifetime expected credit losses should be recognized depends on the specific facts and circumstances. Risk of default occurring over the next 12 months is not suitable basis for determining whether credit risk has increased on a financial instrument with a maturity of more than 12 months when:

- the financial instruments only have significant payment obligations beyond the next 12 months;
- changes in relevant macroeconomic or other credit-related factors occur that are not adequately reflected in the risk of a default occurring in the next 12 months; or
- changes in credit-related factors only have an impact on the credit risk of the financial instrument (or have a more pronounced effect) beyond 12 months.

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.5 Expected credit loss measurement (continued)

In addition to the above, the Bank considers other qualitative factors in determining the classification above and may accelerate the classification of credit facilities were deemed appropriate. Qualitative factors include but not limited to the following:

Qualitative criteria

- Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g.: increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.
- Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), e.g.: credit spread; credit default swap prices; length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).
- Changes in the Bank's credit management approach in relation to the financial instrument (e.g. based on emerging indicators of changes in the credit risk of the financial instrument, the bank's credit risk management practice is expected to become more active or focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the bank specifically intervening with the borrower).
- Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).
- Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations (e.g. increase in interest rates or unemployment rates); operating results of the borrower e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organizational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations; or regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology).
- Significant changes in the value of collateral or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to pay or otherwise effect the probability of default (e.g. if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages); or quality of a guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.5 Expected credit loss measurement (continued)

Qualitative criteria

- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group (e.g. increase in delayed contractual payments or number of credit card borrowers expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount).

Definition of default

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

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing of security (if any is held).
- The borrower is more than 90 days past due on any material credit obligation to the Bank.
- It is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to borrower's inability to pay its credit obligations.

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since initial recognition and the measurement of ECL. The Bank formulates three economic scenarios, best case, worst case and basic scenario and from the three the ECL is determined.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3.4.

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

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

When modification results in de-recognition, a new loan is recognised and allocated to Stage 1 (assuming it is not credit-impaired at that time).

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.5 Expected credit loss measurement (continued)

Modified financial assets

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

The Bank sources macro-economic information from the National Bureau of Statistics and the Bank of Tanzania.

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that it falls within the 12-month PD ranges for the asset to be considered Stage 1.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

ECL for exposures in Stage 1 is calculated by multiplying the 12-month by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by the LGD and EAD.

Loss allowances recognised is impacted by a variety of factors as described below;

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit impaired in the period, and the consequent “step up” (or “step down”) between 12 month and Lifetime ECL;

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.5 Expected credit loss measurement (continued)

Measurement of ECL (continued)

- Additional allowances for new financial instruments recognised during the year, as well as releases for financial instruments de-recognised in the year;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the year, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Financial assets derecognised during the period and write offs of allowances related to assets that were written off during the period.

Loans and advances to customers	2024			
	Stage 1 TZS'000	Stage 2 TZS'000	Stage 3 TZS'000	Total TZS'000
Gross loans				
At 1 January	57,071,316	7,529,407	3,187,826	67,788,549
Transfer from stage 1 to stage 2	(9,547,578)	9,547,578	-	-
Transfer from stage 2 to stage 1	2,764,896	(2,764,896)	-	-
Transfer from stage 2 to stage 3	-	(4,182,705)	4,182,705	-
Transfer from stage 3 to stage 2	-	151,985	(151,985)	-
Transfer from stage 1 to stage 3	-	-	-	-
Write-offs	-	-	(1,847,568)	(1,847,568)
New financial assets originated	697,627,876	94,049	14,658	697,736,583
Repayment of principal amount	(681,816,953)	(5,459,929)	(1,279,426)	(688,556,308)
Changes in interest accrual	(506,073)	259,324	145,249	(101,500)
Modification of contractual cash flows of financial instruments	11,225	144	689	12,058
De-recognition during the period	(1,873,818)	(146,687)	(36,828)	(2,057,333)
At 31 December	<u>63,730,891</u>	<u>5,028,270</u>	<u>4,215,320</u>	<u>72,974,482</u>
Loss allowance				
1 January	625,494	692,131	2,171,085	3,488,710
Transfer from stage 1 to stage 2	(229,802)	229,802	-	-
Transfer from stage 2 to stage 1	51,395	(51,395)	-	-
Transfer from stage 2 to stage 3	-	(1,964,753)	1,964,753	-
Transfer from stage 3 to stage 2	-	58,296	(58,296)	-
Write-offs	-	-	(1,847,568)	(1,847,568)
New financial assets originated	905,341	391,964	754,198	2,051,503
Financials assets derecognized	(85,387)	(10,930)	(22,169)	(118,486)
Changes in PDs/LGDs/EADs	(138,508)	1,226,614	(144,860)	943,246
Modification of contractual cash flows of financial instrument	46,229	(8,477)	(2,058)	35,694
At 31 December	<u>1,174,762</u>	<u>563,252</u>	<u>2,815,085</u>	<u>4,553,099</u>

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Credit risk (continued)

3.1.5 Expected credit loss measurement (continued)

Loans and advances to customers	2023			
	Stage 1 TZS'000	Stage 2 TZS'000	Stage 3 TZS'000	Total TZS'000
Gross loans				
At 1 January	59,682,945	4,646,583	2,729,243	67,058,771
Transfer from stage 1 to stage 2	(7,696,807)	7,696,807	-	-
Transfer from stage 2 to stage 1	1,847,356	(1,847,356)	-	-
Transfer from stage 2 to stage 3	-	(3,085,908)	3,085,908	-
Transfer from stage 3 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Write-offs	-	-	(8,076,605)	(8,076,605)
New financial assets originated	1,427,435,192	18,909	4,268	1,427,458,369
Repayment of principal amount	(1,423,689,120)	(136,860)	(1,217,421)	(1,425,043,401)
Changes in interest accrual	(205,402)	241,464	60,123	96,185
Modification of contractual cash flows of financial instruments	(125,193)	7,294	-	(117,899)
De-recognition during the period	(177,655)	(11,526)	6,602,310	6,413,129
At 31 December	<u>57,071,316</u>	<u>7,529,407</u>	<u>3,187,826</u>	<u>67,788,549</u>
Loss allowance				
At 1 January	2,718,821	605,209	2,560,415	5,884,445
Transfer from stage 1 to stage 2	(217,855)	217,855	-	-
Transfer from stage 2 to stage 1	46,980	(46,980)	-	-
Transfer from stage 2 to stage 3	-	(1,097,288)	1,097,288	-
Transfer from stage 3 to stage 2	-	-	-	-
Write-offs	-	-	(8,076,605)	(8,076,605)
New financial assets originated	1,170,985	405,341	1,134,180	2,710,506
Financials assets derecognized	(1,977,516)	(287,650)	5,072,112	2,806,946
Changes in PDs/LGDs/EADs	(1,126,275)	896,349	383,695	153,769
Modification of contractual cash flows of financial instrument	10,354	(705)	-	9,649
At 31 December	<u>625,494</u>	<u>692,131</u>	<u>2,171,085</u>	<u>3,488,710</u>

3.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent to the Bank's operations and investments.

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Liquidity risk (continued)

3.2.1 Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities as well as loans and advances to customers, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always it will have sufficient liquidity to meet its liabilities when they are due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The key elements of the Bank's liquidity strategy are as follows;

- Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and maintaining contingent facilities.
- Carrying a portfolio of highly liquid assets mainly by maturity.
- Monitoring maturity mismatches, behavioural characteristics of the Bank's financial assets and financial liabilities and the extent to which the Bank's assets are encumbered and so not available as potential collateral for obtaining funding.
- Stress testing on the Bank's liquidity position against various exposures and country specific events.

Regular liquidity stress testing is conducted under variety of scenarios covering normal and more severe market conditions. The scenarios are developed by considering both Bank's specific events and market related events such as prolonged market illiquidity, reduced fungibility of currencies, natural disasters, or other catastrophes.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2.1 Liquidity risk

Maturity profile of the carrying value financial instruments based on the contractual cash flows (i.e. undiscounted) including the impact of netting is as follows:

	Up to 3 months TZS'000	4 - 6 Months TZS'000	7 - 12 Months TZS'000	1 - 3 years TZS'000	More than 3 years TZS'000	Total TZS'000
31 December 2024						
Financial assets						
Cash and bank balances	13,690,594	-	-	-	-	13,690,594
Investment in fixed deposits	7,123,698	-	-	-	-	7,123,698
Loans and advances to customers	27,113,756	8,219,699	20,499,419	12,583,392	5,117	68,421,383
Traditional loans	5,065,705	8,219,699	20,499,419	12,583,392	5,117	46,373,332
Digital loans	22,048,051	-	-	-	-	22,048,051
Other assets	1,426,452	-	-	-	-	1,426,452
	<u>49,354,500</u>	<u>8,219,699</u>	<u>20,499,419</u>	<u>12,583,392</u>	<u>5,117</u>	<u>90,662,127</u>
Financial Liabilities						
Deposit from customers	23,461,122	16,741,781	26,292,630	7,490,939	-	73,986,472
Deposit from banks	2,635,318	-	1,166,592	-	-	3,801,910
Lease liabilities	225,788	327,472	692,732	1,397,889	134,400	2,778,281
Other liabilities	5,756,447	-	-	-	-	5,756,447
Due to related parties	33,300	-	-	-	-	33,300
	<u>32,111,975</u>	<u>17,069,253</u>	<u>28,151,954</u>	<u>8,888,828</u>	<u>134,400</u>	<u>86,356,410</u>
Net liquidity gap	<u>17,242,525</u>	<u>(8,849,554)</u>	<u>(7,652,535)</u>	<u>3,694,564</u>	<u>(129,282)</u>	<u>4,305,717</u>
31 December 2023						
Financial assets	54,167,332	15,053,412	9,961,515	8,696,251	-	87,878,510
Financial liabilities	35,279,852	22,066,218	7,456,946	17,387,568	155,093	82,345,677
Net liquidity gap	<u>18,877,130</u>	<u>(7,012,806)</u>	<u>2,504,569</u>	<u>(8,691,317)</u>	<u>(155,093)</u>	<u>5,522,483</u>

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****3. FINANCIAL RISK MANAGEMENT (CONTINUED)****3.3 Market risk**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury unit and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Overall authority for market risk is vested in the Asset and Liability component of Board Credit and Risk Committee. The credit and risk committee sets up the limit for each type of risk in aggregate and for portfolios, with market return liquidity being a primary factor in determining the level of limits set for trading portfolio. The Bank Credit and Risk committee is responsible for developing a detailed risk management policy (subject to review and approval by Board) and for the day-to-day review of their implementation.

3.3.1 Interest rate risk

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

Interest rate risk - stress tests

The Bank monitors the impact of risks associated with the effects of fluctuations in prevailing interest rates. The following table summarizes the estimated impact of an immediate hypothetical increase or decrease in interest rates of 100 basis points on profit before income tax expense, and current interest rate risk profile as at 31 December 2024.

	2024 TZS'000	2023 TZS'000
100 basis points increases or decrease in interest rates	<u>50,216</u>	<u>37,975</u>

The Bank's interest rate risk has reduced significantly, as most of the loans outstanding have fixed interest rates.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Market risk (continued)

3.3.1 Interest rate risk (continued)

The table below summarises the exposure to interest rate risk. Assets and liabilities are categorised by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on off-balance-sheet items except to the extent that interest rates affect foreign exchange rates.

	Up to 3 months TZS'000	3- 12 months TZS'000	1 - 5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
31 December 2024					
Financial assets					
Cash and bank balances	-	-	-	13,690,594	13,690,594
Investment in fixed deposits	7,123,698	-	-	-	7,123,698
Loans and advances to customers	27,113,756	28,719,118	12,588,509	-	68,421,383
Traditional loans	5,065,705	28,719,118	12,588,509	-	46,373,331
Digital loans	22,048,051	-	-	-	22,048,051
Other assets	-	-	-	1,426,452	1,426,452
	<u>34,652,876</u>	<u>28,719,118</u>	<u>12,588,509</u>	<u>15,117,046</u>	<u>90,662,127</u>
Financial liabilities					
Deposit from customers	23,461,122	43,034,411	7,490,939	-	73,986,472
Deposit from banks	2,635,318	1,166,592	-	-	3,801,910
Lease liabilities	225,788	1,020,204	1,532,289	-	2,778,281
Other liabilities	-	-	-	5,756,447	5,756,447
Due to related parties	-	-	-	33,300	33,300
	<u>26,322,228</u>	<u>45,221,207</u>	<u>9,023,228</u>	<u>5,789,747</u>	<u>86,356,410</u>
Interest rate sensitivity gap	<u>7,915,226</u>	<u>(16,502,089)</u>	<u>3,565,281</u>	<u>9,327,299</u>	<u>4,305,717</u>
31 December 2023					
Financial assets	38,159,140	25,014,927	8,696,251	16,008,192	87,878,510
Financial liabilities	28,601,964	29,523,164	17,542,661	6,688,238	82,356,027
Interest rate sensitivity gap	<u>9,557,176</u>	<u>(4,508,237)</u>	<u>(8,846,410)</u>	<u>9,319,954</u>	<u>5,522,483</u>

FINCA MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Market risk (continued)

3.3.2 Foreign exchange risk

The Bank had no significant unhedged currency position at the end of the year. The Bank has an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The table below summarizes the exposure to foreign currency exchange rate risk at 31 December 2024.

31 December 2024	TZS '000
Cash and bank balances	363,190
Investments in fixed deposits	762,001
Due to related parties	(33,300)
Net balance sheet exposure	<u>1,091,891</u>

A sensitivity analysis in relation to the net exposure for a 10% strengthening/weakening of the TZS against USD:

Increase or decrease in profit before tax	<u>109,189</u>
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31 December 2023

Cash and bank balances	4,245,436
Investments in fixed deposits	1,533,253
Due from related parties	-
Borrowings	(3,330,029)
Due to related parties	(107,825)
Net balance sheet exposure	<u>2,340,835</u>

A sensitivity analysis in relation to the net exposure for a 10% strengthening/weakening of the TZS against USD:

Increase or decrease in profit before tax	<u>234,084</u>
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3.4 Fair value of financial instruments

IFRS 13 requires the Bank to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Bank specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on recurring basis. The Bank has considered the fair value to be approximately equal to amortization costs due to short term nature and the fact that they reprice in the short run.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024**

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.4 Fair value of financial instruments (continued)

Financial instruments not measured at fair value:

The following table analyses the financial instruments not measured at fair value at 31 December 2024:

	Financial assets at amortised cost TZS'000	Financial liabilities at amortised cost TZS'000	Total TZS'000	Total carrying amount TZS'000
31 December 2024				
Financial assets				
Cash and bank balances	13,690,594	-	13,690,594	13,690,594
Investment in fixed deposits	7,123,698	-	7,123,698	7,123,698
Loans and advances to customers	68,421,383	-	68,421,383	68,421,383
Other assets	1,426,452	-	1,426,452	1,426,452
Due from related parties	-	-	-	-
	<u>90,662,127</u>	<u>-</u>	<u>90,662,127</u>	<u>90,662,127</u>
Financial liabilities				
Deposits from banks	-	3,801,910	3,801,910	3,801,910
Deposits from customers	-	73,986,472	73,986,472	73,986,472
Borrowings	-	-	-	-
Lease liabilities	-	2,100,356	2,100,356	2,100,356
Other liabilities	-	5,756,447	5,756,447	5,756,447
Due to related parties	-	33,300	33,300	33,300
	<u>-</u>	<u>85,678,485</u>	<u>85,678,485</u>	<u>85,678,485</u>
	Financial assets at amortised cost TZS'000	Financial liabilities at amortised cost TZS'000	Total TZS'000	Total carrying amount TZS'000
31 December 2023				
Financial assets				
Cash and bank balances	14,381,561	-	14,381,561	14,381,561
Investment in fixed deposits	7,570,479	-	7,570,479	7,570,479
Loans and advances to customers	64,299,839	-	64,299,839	64,299,839
Other assets	1,626,631	-	1,626,631	1,626,631
Due from related parties	-	-	-	-
	<u>87,878,510</u>	<u>-</u>	<u>87,878,510</u>	<u>87,878,510</u>
Financial liabilities				
Deposits from banks	-	5,414,416	5,414,416	5,414,416
Deposits from customers	-	65,310,346	65,310,346	65,310,346
Borrowings	-	3,330,029	3,330,029	3,330,029
Lease liabilities	-	1,391,183	1,391,183	1,391,183
Other liabilities	-	6,580,413	6,580,413	6,580,413
Due to related parties	-	107,825	107,825	107,825
	<u>-</u>	<u>82,134,212</u>	<u>82,134,212</u>	<u>82,134,212</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****3. FINANCIAL RISK MANAGEMENT (CONTINUED)****3.5 Capital management**

Bank of Tanzania (Central Bank) sets and monitors capital requirements for all banks and financial institutions in Tanzania.

The objective of the Bank of Tanzania is to ensure that a Bank maintains a level of capital which:

- is adequate to protect its depositors and creditors.
- is commensurate with the risks associated with its activities and profile; and
- promote public confidence in the Bank.

In implementing current capital requirements, the Bank of Tanzania requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets.

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Bank of Tanzania for supervisory purposes.

In accordance with the revised 2014 regulations, and new amendment of 2022 the Bank of Tanzania requires a bank to maintain at all times:

- a Core Capital of not less than 10% of its total risk-weighted assets and off-balance sheet exposure; and
- a Total Capital of not less than 12% of its total risk-weighted assets and off-balance sheet exposure.
- In addition, the Central Bank requires all banks and financial institutions to maintain a buffer of 2.5% above the core capital and total capital ratios by which its utilization will be advised by the Bank.

In addition, the Banking and Financial Institutions (Microfinance Activities) Regulation, 2014 requires a microfinance bank to maintain at all times a minimum core capital of not less than five billion shillings or such higher amount as the Bank may prescribe.

Capital is segregated into core capital (Tier 1) and supplementary capital (Tier 2).

Core capital includes ordinary share capital, irredeemable preference share capital, capital contribution reserve, share premium and retained earnings after deductions of goodwill, intangible assets, and prepayments and deferred charges.

Supplementary Capital on the other hand includes subordinated debt, general and other reserves. Risk-weighted assets are arrived at using a framework of five weights applied to both on-balance sheet and off-balance sheet items to reflect the relative risk of each asset and counterparty. The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2024 and year ended 31 December 2023. During those two periods, the Bank did not comply with all the Bank of Tanzania imposed capital requirements to which it was subjected to. Measures have been put in place to cure the CAR by ensuring the retention of profit and optimization of risk-weighted assets.

FINCA MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.5 Capital management (continued)

The Bank's regulatory capital position as at 31 December 2024 was as follows:

	2024	2023
	TZS '000	TZS '000
Tier 1 capital		
Share capital	37,894,772	37,894,772
Accumulated losses (excluding profit for the year)	(28,804,803)	(29,122,135)
Qualifying year to date profit	475,487	317,333
	<u>9,565,456</u>	<u>9,089,970</u>
less: Prepaid expenses	674,229	623,457
Differed charges	349,344	-
Total deductions from capital	<u>1,023,573</u>	<u>623,457</u>
Total qualifying Tier 1 capital	<u>8,541,883</u>	<u>8,466,513</u>
Tier 2 capital	<u>-</u>	<u>-</u>
Total regulatory capital (Tier 1 + Tier 2 capital)	<u><u>8,541,883</u></u>	<u><u>8,466,513</u></u>
Risk weighted assets		
On-balance sheet	71,810,506	66,220,605
Operational risk	3,960,322	3,253,954
Total risk weighted assets	<u><u>75,770,828</u></u>	<u><u>69,474,559</u></u>
Capital ratios		
Tier 1 capital (minimum requirement is 12.5%)	11.27%	12.19%
Tier 1 + Tier 2 capital (minimum requirement is 14.5%)	11.27%	12.19%

Capital allocation

The Bank's capital management approach is driven by its desire to maintain a sufficient capital base to support the development of its business and to always meet regulatory capital requirements.

Strategic business and capital plans are drawn up annually. The plan ensures that adequate levels of capital and optimum mix of the different components of capital are maintained by the Bank to support the strategy. This is integrated with the Bank's annual planning process that takes into consideration business growth assumptions across products and the related impact on capital resources.

The capital plan takes the following into account

- regulatory capital requirements.
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- Internal controls and governance for managing the Bank's risk, performance, and capital.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****3. FINANCIAL RISK MANAGEMENT (CONTINUED)****3.5 Capital management (continued)*****Capital allocation (continued)***

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation and is subject to review by the Board Credit and Risk Committee (earlier ALCO).

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Board of Directors reviews the Bank's policies in respect of capital management and allocation regularly.

4. CRITICAL ACCOUNTING JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

4.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes.

Note 2(i)(viii): establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of ECL and selection and approval of models used to measure ECL.

Notes 2(i)(ii): classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

4.2 Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2024 is included in the following notes.

Note 2(i)(viii): Impairment of financial instruments, determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

Note 2(i)(vii): measurement of the fair value of financial instruments with significant unobservable inputs.

FINCA MICROFINANCE BANK LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

4. CRITICAL ACCOUNTING JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

4.2 Assumptions and estimation uncertainties (continued)

Note 2(i): critical estimates are made by the directors in determining depreciation rates for property and equipment and their residual values.

	2024 TZS '000	2023 TZS '000
5. INTEREST AND SIMILAR INCOME		
Loans and advances to customers	19,078,938	17,611,635
Digital loans to customers	62,942,541	68,179,512
Investments in fixed deposits	536,164	438,213
	<u>82,557,643</u>	<u>86,229,360</u>
6. INTEREST AND SIMILAR EXPENSE		
Borrowings (note 24)	20,744	366,971
Lease liabilities (note 21(b))	299,123	201,628
Deposits from customers and banks	9,266,147	8,186,463
	<u>9,586,014</u>	<u>8,755,062</u>
7. FEES AND COMMISSION INCOME		
Account maintenance fees	175,016	137,087
Commission from Bancassurance operations	163,883	99,679
Ledger fees	827,491	506,150
	<u>1,166,390</u>	<u>742,916</u>
8. FEES AND COMMISSION EXPENSE		
Commission expenses on agent banking	<u>125,454</u>	<u>229,997</u>
9. GRANT INCOME		
Master Card	59,179	103,016
Financial Sector Deepening Trust (FSDT)	18,239	18,239
	<u>77,418</u>	<u>121,255</u>
10. OTHER INCOME		
Income from insurance claim	6,011	1,688
Net realised foreign exchange gain	(31,681)	403,565
Net unrealised foreign exchange loss	(6,166)	(376,005)
Gain on lease modification	69,472	59,006
(Loss)/gain on disposal of property and equipment	2,748	(946)
	<u>40,384</u>	<u>87,308</u>

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

	2024 TZS'000	2023 TZS'000
11. PERSONNEL EXPENSES		
Salaries and wages	6,299,601	5,995,670
Defined benefit contributions	630,124	594,117
Training expenses	28,503	57,702
Medical insurance expenses	345,471	321,652
Skills and development levy	222,592	226,626
Other staff benefits	52,275	74,825
Worker's compensation fund contribution	31,493	29,973
	<u>7,610,059</u>	<u>7,300,565</u>
12. OPERATING EXPENSES		
Transport and Travel	1,031,269	1,270,789
Affiliation Fees & Management Fee	564,898	757,619
Repair and Maintenance	350,817	320,592
Operating Lease rentals	20,252	20,413
Marketing and Communication Costs	710,196	601,321
Security and Insurance	723,487	629,737
Professional and Legal fees	56,684,618	57,860,348
IT support	281,127	214,648
Other Expenses	1,185,617	890,432
Stationery, Office supplies and utilities Expenses	356,090	299,843
Directors' emoluments	280,137	253,356
Recruitment Expenses	28,744	33,490
Retrenchment Cost	-	-
Audit fees	196,552	213,091
Bancassurance audit fees	4,790	10,350
	<u>62,418,594</u>	<u>63,376,029</u>
13. INCOME TAX		
a) Tax expense		
Current tax	262,015	147,314
Deferred tax	(349,343)	-
	<u>(87,328)</u>	<u>147,314</u>
b) Reconciliation of accounting profit to tax expense		
Profit before tax	<u>388,159</u>	<u>464,647</u>
Tax expense at applicable rate of 30%	116,448	139,394
Tax effect on items disallowed for tax purposes	89,671	79,232
Deferred tax movement not recognised	(164,150)	(218,626)
Alternative minimum tax	-	147,314
Effect of prior year deferred tax under-provisions	20,353	-
Tax effect on other expenses	(411,665)	-
Corporate Tax expense	262,015	-
	<u>(87,328)</u>	<u>147,314</u>

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****13. INCOME TAX (CONTINUED)****c) Unrecognised deferred tax asset**

Deferred taxes are calculated on all temporary differences under the liability method using enacted tax rate of 30%. The net deferred tax asset is attributable to the following:

	2024 TZS'000	2023 TZS'000
Accelerated capital allowances	144,396	67,809
Other timing differences	1,970,683	1,633,987
Tax losses carried forward	<u>6,989,355</u>	<u>7,375,989</u>
Non-recognition of deferred tax asset	<u><u>9,104,434</u></u>	<u><u>9,077,785</u></u>

The Bank is in an assessed tax loss position. Consequently, deferred tax asset has partially been recognised due to uncertainty regarding the timing of future taxable profits against which the deferred tax asset can be utilised.

	2024 TZS '000	2023 TZS '000
d) Tax recoverable/(payable)		
At 1 January	267,572	(554,704)
Tax paid during the year	279,962	969,590
Current year tax expense	(72,500)	-
Current taxation charge for the year	<u>(182,194)</u>	<u>(147,314)</u>
At 31 December	<u><u>292,838</u></u>	<u><u>267,572</u></u>

14. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments. See accounting policies in notes 2(h)((ii).

31 December 2024	Mandatorily at FVTPL TZS'000	Designated as at FVTPL TZS'000	Amortised cost TZS'000	Total carrying amount TZS'000
Cash and bank balances	-	-	13,690,594	13,690,594
Loans and advances to customers	-	-	68,421,383	68,421,383
Investment in fixed deposits	-	-	7,123,698	7,123,698
Other assets	-	-	1,426,452	1,426,452
Due to related parties	-	-	-	-
Total financial assets	<u>-</u>	<u>-</u>	<u>90,662,127</u>	<u>90,662,127</u>
Deposits from banks	-	-	3,801,910	3,801,910
Deposits from customers	-	-	73,986,472	73,986,472
Borrowings	-	-	-	-
Lease liabilities	-	-	2,100,356	2,100,356
Due to related parties	-	-	33,300	33,300
Other liabilities	-	-	5,756,447	5,756,447
Total financial liabilities	<u>-</u>	<u>-</u>	<u>85,678,485</u>	<u>85,678,485</u>

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

14. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (CONTINUED)

31 December 2023	Mandatorily at FVTPL TZS'000	Designated as at FVTPL TZS'000	Amortised cost TZS'000	Total carrying amount TZS'000
Cash and bank balances	-	-	14,381,561	14,381,561
Loans and advances to customers	-	-	64,299,839	64,299,839
Investment in fixed deposits	-	-	7,570,479	7,570,479
Other assets	-	-	2,356,252	2,356,252
Due to related parties	-	-	107	107
Total financial assets	-	-	88,608,238	88,608,238
Deposits from banks	-	-	5,414,416	5,414,416
Deposits from customers	-	-	65,310,346	65,310,346
Borrowings	-	-	3,330,029	3,330,029
Lease liabilities	-	-	1,391,183	1,391,183
Due to related parties	-	-	107,825	107,825
Other liabilities	-	-	6,570,063	6,570,063
Total financial liabilities	-	-	82,123,862	82,123,862
			2024 TZS'000	2023 TZS'000

15. (a) CASH AND BANK BALANCES

Cash in hand	1,017,464	769,074
Balances with Bank of Tanzania	2,911,877	9,771,214
Balances with other banks	846,246	221,319
Balances with mobile network operators	8,915,007	3,619,954
	<u>13,690,594</u>	<u>14,381,561</u>

(b) CASH AND CASH EQUIVALENTS

Cash and bank balances (note 15(a))	13,690,594	14,381,561
Short-term investment in fixed deposits	2,041,425	3,339,977
	<u>15,732,019</u>	<u>17,721,538</u>

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition including: balances with Bank of Tanzania, balances with other banks, balances with mobile network operators and investments in fixed deposits.

16. INVESTMENTS IN FIXED DEPOSITS

	2024 TZS'000	2023 TZS'000
Fixed deposits	7,128,817	7,586,566
Less: allowance for impairment	(5,119)	(16,087)
	<u>7,123,698</u>	<u>7,570,479</u>

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

	2024 TZS'000	2023 TZS'000
17. LOANS AND ADVANCES TO CUSTOMERS		
Village bank loans	139,351	139,351
Business loans	36,789,119	30,073,381
Small group loans	24,866	24,866
Salary loans	193,604	129,310
Shule loans	2,689,310	669,082
Parent education loan	34,969	36,052
Pamoja loan	23,774	23,792
Pamoja loans plus	68,050	68,072
Insurance claim	221,717	18,707
Social financial group loan	870,588	221,048
Micro Individual Lending Loan	5,918,190	4,467,159
Lien loan	1,435,837	1,594,344
New Pamoja loan	2,697,936	1,800,701
Digital loan	22,332,016	28,976,818
Sokoni Loan	71,112	61,443
Boda Boda Loan	-	3,773
Deferred fee income	(535,957)	(519,350)
Gross loans and advances to customers	<u>72,974,482</u>	<u>67,788,549</u>
less: allowance for impairment (Note 17(b))	<u>(4,553,099)</u>	<u>(3,488,710)</u>
Net loans and to customers	<u>68,421,383</u>	<u>64,299,839</u>
a) Analysis of net loans to customers by maturity		
Up to 3 months	27,113,756	33,203,625
Between 4 months and 6 months	8,219,699	7,264,021
Between 7 months and 12 months	20,499,419	16,051,495
Between 1 year and 3 years	12,583,392	7,725,040
More than 3 years	5,117	55,658
	<u>68,421,383</u>	<u>64,299,839</u>
b) (i) Movement of expected credit losses		
At 1 January	3,488,710	5,884,445
Expected credit loss charge - traditional loans	2,633,628	2,756,674
Expected credit loss charge - digital loans	278,329	2,924,196
Write offs - traditional loans	(1,847,568)	(2,995,412)
Write offs - digital loans	-	(5,081,193)
At 31 December	<u>4,553,099</u>	<u>3,488,710</u>
(ii) Impairment charge on financial instruments		
Traditional loans	2,633,629	2,756,674
Digital loans	278,329	2,924,196
Investment in fixed deposits	(10,968)	(24,756)
	<u>2,900,990</u>	<u>5,656,114</u>
Recovery income	<u>(1,187,973)</u>	<u>(815,483)</u>
	<u>1,713,017</u>	<u>4,840,631*</u>

The total write-off during the year was TZS 1,847,568,000 (2023: TZS 8,076,605,000) and recovery of previous written off loan was TZS 1,187,973,000 (2023: TZS 815,483,000).

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

	2024 TZS'000	2023 TZS'000
18. OTHER ASSETS		
Prepaid expenses	674,229	623,457
Staff advances	95,729	62,386
Stationery and office supplies	30,548	34,010
Other receivables	1,426,452	1,636,399
	<u>2,226,958</u>	<u>2,356,252</u>

19. CAPITAL WORK IN PROGRESS

	2024 TZS'000	2023 TZS'000
At 1 January	352,714	-
Additions	118,347	403,428
	<u>471,061</u>	<u>403,428</u>
Transfer to intangible assets (note 22)	-	(27,625)
Transfer to leasehold improvement (note 20)	(166,515)	(19,579)
Transfer to furniture and fittings (note 20)	(41,015)	(3,510)
	<u>263,531</u>	<u>352,714</u>

20. PROPERTY AND EQUIPMENT

	Leasehold improvements TZS '000	Motor vehicles TZS '000	Office equipment TZS '000	Office furniture & fittings TZS '000	Total TZS '000
Cost					
At 1 January 2023	3,726,700	105,686	7,002,692	809,459	11,644,537
Additions	-	-	382,817	10,467	393,284
Transfers from WIP	19,579	-	-	3,510	23,089
Disposals	-	-	(4,248)	-	(4,248)
At 1 January 2023	<u>3,746,279</u>	<u>105,686</u>	<u>7,381,261</u>	<u>823,436</u>	<u>12,056,662</u>
At 1 January 2024	3,746,279	105,686	7,381,261	823,436	12,056,662
Additions	133,823	-	753,066	36,710	923,599
Transfers from WIP	166,515	-	33,334	7,682	207,530
Disposals	-	-	(3,894)	-	(3,894)
At 31 December 2024	<u>4,046,617</u>	<u>105,686</u>	<u>8,163,767</u>	<u>867,828</u>	<u>13,183,898</u>
Depreciation					
At 1 January 2023	3,103,670	105,686	6,452,067	791,377	10,452,800
Charge for the year	219,774	-	235,104	13,853	468,731
Eliminated on disposal	-	-	(1,841)	-	(1,841)
At 31 December 2023	<u>3,323,444</u>	<u>105,686</u>	<u>6,685,330</u>	<u>805,230</u>	<u>10,919,690</u>
At 1 January 2024	3,323,444	105,686	6,685,330	805,230	10,919,690
Charge for the year	222,857	-	308,358	12,343	543,558
Eliminated on disposal	-	-	(2,207)	-	(2,207)
At 31 December 2024	<u>3,546,301</u>	<u>105,686</u>	<u>6,991,481</u>	<u>817,573</u>	<u>11,461,041</u>
Net book value					
At 31 December 2023	<u>422,835</u>	<u>-</u>	<u>695,931</u>	<u>18,206</u>	<u>1,136,972</u>
At 31 December 2024	<u>500,316</u>	<u>-</u>	<u>1,172,286</u>	<u>50,254</u>	<u>1,722,856</u>

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

21. LEASES

The Bank leases a number of branch and office premises. The lease terms are different depending on the strategic decision to operate in some of the branches, however on average the leases are for a period of 5 years with an option to renew the lease after that date. Some leases provide for additional rent payments that are based on changes in local price indices.

	2024 TZS'000	2023 TZS'000
a) Right of-use-assets		
<u>Cost</u>		
At 1 January	5,172,727	5,250,255
Additions	1,693,019	543,335
Lease modification	<u>(2,396,960)</u>	<u>(620,863)</u>
At 31 December	<u>4,468,786</u>	<u>5,172,727</u>
<u>Depreciation</u>		
At 1 January	3,552,930	3,033,605
Charge for the year	997,401	975,540
Lease modification	<u>(2,372,334)</u>	<u>(456,215)</u>
At 31 December	<u>2,177,997</u>	<u>3,552,930</u>
Net book value	<u>2,290,789</u>	<u>1,619,797</u>
b) Lease liability		
At 1 January	1,391,183	1,943,784
Addition	1,712,368	551,247
Interest expense	299,123	201,628
Lease payments - principal	(980,930)	(904,401)
Lease payments - interest	(241,274)	(169,510)
Lease modification	<u>(80,114)</u>	<u>(231,565)</u>
At 31 December	<u>2,100,356</u>	<u>1,391,183</u>
Lease liability maturity		
Year 1	1,245,992	818,409
Year 2	1,021,758	342,849
Year 3	376,131	296,647
Year 4	134,400	155,093
Less: unearned interest	<u>(677,925)</u>	<u>(221,815)</u>
Total	<u>2,100,356</u>	<u>1,391,183</u>
c) Amounts recognized in the statement of profit and loss		
Amortization of right-of-use assets (note 21 (a))	997,401	975,540
Interest expense on lease liability (note 21 (b))	299,123	201,628
Gain on lease modification (note 10)	<u>69,472</u>	<u>59,006</u>
	<u>1,365,996</u>	<u>1,236,174</u>

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

21. LEASES (CONTINUED)

	2024	2023
	TZS'000	TZS'000
d) Amounts recognized in the statement of cash flows		
Repayment of lease liabilities - principal	(980,930)	(904,401)
Repayment of lease liabilities - interest	<u>(241,274)</u>	<u>(169,510)</u>

e) Extension options

Some leases of office premises contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

22. INTANGIBLE ASSETS

	2024	2023
	TZS '000	TZS '000
<u>Cost</u>		
At 1 January	7,120,568	7,092,943
Transfer from work in progress	-	27,625
At 31 December	<u>7,120,568</u>	<u>7,120,568</u>
<u>Amortization</u>		
At 1 January	6,280,826	5,511,189
Amortization for the year	459,579	769,637
At 31 December	<u>6,740,405</u>	<u>6,280,826</u>
Net book value	<u>380,163</u>	<u>839,742</u>

23. DEPOSITS FROM CUSTOMERS AND BANKS

Deposits from customers	73,986,472	65,310,346
Deposits from banks	<u>3,801,910</u>	<u>5,414,416</u>
	<u>77,788,382</u>	<u>70,724,762</u>
Payable within 3 months or less	26,096,440	41,847,912
Payable within 4 to 6 months	16,741,781	19,300,778
Payable after 6 months	<u>34,950,161</u>	<u>9,576,072</u>
	<u>77,788,382</u>	<u>70,724,762</u>
Savings deposits	77,562,073	70,451,506
Collateral deposits	109,026	109,026
Others	<u>117,283</u>	<u>164,230</u>
	<u>77,788,382</u>	<u>70,724,762</u>

FINCA MICROFINANCE BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024

	2024 TZS'000	2023 TZS'000
24. BORROWINGS		
Borrowing-principal	-	3,007,239
Interest accrued	-	322,790
	<u>-</u>	<u>3,330,029</u>
Maturities of borrowings are as follows:		
Current - due within 12 months	-	3,330,029
	<u>-</u>	<u>3,330,029</u>

The movement in borrowings during the year is as below:

At 1 January	3,330,029	5,216,870
Interest expense	20,744	366,971
Additions	-	-
Foreign exchange loss/gain	(323,876)	376,005
Repayment - principal	(3,020,731)	(2,428,672)
Repayment - interest	(6,166)	(201,145)
At 31 December	<u>-</u>	<u>3,330,029</u>

FMH FUNDING

These are no loans received from FINCA Microfinance Holdings (FMH) on short-term basis (2023: USD 1.2 million).

At 31 December 2024, the Bank had no lender. In February 2024, the Bank fully repaid the total outstanding balance to the lender.

25. RELATED PARTY TRANSACTIONS AND BALANCES

Balances and transactions between the Bank and its shareholder and other related parties are disclosed below.

	2024 TZS '000	2023 TZS '000
(a) Amount due to related parties		
FINCA Microfinance Global Services LLC	<u>33,300</u>	<u>107,825</u>
(b) Borrowings		
FMH loan (note 24)	<u>-</u>	<u>3,330,029</u>
(c) Transactions with related parties		
<i>FINCA Microfinance Holding:</i>		
Royalty fees	<u>564,898</u>	<u>757,619</u>

As of 31 December 2024, the amount payables to FINCA Microfinance Global Services LLC relates to the recharge's costs on corporate insurance.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****24. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

	2024 TZS '000	2023 TZS '000
(d) Key management personnel compensation		
Salaries and other benefits	<u>1,152,465</u>	<u>1,378,340</u>
(e) Directors' emoluments		
Fees and allowances for services as Directors	<u>280,137</u>	<u>253,356</u>

Key management compensation is included in the personnel expenses for the year.

26. DEFERRED GRANT

	Balance at 1 January 2024 TZS '000	Receipts TZS '000	Credit to profit or loss TZS '000	Balance at 31 December 2024 TZS '000
Financial Sector Deepening Trust (FSDT)	34,451	-	(18,239)	16,212
Master Card	<u>111,783</u>	-	<u>(59,179)</u>	<u>52,604</u>
	<u>146,234</u>	-	<u>(77,418)</u>	<u>68,816</u>

During the year no grant was received. As at year end, the deferred grant balance was TZS 68,816,000 (2023: TZS 146,234,000). The grants are credited to profit or loss to the extent that the agreed milestones in the memorandum of understanding have been achieved.

	2024 TZS '000	2023 TZS '000
27. OTHER LIABILITIES		
Accrued expenses	377,279	848,361
Withholding tax payable	446,868	440,942
Other payables	1,603,858	289,006
Indemnity reserve on Digital product	3,775,310	5,045,817
Services fees payable	<u>1,002,528</u>	<u>1,410,799</u>
	<u>7,205,844</u>	<u>8,034,925</u>

28. GOING CONCERN

The Banking and Financial Institutions (Capital Adequacy) Regulations, 2023 requires banks or financial institutions to maintain a minimum a tier 1 capital to risk weighted assets and its off-balance sheet exposure of 10% and tier 2 capital to risk weighted assets and its off balance sheet assets of 12%. The Bank of Tanzania also requires banks to maintain a capital buffer of 2.5% on tier 1 capital and tier 2 capital ratios respectively.

The Bank's core capital and total capital ratios at 31 December 2024 were 11.27% and 11.27% respectively. These ratios are below the required minimum ratios for tier 1 and tier 2 capital ratios.

FINCA MICROFINANCE BANK LIMITED**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEA ENDED 31 DECEMBER 2024****28. GOING CONCERN (CONTINUED)**

In consultation with the Bank of Tanzania, the Directors are taking specific measures to restore the capital position to ensure compliance with the regulation. Such measures to be implemented in 2025 include:

- The Bank will generate cash inflows from operations of at least the amount projected in the management's annual operating plan. The generation of sufficient cash flows from operations is driven by and is dependent on management achieving operational targets on raising more deposits from public, repayments from loans, recovery collection from written off loans and interest income collected from borrowers.
- The Bank is in discussions with two potential International lenders (Tripple Jump and Blue Orchard) on providing subordinate debt with minimum tenor of 5 years which will boost the Total Capital ratio. The discussions are at a good stage whereby the term sheets have been issued pending finalisation.
- The Bank expects to receive a grant from FINCA International (the parent) amounting to USD 450,000 net of taxes. The process is underway.
- The Bank expects funding in the form of a grant for technical assistance from Government of Canada (GAC project) under FINCA Canada. The signing has been done.
- These grants will boost the bank's income that will in-turn restore both Tier 1 and 2 capital.

The Directors believe that measures laid down by Management are reasonable and appropriate to capital restoration and consequently maintain a compliant position going forward.

The Directors further reviewed the current trading and cash flow forecast as part of their assessment, and after making enquiries and carefully considering the initiatives above, have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors have prepared the Bank's financial statements on a going concern basis since they are confident that the plans described above provide a reasonable expectation that the Bank will be able to meet their liabilities as and when they fall due.

29. CONTINGENT LIABILITIES**Litigations**

Litigations against the Bank relate to civil suits lodged against the Bank by customers and former employees in the normal course of business. Based on information currently available and legal advice, the Directors strongly believe that the Bank is more likely to win as such do not expect the outcome of the actions to have material effect to the Bank. For those with likelihood of loss, have been appropriately provided for.

30. CURRENCY

The financial statements are presented in Tanzania Shillings, rounded to the nearest thousand (TZS'000), which is also the functional currency except where indicated.

31. COMMITMENTS

At 31 December 2024, the Bank had no capital commitments.

32. EVENTS AFTER THE REPORTING PERIOD

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