

LETSHEGO FAIDIKA BANK LIMITED

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

LETSHEGO FAIDIKA BANK LIMITED

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CONTENTS	Pages
Bank Information	1
Report of the directors.	2 – 28
Statement of directors' responsibilities	29
Declaration of the head of finance	30
Report of the independent auditor	31 – 35
<i>Financial statements:</i>	
Statement of profit or loss and other comprehensive income	36
Statement of financial position	37
Statement of changes in equity	38
Statement of cash flows	39
Notes to the financial statements	40 – 102

LETSHEGO FAIDIKA BANK LIMITED

BANK INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2023

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

Letshego Faidika Bank Limited
Vodacom Towers;
Paloma Park, 3rd Floor
P.O. Box 34459
Dar es Salaam
Tanzania

MAIN BANKER

Bank of Tanzania
2 Mirambo Street
P.O. Box 2939
Dar es Salaam
Tanzania

BANK SECRETARY

Ladislaus Ragwe Muhagachi
Letshego Faidika Bank Limited
Vodacom Towers;
Paloma Park, 3rd Floor
P.O. Box 34459
Dar es Salaam
Tanzania

ULTIMATE PARENT

Letshego Holdings Limited
Letshego Place, plot 22
P.O. Box 381
Gaborone
Botswana

BANK AUDITOR

Ernst & Young
EY House
Plot No. 162/1, Mzinga Way
14111 Oysterbay
P.O. Box 2475
Dar es Salaam
Tanzania

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2023

1. INTRODUCTION

The Directors of Letshego Faidika Bank Limited ("the Bank") submit this report and the audited financial statements for the year ended 31 December 2023 which disclose the state financial affairs of the Bank.

2. INCORPORATION

The Bank was incorporated in the United Republic of Tanzania under the Companies Act, No.12 of 2002 and is domiciled in Tanzania as a private company limited by shares.

Letshego Faidika Bank Limited (LFB) was incorporated as Private Limited Liability Company under the Tanzanian Companies Act, 2002. On 01 July 2023 as result of merging two entities of Letshego Bank (T) Limited and Letshego Tanzania Limited (Trading as Faidika), the Bank of Tanzania (BOT) issued the banking license to the merged bank (Letshego Faidika Bank Limited) and revoked the licenses of the two mentioned institutions.

3. BANK'S VISION

To be a world-class retail financial services organisation meeting the needs of mass and middle-income individuals and small and medium enterprises.

4. BANK'S MISSION

Improve life.

5. COMPOSITION OF THE BOARD OF DIRECTORS

As of 31 December 2023, the Board comprised of 8 directors. The directors who held office during the year and to the date of this report are:

S/n	Name	Age	Position	Qualification	Nationality	Remarks
1	Noel Henry Sangiwa	61	Independent Non-executive Director	Bsc. Engineering	Tanzanian	Joined 21 August 2019
2	Julius Beda Mukoji	65	Independent Non-executive Director	MSc Economics and Finance for Developments	Tanzanian	Joined 08 July 2019
3	Ellen Okoedion	55	Independent Non-executive Director	Doctor of Philosophy	Tanzanian	Joined 06 December 2016
4	Geoffrey Martin Kitakule	53	Non-executive Director	MBA, MSc. Engineering, MSc Laws in IT	Ugandan	Joined 09 December 2019
5	Adam Mayingu	63	Independent Non-executive Director	Master of Business Administration Majoring in IT	Tanzanian	Joined 28 August 2023
6	Frederick Mmelesi	54	Non-executive Director	Master of Business Administration	Motswana	Joined 23 October 2023
7	Baraka Munisi	46	Executive Director	Master of Science, Real Estate	Tanzanian	Joined 26 October 2023
8	Simon Eliezer Jengo	71	Chairman	MSc Public Policy and Management	Tanzanian	Joined 18 May 2017

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2023

5. COMPOSITION OF THE BOARD OF DIRECTORS *(Continued)*

The Bank secretary during the year ended 31 December 2023 was Mr. Ladislaus Ragwe Muhagachi (Tanzanian).

The Bank secretary's role includes providing support and guidance to the Board in matters relating to governance and ethical practices. He is also responsible for induction programs for new directors, keeping board members abreast of relevant changes in legislation and governance principles.

6. NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES

The Bank is licensed in Tanzania under the Banking and Financial Institutions Act, 2006. The Bank is engaged in taking deposits on-demand, providing short-term and medium-term credit facilities and other related banking services.

7. CORPORATE GOVERNANCE

The Board of Directors ('the Board') of Letshego Faidika Bank Limited consists of 6 non-executive directors and 1 executive director. One of the directors have a less than 1% indirect interest in the shares of the Bank. The Board takes overall responsibility for the Bank, including responsibility for defining the strategy, identifying key risk areas, monitoring 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 bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency, and accountability. In so doing the Directors, therefore, confirm that;

- The Board met regularly throughout the year;
- They retain full and effective control over the bank and monitor executive management;
- The positions of Chairman and Chief Executive Officer are held by different people;
- The Chairman of the Board is non-executive;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance; and
- The directors bring skills and experience from their spheres of business to complement the professional experience and skills of the management team.

The Board is required to meet at least four times a year. The Board delegates the day-to-day management of the business to the Chief Executive Officer (CEO), assisted by the Country Executive Committee. The CEO is invited to attend Board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the stakeholders. During the year 2023, the Board met 13 times (4 of which were ordinary meetings).

The Board has established a policy and a set of procedures relating to Directors' conflicts of interest. None of the Directors had, during the year, a material interest, directly or indirectly, in any contract of significance with the Bank.

Appointments to 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. Non-executive Directors are appointed for an initial 3 years' term and are subject to re-election by shareholders at each AGM.

Formal induction programs are arranged for newly appointed Directors based on the individual's needs, skills, and experience. They receive comprehensive guidance from the Bank Secretary on the Bank's corporate governance framework and associated policies, as well as their duties as Directors on the Board.

**REPORT OF THE DIRECTORS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

7. CORPORATE GOVERNANCE (Continued)

Following a period of induction, training and development are provided for each Director with the support of the Bank Secretary. Non-executive Directors develop and refresh their skills and knowledge through periodic interactions and briefings with senior management of the Bank's businesses and functions.

All non-executive directors may seek independent professional advice in connection with their role as a director and may have access to the advice and services of the Bank Secretary. The Board maintains regular dialogue with analysts and investors and considers it very important to inform shareholders and investors about the Bank's financial performance. The Bank strives to continuously publish all relevant information to the market in a timely, effective, and non-discriminatory manner.

The Bank is committed to maintaining a high standard of corporate governance. The directors also recognize the importance of integrity, transparency, and accountability. During the year 2023, the Board constituted 2 sub-committees for improving corporate governance by delegating specific tasks from the mainboard to a smaller group and harnessing the contribution of non-executive directors. These sub-committees are the Audit and Risk Committee and Credit Committee and are constituted and chaired by non-executive directors.

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

The Board is required to meet at least four times a year. The Board delegates the day-to-day management of the business to the Chief Executive Officer (CEO), assisted by the Country Management Committee. The CEO is Executive Director and also attend Board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the stakeholders. During the year 2023, the Board met 14 times (9 of which were ordinary meetings).

No.	Name of Director	Main Board
1	Noel Henry Sangiwa	14/14
2	Julius Beda Mukoji	13/14
3	Ellen Okoedion	13/14
4	Baraka Munisi	1/14
5	Frederick Mmelesi	1/14
6	Adam Mayingu	2/14
7	Geoffrey Martin Kitakule	14/14
8	Simon Eliezer Jengo	14/14

Audit and Risk Committee

The Audit and Risk Committee is responsible for;

- Overseeing the financial reporting process, safeguards asset and ensure operation of adequate systems, control process.
- Ensure corporate accountability and management of associated risks combined assurance and integrated reporting.
- Review and assesses the integrity of the risk control systems and ensure the risk policies and strategies are effectively managed.
- Advise on current and potential risk exposures of the Bank; the Bank's risk management framework; the future risk strategy of the Bank, including strategy for capital and liquidity management and promoting a risk awareness culture in the Bank, alongside established policies and procedures.
- Review compliance with applicable laws.
- Recommends to the board for the appointments of external auditors and oversight of the external auditor's process and results thereof.
- Approves annual internal and external audit plans.
- Monitor the ethical conduct of the Bank.

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2023

7. CORPORATE GOVERNANCE *(Continued)*

Audit and Risk Committee *(Continued)*

This committee met 5 times during the year and all with full attendance. The Board Audit and Risk committee is comprised of the following members:

No.	Name	Nationality	Qualification	Meeting Attendance
1	Noel Henry Sangiwa	Tanzanian	BSc. Engineering	5/5
2	Julius Beda Mukoji	Tanzanian	MSc Economics and Finance for Developments	5/5
3	Ellen Okoedion	Tanzanian	Doctor of Philosophy	4/5

Performance evaluation and reward

The Bank's performance and reward approach ensure remuneration structures are balanced and is designed to drive sustainable performance, by ensuring that reward programs support our business strategy and are both supportive of, and aligned to, sound remuneration practices. Individual rewards and incentives are linked directly to the performance and behavior of the employee, the performance of their respective business units, and the interests of shareholders. Details on the remuneration of the key management personnel are disclosed in Note 35 (c) to the financial statements.

Ethical behavior

We are committed to high standards of ethical behavior and operate a zero-tolerance approach to bribery and corruption, which we consider unethical and contrary to good corporate governance. The Bank has strong whistleblowing policies and procedures in place which staff is periodically trained on as part of induction and ongoing development. It is the utmost responsibility of all staff within the Bank to comply with the Bank's Code of Conduct.

Business ethics and organizational integrity

The Bank's code of conduct embodies its values and reflects its commitment to operating responsibly and ethically with high standards of integrity. It provides a comprehensive description of the employees' responsibilities towards customers, other employees, businesses, and society. The code of conduct is designed to empower employees and enable effective decision-making at all levels of our business according to defined ethical principles.

Risk management and internal control

The Board ensures that the Bank has sound risk management and an internal control system that is appropriate to its activities. The risk management and internal control systems are based on the Bank's corporate values, ethics guidelines, and principles for sustainability and corporate social responsibility ("CSR"). It is the responsibility of the management to ensure that adequate internal control systems are developed and maintained on an ongoing basis in order to provide reasonable assurance regarding:

- Operational effectiveness and efficiency;
- Safeguarding of the Bank's assets;
- Reliability of accounting records;
- Responsible behaviors towards all stakeholders
- Compliance with applicable laws and regulations; and
- Business continuity.

In order to ensure the internal controls, remain adequate, the Bank has a fully-fledged Risk and Compliance function that coordinates and oversees the implementation of enterprise-wide risk management framework within the Bank. The audit committee on behalf of the Board assess issues related to financial review and internal control, and the external audit of Bank's accounts.

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2023

7. CORPORATE GOVERNANCE (Continued)

The Board ensures that the Bank is capable of producing reliable annual reports and that the external auditor's recommendations are given thorough consideration. During the year 2023, internal control systems were assessed by the Board and were found to be at an acceptable level.

Financial reporting and auditing

The Bank publishes its quarterly financial statements within thirty days after the end of the quarter and publishes the annual audited financial statements within fifteen days after approval of the Board but not later than one hundred and five days after the end of the financial year as required by the "Banking and Financial Institutions (Disclosures) Regulations, 2014".

The Directors are responsible for preparing the Annual Report, including the Financial Statements in accordance with International Financial Reporting Standards (IFRS), the Companies Act, 2002, and Bank of Tanzania laws and regulations. In preparing these financial statements, the directors are required to:

- Adopt the going concern basis unless it is inappropriate to do so;
- Select suitable accounting policies and then apply them consistently; and
- Make judgments and accounting estimates that are reasonable and prudent

The external auditor presented the result of the audit to the audit committee and the Board in the meeting dealing with the annual financial statements, including presenting any material changes in the Bank's accounting principles and significant accounting estimates and reported on whether the financial statements give a true and fair view of the state of affairs of the Bank.

8. DIRECTOR'S REMUNERATION

The remuneration for services rendered by the Directors of the Bank for the year ended 31 December 2023 was TZS 272.53 million (2022: TZS 178.75 million). Refer to Note 35 (c) for further details.

9. OPERATING STRUCTURE

The Bank provides a wide range of products which suit the needs of different segments in the market, through our business divisions namely financial inclusion. We are transforming our digital presence, providing simpler, seamless interactions through digital platforms while sustaining extensive customer reach through our leading branch network and alternative channels.

Products and services offered

The Bank has grown to become innovative and preferred financial services partner supported by uniquely and updated services like agency banking, mobile banking and ATM solutions. The most services provided by Letshego Faidika Bank Limited are offering loans to Government employees (DAS), small and medium enterprise loans, deposit taking (retail corporate and informal savings – Timiza), insurance brokerage service through a network of 5 deposit taking branches, and 17 Service Centers, and more than 120 satellite sales points with 3 ATMs. Additionally, Letshego Faidika Bank Limited provides VISA service which include acceptance and payments. The main goal of the Bank is to improve peoples' lives, that's why it expands its presence in the community to ensure that, most of the community get access to all products and services which are being provided by the Bank.

10. OUR BUSINESS/OPERATING MODEL

The Bank plays a key role in connecting the providers and users of capital. We recognize the role we play in society, and our success as a business has always been closely linked to the progress of the people, communities, and businesses we serve. We aspire to grow and deliver value for all our stakeholders. For us, value is best illustrated in the quality of lives of our shareholders, our people and the community around us. In driving value for our stakeholders, we anchor our actions on a firm foundation of defined strong values.

Our mission is to provide competitive and innovative financial solutions through digital transformation, to achieve a distinctive customer experience while caring for our people and delivering a sustainable contribution to society. Our purpose is to transform lives through financial sector innovation, intuitive action, and sustainable business.

We invest in people, technology, and processes to deliver value in a responsible and sustainable manner. Therefore, through innovation and strategic investments, we continue to expand our delivery channels to deepen access to financial services. We have a robust plan to drive financial inclusion with a clear aim to serve the underserved communities and include the lower segment of the market into the financial ecosystem.

Resources and inputs employed to provide service to customers:

Financial resources

We deploy our financial resources to help our customers and clients achieve their goals. Our good financial position and growth are a result of our disciplined approach towards raising, lending and managing our financial resources. It includes customer deposits, shareholder equity, retained earnings and external borrowings among others. Our shareholder and debt funding give us a strong financial capital base that supports our operations and fund growth. Financial capital includes the funds our customers/ stakeholders invest with us.

Our financial capital supports our operations and fund growth. Our investors, both debt and equity, played a big part in the makeup of our financial capital to execute the Bank's strategy. In 2023, the bank maintained to leverage on our balanced mix of customer deposits, debt, and equity to run our operations and execute our strategy. The Bank maintained a solid capital base and diversified funding sources that enabled us to provide banking solutions competitively across the markets we operate in. Bank accessed fund at the competitive rates, so as to efficiently create and maximize shareholder value.

In 2023, our total equity decreased by 5% to TZS 21,319.67 million from TZS 22,419.86 million while our total borrowings were fully repaid during the year. Through our wide distribution networks and strong financial base, we managed to attract and mobilize a balanced mix of deposits to further support our lending activities. Our customer deposits increased by 3% to TZS 9,904.64 million from TZS 9,646.20 million with the majority being comprised of low-cost deposits.

Our retained earnings form part of Bank's financial capital used in the execution and growth of strategic investments. Accumulated losses stood at TZS 46,089.30 million at the end of December 2023 (2022; TZS 31,852.35 million).

Human resources

We deliver success through a purpose-driven and inclusive culture. Our people are at the heart of our success. Their diverse skill sets, expertise and industry knowledge constitute our human capital. We further enhance our human capital through continuous training and development programmes. Our focus on developing a skilled and motivated workforce enables us to acquire, serve and retain our customers. We have an engaged and motivated workforce that is guided by a clear vision and anchored in strong values. We are focused on embedding a culture of continuous development, which increases competitiveness and investment in the development of skills required by employees to serve the digital customer of the future.

10. OUR BUSINESS/OPERATING MODEL (Continued)

Resources and inputs employed to provide service to customers (Continued)

Intellectual resources

The adoption of data analytics and emergent technologies enables us to increase operational efficiencies. The knowledge and expertise incorporated within our systems, processes and procedures and the equity built in the Bank's brand constitute our intellectual capital. We have invested in a strong brand and subsidiary businesses, strategic partnerships and innovative products and solutions that we offer to our customers. We have made commendable progress in digital adoption with focus on automation, which is a key driver of delivering our digital strategy.

Social and relationship resources

In our engagements with key stakeholders, we continuously strive to deliver a meaningful value exchange and manage their expectations. We value the views of our stakeholders because they play a significant role in shaping our response to business and societal issues. Be it with our customers, trade partners and merchants or communities, we take a holistic approach to sustainable value creation by nurturing our long-standing relationships and building new ones.

Our business activities

We offer a comprehensive range of financial services to individuals, Small and Medium-sized Enterprises (SMEs) and corporations. Our integrated business model is designed to address the widespread needs covering all market segments by responding to the rapidly changing world.

Our delivery channels

- We have a 5 deposit taking branches, 17 Service Centers, and more than 120 satellite sales points with 3 ATMs across mainland Tanzania.
- Mobile Banking and Digital loans Services
- VISA cards
- Banking Agents – 279 agents spread across the country to complement our service points.
- ATM – we are part of Umoja switch giving our customers access to over 250 ATMs and several merchants.

LETSHEGO FAIDIKA BANK LIMITED

**REPORT OF THE DIRECTORS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

10. OUR BUSINESS/OPERATING MODEL (Continued)

Resources and inputs employed to provide service to customers (Continued)

What we offer/Output

- Lending – We have variant of loan products available to customers and clients to support their needs iLoan to Government employees (DAS), Mtaji Afya, Mtaji elimu, Mtaji nyumba, Insurance premium financing (IPF), digital loans through TIGO, and SMES loans specifically designed to address the need of small and medium enterprise.
- Deposit savings – We provide the deposit savings solutions i.e. current account, saving accounts and term deposit.
- Mobile deposit – We enable customers to conveniently deposit money electronically by transferring from all major mobile money operators (MNOs), moreover, in partnership with Airtel Money we are enabling customers to save money digitally while earning attractive interest.
- Payments and transactions – Through our Payment cards (Visa and Umoja) and our Mobile Banking Solution, our customers can make payments to domestic and international merchants..
- Banca assurance – We are providing brokerage service to 7 insurance companies offering a wide range of covers including life, general and medical insurance.

Outcomes

We deliver value to all our stakeholders and fulfilling a vital role in the economies in which we operate.

Stakeholders	Outcome
Employees	<ul style="list-style-type: none"> - A workplace where employees can be productive and achieve their potential. - Performance underpins the rationale for recognition and reward. - Self-led development and an opportunity for career progression.
Customers and clients	<ul style="list-style-type: none"> - Innovative, efficient cost-effective banking solutions that meet their needs. - Improved access to markets and financial services including access to information and advice. - 5 branches, 4 remotes sales centers, 393 agencies banking and 1 call center for customer engagement with us effectively. - Supporting financial goals for our customers and clients with products and services delivered through a superior offering.
Regulators	<ul style="list-style-type: none"> - Continuous streamlining with all required regulations - A stable financial services sector through engagements with regulator.
Society	<ul style="list-style-type: none"> - Providing support to our communities, and access to social and environmental financing to address societal needs. - Increase access to, and funding for education, health and housing solutions
Investors/ shareholders	<ul style="list-style-type: none"> - Delivering attractive and sustainable shareholder returns on their investment

11. FACTORS THAT IMPACTED OUR ABILITY TO CREATE VALUE

Our operating environment is characterised by increased competition, disruptive technologies, changing consumer behaviour and regulatory and policy changes. Within the context of our current strategic, cultural and digital journey, we manage the following material matters.

ISSUE	RISK/IMPACT ON VALUE CREATION	OUR RESPONSE
Increasing competition	Loss of market share coupled with pressure on revenues and possible loss of revenues if our offerings don't remain competitive.	Delivering innovative products and services through an increasingly automated and digitised environment.
Technologies and digital adoption	Digital transformation is changing the way we do business, from client onboarding and products sales to servicing.	Improving our partnerships to drive greater alignment between our business and technology partners to ensure we remain agile in the face of change.
Rising stakeholder expectations	Stakeholders' sentiments can impact our reputation and, affect the cost and availability of funding that is required to drive long-term performance.	Increased engagements with stakeholders to best understand their expectations to incorporate into our strategic planning. Adopting integrated reporting to increase transparency on our value creation process.
Ongoing regulatory and policy changes	Growing compliance costs which may have to be passed on to customers and ultimately impact shareholder returns.	Allocating a material proportion of our investment to regulatory compliance and risk prevention initiatives. Engagement with policy makers and communities to advocate for appropriate regulatory reform. Maintaining constructive and proactive relationships with key regulators.

Main trends and factors likely to affect future prospects

The banking industry is experiencing a fundamental shift, driven by new competition from FinTech and Telco companies, a cultural shift, continuous change in regulations and compliance, and disruptive technologies. The coming out of FinTech/non-bank start-ups is changing the competitive landscape in financial services, driving traditional institutions to rethink the way they do business. These and other banking industry challenges can be resolved by new technology which has caused the disruptions. However, the transition from the old systems to the innovative solutions has not always been an easy one. That said, banks need to embrace digital transformation as the only way to survive in the current landscape.

11. FACTORS THAT IMPACTED OUR ABILITY TO CREATE VALUE (*Continue*)

Main trends and factors likely to affect future prospects (*Continued*)

Increasing competition

The competition posed by FinTechs, which mainly target some of the most profitable areas in financial services is substantial. It is expected that these Fintech and start-ups would divert revenue from traditional banks and financial Institutions. These new industry entrants are forcing many financial institutions to strive for partnerships and/or acquisition opportunities as a measure to survive. For the traditional bank to continue and also maintain a competitive advantage, it has to learn from FinTechs, by providing a simplified and intuitive customer experience.

Cultural shift

In the digital world, there is no opportunity for manual processes and procedures. Banks need to think of technology-based resolutions to banking industry challenges. As a result, it is important that banks and financial institutions institute a culture of innovation, in which technology is leveraged to optimize existing processes and procedures for maximum efficiency. The cultural shift towards new technologies is reflective acceptance of digital transformation.

Regulatory compliance

Regulatory compliance has become one of the most significant banking industry challenges as a direct result of the growing number of regulations that banks must comply with; compliance can significantly strain resources and is often dependent on the ability to correlate data from disparate sources. Faced with severe consequences for non-compliance, banks have incurred additional cost and risk in order to stay up to date on the latest regulatory changes and to implement the controls necessary to satisfy those requirements. Overcoming regulatory compliance challenges requires banks to foster a culture of compliance within the organization, as well as implement formal compliance structures and systems.

Rising expectations

Customers of today's world are very smart and more informed than ever before and expect a high degree of personalized services and convenience out of their banking experience as a result, an increased expectation of digitized experiences. Millennials have led the charge to digitization whereby they prefer to interact with brands via social media and found that they make the larger percentage of mobile and internet banking user. As a result of this trend, banks can expect future generations to be more users of mobile banking rather than visiting physical branches. The challenge for banks is to maintain a hybrid banking model which can serve both the older and younger generations.

Continuous innovation

For the banks to sustain in the current world, they require continuous innovation which helps them to stay competitive and address market demands while improving customer experience. Innovation stems from insight, and insight tend to be discovered through customer interactions and continuous analysis. Banks needs to build advanced analytics capability to maximise the utilisation of the data asset in revenue growth, risk/fraud control and efficiency (financial control and operational cost). The banks should also continuously promote and drive agile culture throughout the organisation in order to manage speed, scale and value of the digital transformation.

12. OUR STRENGTH

For more than eight years, we have been serving our customers with a strong conviction and diligence, understanding that our survival as a business is tied to their individual growth and collective prosperity.

Brand

Our brand helps foster a strong relationship of trust with our customers and clients. Our story of progress is centred around supporting economic transformation and building sustainable livelihoods for our customers. Our long-term vision is to drive impact across all our markets through financial sector innovation while improving lives.

Technology and infrastructure

Our technology and infrastructure capabilities drive seamless customer experiences and support strong resiliency. We have invested in technology which enable competitive product development, implementation of reliable techniques for control of risks and enhancement of digital channels which help the bank to reach geographical faraway and diversified markets. It is projected that during the year 2023 the bank will continue to invest massively in terms of strengthening the digital platform.

Operations and governance

Our risk management, governance and controls help ensure customer and client outcomes are delivered in the right way. The Bank Risk Management Framework forms the Bank's integral part of corporate governance. It defines the Bank's high-level governance structure; it documents the key responsibilities and accountabilities that are in place to manage risks inherent in the Bank's business and operations. The framework also outlines controls, processes, and structures to support proper implementation of Risk Management Strategies. This control framework is intended for use in dissemination of risk management objectives and strategies to all stakeholders in the group.

Effective risk management equips the Bank to respond actively to market volatilities and uncertainties using well analysed risk-based information to enable more effective decision-making. In turn, increased capacity and demonstrated ability to assess, communicate and manage risk builds trust and confidence to customers and the general public.

Employee engagement

The bank ensures employees are committed and connected which address the needs of our stakeholders. Employee engagement has appeared as a critical instrument of our business success in today's competitive banking environment. Human resource department ensures high levels of engagement of staff which promote retention of talent, nurture customer loyalty and improve bank performance and stakeholders value. Our employee engagement it is a key link to customer satisfaction, protect bank reputation and overall stakeholder value.

Customer focus

The Bank maintains a customer centric focus, innovating business models that meet the customer demands and leverages on cutting edge technology to find solutions for customer needs. We have enhanced capabilities of our core banking system and alternative channels and ensure our footprint presence across the country. The banking sector has embraced technology to serve customers more efficiently

13. OPERATING ENVIRONMENT

The operating environment remained stable amidst the turbulent dynamics of the year. The banking sector remained stable, profitable, adequately capitalized, with sufficient level of liquidity and improved asset quality. The sector remained resilient to internal and external shocks and continued to grow in terms of deposits and assets, supported by favorable macroeconomic environment, regulatory and supervisory measures. The government embarked some measures to stabilize the economy and recording a good performance in 2023, all things considered. Digital banking services continue to expand driven by increasing financial inclusion and mobile penetration rate while the banks slowed down significantly the branch network expansion.

Macro and micro economic overview

Tanzania has sustained relatively high growth this year, bolstered by strengthened private consumption and recovered exports as global restrictions has been eased GDP Growth is expected to strengthen over the next two years, assuming the external environment improves. The real GDP growth rate is projected to reach 5–5.5 percent in 2024 and average about 5.5 percent over the medium term as exports and domestic demand recover. The GDP can be affected by the continued flag downside risks to our 2024 growth forecast should the El Niño phenomenon significantly disrupt food crop harvests. "Growth is expected to be driven by public and private investment, reforms to improve business conditions, favorable weather, and a rebound in tourism," the Bank of Tanzania projected. It is expected Tanzania's GDP to grow 5.2% in the first quarter of 2024, against a 5.6% expansion in the same period a year ago.

The Annual Headline Inflation Rate end of December 2023 has decreased to 3% a modest decline from 3.2 % reported same period last year. During 2022/23, policymakers across the globe were confronted with a challenging economic environment resulting from the war in Ukraine, climate change, and the lingering effects of the COVID-19 pandemic. These global shocks disrupted the supply chain, leading to high commodity prices and inflation. To address the increase in inflation, BOT pursued a less accommodative monetary policy, which focused on striking a balance between the objective of containing inflation while safeguarding growth and financial stability.

However, in January 2024 BOT announced it had transitioned to an interest rate-based monetary policy, effective the same month. The policy shift moves away from the previous focus on controlling the money supply, aligning Tanzania's economic management with regional practices and international standards. The move aims for enhanced economic stability and growth.

Environmental, Social and Governance Reports

The Bank recognizes Environmental, Social and Governance variables that affect its financial position and operating performance. The Bank refers to these variables as ESG related risks. The Bank is committed to driving a distinct ESG program that is consistent with its overall business strategy and Enterprise Risk Management Framework. We understand that ESG may affect stakeholders including our clients, teammates, communities and shareholders, we also understand how we manage ESG issues and we have better insight into how we are living our values and delivering on our purpose to drive responsible growth.

Regulatory environment

During the year 2023 the banking environment remained sound, stable and resilient with adequate capital to support economic activities. The Bank of Tanzania (BoT) continued to strengthen risk management practices in the financial sector by implementing various policies and regulatory reforms to safeguard the stability of the industry including directing banks with capital inadequate ratios to implement capital restoration plans and adhering to the regulatory requirements.

Introduction of the banking and financial institutions (liquidity management) regulations, 2023 published in the Government notice no. 724 on. 06/10/2023. The new regulations cover Liquidity management policies, contingency plan, minimum liquid asset ratio, Balances abroad, Liquidity coverage ratio, Higher liquidity coverage ratio, Net and higher stable funding ratio, Liquidity report and maturity profile, Compliance on solo and consolidated basis, Sanctions and penalties and Revocation and Savings

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2023

13. OPERATING ENVIRONMENT *(Continued)*

Regulatory environment *(Continued)*

Introduction of the banking and financial institutions (capital adequacy) regulations, 2023 published in the Government notice no. 727 published on. 06/10/2023. The new regulation cover Minimum tier 1 capital, Prohibition from operating demand deposit account, Requirements for community banks, Capital adequacy ratios, Capital buffers, Failure to meet capital buffers, Internal capital adequacy assessment process, Leverage ratio, Risk weighted assets and off-balance sheet exposures, Capital charge for credit risk, market risk and operational risk, Exemption from market risk requirements.

Political environment

The Bank is operating under stable political environment in which it operates to safeguard the interests of shareholders and meet stakeholders needs. Overall stabilization and growth of the bank and economy at large. Also, stable political environment has promoted the increase in foreign investment and the domestic investments and operations through fair and stable tax regime and policies induced by the government leading to the increase of production capacity.

Competitive position

The banking landscape continues to face competition from other players, mainly Mobile Network Operators (MNOs) and FinTech with technology disruptions becoming a norm. Similarly, the mergers and acquisitions being witnessed in the banking industry, will likely create entities that will increase competition in the sector.

The Bank will continue to leverage its competitive advantage through customer centricity, improved technology and network committed work force to deliver value to all stakeholders.

Market forces

The Bank serves a diverse customer base with changing needs and ever-increasing demand for more value and convenience. Technology is highly impacting the banking landscape; clients expect 24/7 banking wherever they are in the world- the same access offered by other service providers. They also expect constant innovation.

The Bank maintains a customer centric focus, innovating business models that meet the customer demands and leverages on cutting edge technology to find solutions for customer needs. We have enhanced capabilities of our core banking system and alternative channels and ensure our footprint presence across the country and in our cross-border operations to foster an excellent customer experience.

Human rights

The Bank complies to all regional and international human rights instruments. We also promote human rights through our employment policies and practices, through our supply chain and through the responsible use of our products and service in accordance with the requirements of the Constitution of Tanzania.

Health

The Bank is committed to conducting our business in compliance with all applicable health and safety laws and regulations (the Occupational Safety Human Resources Policy and Health Act.No.5 of 2003. The Bank strive to provide a safe and healthy work environment to avoid adverse impact and injury to its employees and customers by taking responsibilities towards the safety of everyone on our premises, including employees, contractors, customers, visitors and members of the public, and ensures that they are not exposed to risks that may compromise their Health and Safety.

14. STAKEHOLDERS NEEDS AND INTERESTS

As a financial services provider we are deeply connected and committed to the environment we operate in and the societies we serve. Our ability to deliver value is dependent on our relationships and the contributions and activities of our stakeholders. We engage in dialogue with our stakeholders to understand their needs and seek to meet their expectations to create value for them and for the Bank.

Stakeholders	Stakeholders needs and expectations
Employees	<ul style="list-style-type: none"> - Career development and advancement opportunities - Challenging work, with opportunities to make a difference - An empowering and enabling environment that embraces diversity and inclusivity. - Fair remuneration, effective performance management, and recognition - A safe and healthy work environment
Customers	<ul style="list-style-type: none"> - Innovative financial solutions and services - Convenient access to banking services through digital channels. - Excellence in client service. - Value-for-money banking that is competitive and transparent in pricing.
Suppliers	<ul style="list-style-type: none"> - Fair bidding and timely payments
Shareholders/ investors	<ul style="list-style-type: none"> - Continuous engagement to inform their investment decisions.
Regulators and policy makers	<ul style="list-style-type: none"> - Compliance with all legal and regulatory requirements - Being a responsible taxpayer in all jurisdictions where we conduct business. - Active participation and contribution to industry and regulatory working groups.
Society	<ul style="list-style-type: none"> - Providing access to relevant financial solutions that help to achieve desired outcomes for individuals, their families, their businesses and their communities. - Influencing its stakeholders to act responsibly in environmental, social and governance matters - Letshego partnering with the community to address common social and environmental issues to build a thriving society.

15. OUR OBJECTIVES AND STRATEGY

Letshego Faidika Bank Limited objective has been prepared with the view of achieving more revenue, growing the business in terms of lending activities and ultimately improving shareholders value and life of the people, the objectives have been developed out of transformational strategy. Letshego Faidika Bank Limited turn-around agenda is driven by transformational strategic conversations namely product diversification, digitalization, enterprise agility, geographical rebalancing, and sustainable stakeholder value. The bank will continue to maintain its core objectives of improving the lives of ordinary Tanzanians through the provision of financial services and products; improving our IT system's performance and security and improve the quality of customer service while being an agile provider of financial services in the country.

In perspective, the bank continued to be resilient, Letshego Faidika bank Limited continue to strengthen our customer services, stakeholder engagement, portfolio quality management, ICT infrastructure, resource optimization, capacity building, we aspire to deploy bold strategies to address productivity and cost levers.

Letshego Faidika Bank Limited Strategic Business objective is therefore to be a systemic bank in Tanzania and move to mid-tier bank within the next three years i.e., Top 20 in ranking by profitability, total assets and deposit market share. Letshego Faidika bank Limited to become among Top 20 financial institution serving over 50,000 customers.

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2023

16. SHARE CAPITAL AND SHAREHOLDING

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

Authorised share capital

During the year, the authorised share capital of the bank increased from TZS 53,488,900,000 to TZS 67,408,974,219 divided into 100,000 consisting of 588,891 ordinary shares (2022: TZS 449,689) and also non-cumulative preference shares 85,199 (2022:85,199).

Called up and fully paid share capital

588,891 (2022:449,689) ordinary shares of TZS 100,000 each amounting to TZS 58,889,074,219 (2022: TZS 44,968,992,180) as at end of year 2023 and 85,199 (2022: 85,199) preferences share of TZS 100,000 amount to TZS 8,519,900,000 (2022: TZS 8,519,900,000) giving the total of TZS 67,408,974,219 (2022: TZS 53,488,892,180).

Non-cumulative preference shareholders are given priority on receiving dividend over ordinary share. Holders of non-cumulative preference shares are not entitled to carry over the dividend for the year the Bank has not declared to issue dividend.

17. MANAGEMENT

The structure of the bank is comprised of the below departments:

- Finance department
- Distribution and Business development department
- Operations department
- People and Culture department
- Internal Audit department
- Risk department

18. RESULTS AND DIVIDEND

The results of the Bank are set out on page 36. During the year ended 31 December 2023 the Bank incurred Loss Before Tax of TZS 7,017.36 million (2022: TZS 5,796.12 million). The directors do not recommend payment of dividend.

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2023

19. SHAREHOLDERS OF THE BANK

Letshego Holdings Limited is shareholder of the bank holding 100% of the shares.

Name	Country of Incorporation	Number of shares	Value of Shares TZS'000
Letshego Holdings Limited - Ordinary shares	Botswana	588,891	58,889,074
Letshego Holdings Limited - Preference Shares	Botswana	85,199	8,519,900
Total share capital		674,090	67,408,974

20. PERFORMANCE REVIEW

Financial performance

The Bank's financial results for the year are set out on page 36 of the financial statements. During the year ended 31 December 2023, the bank recorded a loss before tax of TZS 7,017.36 million compared to a loss before tax of TZS 5,796.12 million for the year ended 31 December 2022. The main drivers of the results for the year are highlighted below:

Net interest income

Net interest income (interest income less interest expenses) increased by 575% from TZS 2,009.39 million to TZS 13,565.36 million resulting from significant increase in the bank loan book and overall businesses volume during the year after the Bank merged with Letshego Tanzania Limited t/a Faidika effectively from 01 July 2023.

Non-interest income

Non-interest income includes the following: fees, commission, and foreign exchange gains/(losses). Net non-interest income increased to TZS 1,002.12 million compared to TZS 505.66 million earned in 2022. The increase was contributed by increased volume of transactional banking and loan disbursement.

Impairment losses

In 2023 impairment expense increased to TZS 5,963.69 million from TZS 1,417.69 million in 2022. The increase of provision during the year was significantly contributed by the provision of the legacy loan book.

Bank operating expenses

Total operating expenses includes personnel costs, depreciation of property and equipment, amortization of intangible assets and general administrative expenses. During the year bank operating expenses increased by TZS 8,727.67 million from TZS 6,893.48 million in 2022 to TZS 15,621.15 million in 2023. The increase of operating expenses was significantly contributed by increase in operating costs followed the completion of the merger, legal and professional expenses, marketing promotion and advertising costs and retrenchment costs.

Key performance ratios

The key performance ratios of the bank are indicated below:

No.	Particulars	2023	2022
1.	Return on total assets	(13%)	6%
2.	Return on equity	(70%)	9%
3.	Non-interest expense to interest income	155%	261%

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2023

20. PERFORMANCE REVIEW *(Continued)*

Financial position

The bank's financial position is set out on page 37 of the financial statements, with comparative figures for the current and previous year.

Cash and bank balances with Bank of Tanzania

Cash and bank balances with Bank of Tanzania increased to TZS 1,962.52 million from TZS 1,383.02 million in 2022. The increase is due to increase in operation and activities at Bank of Tanzania account following the merger.

Other bank balances

Other bank balances increased to TZS 14,386.72 million from TZS 8,009.78 million in 2022, due to investment in short term fixed deposits and collections from loans and advances.

Loans and advances

Gross Loans and advances increased to TZS 84,881,598 million from TZS 20,024.16 million in 2022 while Net Loan and advances increased by 417% (2022: decrease of 35%). The increase of loan and advances in mainly new loans and advances that were acquired by the bank after the merge of the bank with Letshego Tanzania Limited t/a Faidika which occurred during the year.

Property and equipment

The carrying value of property and equipment increased by TZS 871.91 million (834% increase) from TZS 104.60 million in 2022 to TZS 976.50 million mainly due to transfer of assets from Letshego Tanzania Limited t/a Faidika which merged with the bank in 2023, Carrying value of assets transferred from Faidika Microfinance to the bank amounts to TZS 1,371.00 million. The Increase of assets was however offset by depreciation during the year amounting TZS 587,507 as disclosed in Note 18.

Intangible assets

In 2022, intangible assets were all replaced with a new system which is controlled by Letshego Holding Limited, hence write off of the former bank core system because the bank is not expecting economic benefit to flow to the bank from the system.

Other assets

Other assets increased by TZS 3,981.56 million from TZS 2,683.32 million in 2022 to 6,664.88 million in 2023. The increase of due to increase in other receivables due to various transactions done with the third parties.

Customer deposits

The increase in customer deposits to TZS 9,904.64 million from TZS 9,646.20 million (by 3%) was mainly driven by the TIMIZA deposit campaign and increase of number of customers after merging with Faidika.

Other liabilities

Other liabilities have increased to TZS 2,157.89 million from TZS 509.73 million in 2022 mainly attributed by increase in sundry creditors and accruals.

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS (Continued) FOR THE YEAR ENDED 31 DECEMBER 2023

20. PERFORMANCE REVIEW (Continued)

Key efficiency ratios (Continued)

Key efficiency ratios

The key performance ratios of the bank during the year are indicated below:

No	Particulars	2023	2022
1.	Total capital to total assets	19%	65%
2.	Non-performing loans to total advances	19.9%	41.97%
4.	Loans to total assets	61 %	39%
5.	Deposit growth	3%	(6%)

How we delivered KPI set

- Aligned branch operations to the new operating model to fit service demands, increase productivity and improve controls.
- Embarked on Culture transformation program to align peoples mind delivering required output.
- Conducted HQ and branch processes alignment to optimize resource utilization.

21. FUTURE DEVELOPMENT PLANS

The Bank plans to continue increase its portfolio of clients, both for deposit and loan, and will conduct a selective expansion of its branches, focusing on value-added customer services, while carefully managing both costs and risks. Deposit mobilization remained key in 2023 as the bank continued to strengthen the strategic partnership with Airtel to drive retail mobile savings. The bank is planning to conduct the deposit mobilization, collection and recovery campaign during the year 2024 which is projected to grow Timiza deposit and also improve on Nonperforming ratio and bank liquidity. During the year 2024 the bank is planning to introduce digital loans with , we will also target retail deposits, institutional deposits, and Timiza deposits in partnership with Airtel Money. We will also focus on the improvement of alternative channels in order to retain and attract cheap deposits.

During 2024 Letshego Faidika Bank Limited plans to push aggressively for digitalization and open up for alternative channels in order to increase its portfolio of clients, both for deposit and loan, priority will be given to digitization of services and partnership with other big players and MNO's focusing on value-added customer services, Other key strategic initiatives will be to drive to increase Instant Loan Penetration in the MNO Sector, increase the base and scope of the Instant loans Subscribers, Launch of the successfully tested Mpesa Instant loan product, Partnerships with other key stakeholders Go Live for the Digital Mall Bill Payments functionality, Review and Changes on the Digital Mall transaction charges to increase Non Funded Income, Revamp on the Timiza Akiba product with Airtel Money for the Digital Saving Product double the Digital Deposits in 2024, Sales Rural Sales Activation Campaigns to close the performance gap and Recovery campaign for discount allowance to customers (written-off book).

21. FUTURE DEVELOPMENT PLANS (Continued)

The Bank's aspiration is centred in addressing productivity and cost levers. In 2024, we will put the customer at the centre of what we do by addressing their evolved needs. In addition, we will remain relevant in the business by responding to the market dynamics. We will create a robust support system to match the business aspirations and key drivers of growth. We will increase efforts on business diversification by growing more on Retail banking while focusing on optimization and retention on the corporate side.

On Retail, we will leverage customer segmentation and profiling to offer solutions relevant to the needs. In addition, we will adopt volume and risk-based pricing to drive growth through the affordability context. We will leverage technology and partnerships to drive channel optimization and accessibility.

Our service experience aspiration is to enhance the entire operations value chain through process simplification and automation. Thus, we will prioritize the delivery of critical technology projects as enablers and accelerate process reengineering programs. Most paramount, we are committed to implementing a holistic transformation leading to the bank of the future. Adapting new culture will drive performance, productivity and profitability. Create technological capabilities to transform how we operate and offer services, enhancing cyber maturity posture and data protection. Specifically, for 2024, our strategic direction will strike the right balance between business growth and compliance.

In year 2024, the Bank aspirations shall be:

- Increase focus on economic sectors to align the Bank strategies to capture emerging opportunities.
- Enhance compliance oversight to adapt and address regulatory changes.
- Transform and align business models to address changing customers and key stakeholders' needs.
- Maintain focus on digital transformation and accelerate delivery of digital transformation strategy.
- Accelerate delivery of digital transformation strategy.
- Leverage on the new and existing competitive advantages to attain market leadership.
- Develop bold and digital-based channel distribution strategies to enhance optimization and accessibility.
- Acquire new and optimize existing partnerships to enhance ability to serve and grow.
- Increase focus on financial inclusion to acquire of new customers through micro-save & micro-lending.
- Capitalize on results management framework to drive performance and visibility.
- Maintain healthy and quality loan portfolio.
- Deliberately, continue to deploy sustainable actions to improve efficiency ratio.
- Accelerate delivery of technology projects to address system challenges.
- Enhance reporting and data availability to enable analytical decision making.
- Harness value from people through empowerment and capacity building.
- Deploy effective support model to match and compliment business priorities.

The Bank's expectations from the investment made; will result into an increase in operational efficiencies, costs reduction and consequently increase profitability. The transformation targets to build a superior banking experience and generate value for all stakeholders. To achieve a more prolific performance, the Bank will harness the opportunities brought about by the transformation initiatives being implemented.

**REPORT OF THE DIRECTORS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

21. FUTURE DEVELOPMENT PLANS (Continued)

In 2024, the Bank strategy is to develop new products and services that will fit the recent needs of our customers to catch-up with the technology to help and support our customers in a sustainable way. The 2023 strategy also aims to unlock the full potential of the Bank by entrenching the efficiency of service and transforming our sales force.

We plan to leverage technology, talent and opportunities to build a robust proposition for our customers. Key considerations for us in the new year include sustained expansion of our agency banking business, seeing that it is a cost-effective avenue through which the Bank can expand its reach to provide access to financial services for underserved communities in rural areas.

We will also continue to accelerate automation with the view to reduce manual interventions. We believe that this will enhance efficiency in our service delivery and, in turn, deliver a superior experience for our customers. We resolve to get close to our customers more so that we can understand their pain points and help them achieve their financial goals.

22. PRINCIPAL RISK, UNCERTANITIES AND OPPORTUNITIES/MITIGATIONS

The Bank is committed to meeting stakeholders' expectations in mitigating risks through a enterprise-wide risk management framework. The framework aims at ensuring that risks are identified, quantified, managed, and monitored to achieve an optimal-risk reward profile. Our enterprise risk management framework has well-defined the internal structures, adequate processes, systems, and policies, which monitor and help to mitigate existing and prospective risks or threats of damage, injury, liability, loss and any other negative occurrence that may arise from external or internal vulnerabilities, and which may be avoided through preventive action.

The Bank has in place a risk management process where risk management tools have been deployed to ensure proactive measures are achieved at largest extent. We strongly believe that preventing risks enhances shareholder value because it allows us to manage risks proactively and intelligently, which maximizes the Bank's potential for earnings, ensures stability and takes measures to protect the business against unexpected losses.

Our risk management aims to protect the Bank's solvency through the preservation of high asset quality, efficient operations and prudent capital management resulting in sustained earnings that augment core capital, enabling regulatory compliance, enhancing market reputation and stakeholder support.

Principal risk	Context	Opportunities/Mitigations
Credit risk	The risk that arises from unmet customer obligations, either willingly or unwillingly, which results in economic loss to the Bank.	Our credit risk management strategies are based on achieving the right asset quality and concentration. To achieve this, credit risk is assessed and managed right from credit origination to recovery management. Our assessment methodologies ensure that risks are clearly articulated, throughout the credit management life circle.
Liquidity risk	Liquidity risk is the possibility of having a shortfall to earnings or capital arising from the likelihood that the Bank will not have sufficient cash to meet liquidity demands or situations on which it cannot raise enough liquidity in a cost-effective manner.	The liquidity risk management process is carried out within the Bank and monitored by the Asset and Liability Committee (ALCO) includes a day-to-day funding management which is managed by monitoring future cash flows to ensure that funding requirements can be met. These include replenishment of funds as they mature or are loaned to customers.
Market risk	The risk of financial loss on earnings or capital arising from adverse movement in market rates	The Bank's Treasury Department where the trading and the Asset and Liability Management functions reside manages

REPORT OF THE DIRECTORS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

Principal risk	Context	Opportunities/Mitigations
	<p>or prices such as interest rates, foreign exchange rates and equity prices. Market risks arise from open positions in interest rate, currency, price and equity investments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices.</p>	<p>market risk, and the Risk and Compliance function independently monitors and reports on the risk-taking aspects of market risk.</p>
<p>Compliance risk</p>	<p>Refers to current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from the possibility of incorrect interpretation of effective laws or regulations.</p>	<p>The Bank manages Regulatory Compliance Risk through a dedicated Regulatory Compliance function which monitors Regulatory changes and its effects to the business, disseminate the requirements across the Bank to ensure the business is not in violation and make changes to Bank's policies and procedures affected by changes in laws and regulations. The function conducts regulatory conformance tests across the Bank to detect compliance gaps in enforcement of regulatory requirements and reports to the Risk Management Committees of the Management and the Board, on Compliance status for the Bank.</p>
<p>Operational risk</p>	<p>This is a risk of loss resulting from inadequate or failed internal processes, or people, or systems, or from external events. Operational risk includes reputation, legal and franchise risks associated with business practices or market conduct (e.g., suitability, appropriateness and disclosure) that the Bank may undertake with respect to activities as principal or as an agent</p>	<p>For every operational risk identified, management has developed the control mechanism for mitigating it which includes appropriate segregation of duties, dual control, and reconciliation has been embedded in each business programs and operational procedures are reviewed periodically. The group also has a self-risk assessment process and training of staff on operational risk management which is being conducted continuously.</p>
<p>Strategic risk</p>	<p>Strategic risk concerns the consequences that occur when the environment in which decisions that is hard to implement quickly and reverse result in an unattractive or adverse impact. Strategic risk ultimately has two elements: one is doing the right thing at the right time and the other is doing it well. Strategic risk includes a risk that the Bank's strategy may be inappropriate to support sustainable future growth.</p>	<p>On a quarterly basis, the Department of Risk and compliance performs a Strength, Weaknesses, Opportunities and Threats (SWOT) analysis to determine factors that would affect attainment of the Bank's Strategy (This includes assessment of the strategic pillars by looking at both internal and external factors) and reports the same to Management Audit & Risk Committee and the Board.</p>

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS (*Continued*) FOR THE YEAR ENDED 31 DECEMBER 2023

23. BORROWING

As at 31 December 2023, the Bank had an no outstanding exposure (2022: TZS 1,2441.83 million)

24. FUNDING MIX

The Bank's primary source of funding during the year was deposits from customers (Demand deposits, Savings deposits and Time/ Fixed deposit) which commands 13% (2022: 15%) of the total funding, equity 87% (2022: 83%) and borrowings 0% (2022: 2%). There was no major change in the funding mix in 2023 compared to the year 2022. The Current/ Savings Account (CASAs) represented 80% of total customer deposits in 2023 (2022: 79%). This interprets a lower cost of funds for the Bank. The balance between debt and equity was as follows.

Debt:

	2023	2022
	TZS'000	TZS'000
Customer deposits	9,904,635	9,646,198
Borrowings – Current	-	1,241,829
	<u>9,904,635</u>	<u>10,888,027</u>
<i>Equity:</i>		
Issued and paid-up ordinary share capital	58,889,074	44,968,992
Preference shares capital	8,519,900	8,519,900
	<u>67,408,974</u>	<u>53,488,892</u>

25. RISK MANAGEMENT AND INTERNAL CONTROL

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

- The effectiveness and efficiency of operations;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviour towards all stakeholders.

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

The Board carries out risk and internal control assessment through the Board Audit, Risk and Compliance Committee. The Board assessed the internal control systems throughout the financial year ended 31 December 2023 and is of the opinion that they met the accepted criteria.

26. SOLVENCY

At 31 December 2023, the Bank's core capital ratio was 19% which is above the threshold of 14.5% set by the BOT. However, the Bank 'core capital was TZS 19,187.98 million which was above TZS 15,000 million threshold set by BOT regulations.

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2023

27. EMPLOYEE WELFARE *(Continued)*

Financial Assistance to staff/ Staff loan scheme

The Bank offers staff loans to enable its employees acquire capital goods, property, to effect improvements to their properties, to meet educational expenses for themselves or dependents and to meet unforeseen financial commitments. Staff loans are guided by the Bank's staff loan policy.

Loans are available to all confirmed employees depending on the assessment of the need and circumstances, as long as it is in line with the human resources policies.

Medical Insurance

All members of staff with a maximum number of four beneficiaries (dependents) for each employee were availed with medical insurance. The amount paid for the medical insurance was TZS 362 million (2022: TZS 239 million). The individual benefits depend on the insurance policy and keep revised as the policy changes.

Health and safety

The Bank ensures that a strong culture of safety prevails at all times. A safe working environment is ensured for all employees by providing adequate proper working tools, proper personal protective equipment, hygiene, training and supervision where necessary.

Persons with disabilities

Letshego Faidika Bank Limited has not recruited any disabled person so far. However, it is the bank's policy to consider applications for employment by disabled persons bearing in mind the aptitudes of the applicant concerned, for any positions that are appropriate.

Staff leave

All employees are entitled to twenty-eight (28) days leave every year. This is inclusive of traveling time and any public holidays or work free days that occur during an employee's leave.

Employees benefit plan

All eligible employees (61 in number) are members of approved pension fund. The Bank makes mandatory statutory pension contributions to a publicly administered pension plan (NSSF) which qualifies to be defined contribution plans with the Bank having no further pension obligations. Bank's own contribution portion to NSSF during the year was TZS 449.90 million (2022: TZS 246.36 million). Rates of contributions are set by Government, with the employees also required to contribute certain portion.

28. GENDER PARITY

We believe it to be important to business success and integral to achieving our strategic objective of being the best bank to work for. The Bank has a strong commitment to diversity and the fundamental principle that it is not a barrier to participation in our workforce, management and on the senior executive. As at 31 December 2023 the Bank had 61 (2022:76) employees. The following is the distribution of employees by gender:

Gender	2023	2022
Female	27	39
Male	34	37
Total	61	76

REPORT OF THE DIRECTORS (*Continued*)
FOR THE YEAR ENDED 31 DECEMBER 2023

29. STAKEHOLDER ENGAGEMENT

Effective engagement through consistent dialogue with key stakeholders is central to business sustainability, both in terms of understanding opinions and concerns, and in delivering the Bank's commitments. Set out below are the key stakeholders with whom the Bank engages on a regular basis and the means of engagement.

Stakeholder group	Means of engagement
Employees	<ul style="list-style-type: none"> • Routine and specifically scheduled functional and cross-functional meetings as required; • Formal and informal face-to-face meetings as well as video conference meetings are regularly held with and between; and • Emails are sent to employees regarding policies, procedures and/or employment related information.
Customers	<ul style="list-style-type: none"> • A series of branch/office visits and customer events for retail, corporate and insurance customers; • A Call Centre is there to ensure constant engagement with the customers; and • Interaction with customers via social media platforms.
Suppliers	<ul style="list-style-type: none"> • Formalized procurement policies and procedures have been established; and • Competitive procurement of goods and supplies is exercised at all times and fairness is of utmost importance while awarding supply contract to selected service providers.
Shareholders/ Investors	<ul style="list-style-type: none"> • Annual General Meeting (AGM) is held on a yearly basis, • The annual report is presented at the AGM to shareholders; and • Shareholder's seminar is held on a yearly basis.
Regulatory authorities	<ul style="list-style-type: none"> • Regular communication with the central bank (Bank of Tanzania), and other regulatory authorities and • Interaction with Tanzania Revenue Authority in respect of tax matters as appropriate.
Government	<ul style="list-style-type: none"> • Regular interactions through Government Relations and Regulatory Affairs teams.
Community	<ul style="list-style-type: none"> • Collaboration with related entities concerning CSR to foster responsible initiatives and disseminate best practices; and • Financial literacy and inclusion initiatives.
Media	<ul style="list-style-type: none"> • Interactions via press release, local TV, radio, magazines; and blogs and articles to create brand awareness and reach our target audience.

30. SERIOUS PREJUDICIAL ISSUES/MATTERS

During the year 2023, there were no serious legal matters which could affect the Bank (2022: None).

31. STATEMENT OF COMPLIANCE

The Report by those charged with governance has been prepared in compliance with the Tanzania Financial Reporting Standard No. 1 (The Report by those charged with governance) issued by The National Board of Accountants and Auditors (NBAA).

32. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in note 35 to the financial statements. Related party transactions are done at arm's length.

LETSHEGO FAIDIKA BANK LIMITED

REPORT OF THE DIRECTORS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2023

33. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any donations to political parties during the year (2022: Nil).

34. ENVIRONMENTAL CONTROL PROGRAMME

Health and safety

The Bank has in place an Environmental and Social Policy (ESP) defining key commitments that shall be respected by the Bank and its employees when conducting operations.

The fundamental principles of Bank's on environmental and social policy are as follows:

- (i) Comply with local regulations and identify relevant social and environmental issues prevailing in Tanzania;
- (ii) Respect fundamental human and social principles based on International Conventions;
- (iii) Increase awareness of environmental issues among employees and clients;
- (iv) Constantly seek to refine the bank's social and environmental practices.

35. APPOINTMENT OF AUDITOR

Bank's Independent Auditor:

Ernst & Young (EY)

EY House,

Plot No.162/1 Mzinga Way, 14111 Oysterbay,

Dar es Salaam P.O. Box 2475, Tanzania

Office: +255 22 292 4040/41/42 | Fax: :+255 22 292 4043

Website: <http://www.ey.com>

Firms' registration Number:151, TIN number: 100-149-222

The Bank's Independent Auditor (Ernst & Young) has been appointed as per the 'Banking and Financial Institutions (External Auditors) Regulation, 2014, section 5. Ernst & Young has been re-appointed for the second term of three years from 2022 through a competitive bidding and approved at the Annual General Meeting.

36. RESPONSIBILITY OF THE AUDITOR

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

LETSHEGO FAIDIKA BANK LIMITED

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2023**

37. STATEMENT OF RESPONSIBILITY BY THE DIRECTORS

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

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

Approved by the Board of directors and signed on its behalf by:

SIMON ELIEZER JENGO

Chairman



Signature

30th MARCH 2024

Date

NOEL HENRY SANGIWA

Director



Signature

30th MARCH 2024

Date

LETSHEGO FAIDIKA BANK LIMITED

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2023**

The Tanzanian Companies Act, 2002 requires the Directors to prepare financial statements for each financial year that present fairly the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. It also requires the Directors to ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud, error or other irregularities.

The Directors are responsible for the preparation of financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards, the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 of Tanzania. The Directors are of the opinion that the financial statements present fairly the state of the financial affairs of the Bank and of its operating 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 internal financial control.

The Directors have reasonable expectation that the company will have sufficient resources to continue in operational existence for the foreseeable future. The directors have therefore adopted the going concern basis in preparation of financial statements.

The Directors are also responsible for other information in this report.

The financial statements were approved by board of directors for issue on 28/03/ 2024 and signed on its behalf by:

SIMON ELIEZER JENGO

Chairman



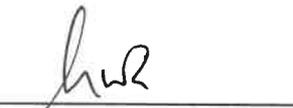
Signature

30th MARCH 2024

Date

NOEL HENRY SANGIWA

Director



Signature

30th MARCH 2024

Date

LETSHEGO FAIDIKA BANK LIMITED

**DECLARATION OF THE HEAD OF FINANCE
FOR THE YEAR ENDED 31 DECEMBER 2023**

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

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view position of the entity in accordance with international financial reporting standards and statutory reporting requirements. Full legal responsibility for financial statements rests with the Board of Directors as under Directors Responsibility statement on an earlier page

I **Isaack Chahe**, being the Head of Finance of Letshego Faidika Bank Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 2023 have been prepared in compliance with International Financial Reporting Standards (IFRS) and requirements of the Companies Act, No 12 of 2002 and Banking and Financial Institutions Act, 2006.

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



Signed by: Isaack Chahe

Position: Head of Finance

NBAA Membership No: ACPA 6133

Date: 30th March 2024

REPORT OF THE INDEPENDENT AUDITOR ***To the Shareholders of Letshego Faidika Bank Limited***

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Letshego Faidika Bank Limited (the Bank) set out on pages 36 to 102 which comprise the statement of financial position as at 31 December 2023, 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 present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

REPORT OF THE INDEPENDENT AUDITOR
To the Shareholders of Letshego Faidika Bank Limited

	Key audit matter	How our audit addressed the key audit matter
1	Credit risk and impairment of loans and advances to customers	
	<p>As at 31 December 2023, the provision for impairment on loans and advances to customers was TZS 15,264.30 million (2022: TZS 6,564.42 million). This represents the estimation of expected losses on loans and advances at the year end.</p> <p>The determination of appropriate provisions for impairment is a key audit matter as it requires management judgement, is subject to estimation uncertainty and relies on available data.</p> <p>Management's assessment of significant increases or decreases in credit risk involves judgments and if not properly performed may result into misallocation of loans in different categories based on levels of risks hence misstatement of the impairment amount.</p> <p>There is a risk that the provision for impairment of financial assets does not represent a complete and accurate estimate of expected losses and that the carrying value of these items is misstated.</p> <p>This includes the risk that the Expected Credit Loss (ECL) model is not in compliance with IFRS 9.</p> <p>The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in Notes 15 and 32 to the financial statements.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> • We undertook an assessment of the Bank's provisioning methodology and compared it with the requirements of IFRS 9; • We evaluated the design and operating effectiveness of the Bank's controls and IT controls around credit management, ECL model and provision assessment. • We tested key controls over completeness and accuracy of data inputs to loan loss provisioning. • We assessed management's assumptions in relation 'significant increase or decrease in credit risk' and the allocation of loans into different categories. • We tested a sample of loans to ensure that they have been included in the correct stage/buckets depending on the risk profiles of the customers in accordance with the Bank's methodology and IFRS 9; and, • We reviewed the IFRS 9 and IFRS 7 disclosures for adequacy and compliance with the amendments relating to IFRS 9.

REPORT OF THE INDEPENDENT AUDITOR

To the Shareholders of Letshego Faidika Bank Limited

Other Information

The directors are responsible for the other information. The other information comprises the Bank's Information, Directors' Report, Statement of Directors' Responsibilities and Declaration by the Chief Finance Officer. 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are 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 the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so. The directors are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

REPORT OF THE INDEPENDENT AUDITOR

To the shareholders of Letshego Faidika Bank Limited

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

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

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

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



Building a better
working world

REPORT OF THE INDEPENDENT AUDITOR

To the shareholders of Letshego Faidika Bank Limited

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

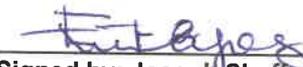
As required by the Companies Act, 2002 of Tanzania, we report to you, based on our audit, that:

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

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

- In our opinion, the capital adequacy ratios as presented in Note 31 to the annual financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 of Tanzania.
- Section 34 (1) of the Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014 requires that a bank or financial institution shall seek prior approval of the Bank of Tanzania for its proposed annual provisions for probable losses before finalization of the annual accounts. We observed that, as required, the Bank had sought approval of the proposed annual provisions for the probable losses from the Bank of Tanzania, however the approval had not been granted when the financial statements were approved by the Board.

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


Signed by: **Joseph Sheffu (FCPA-PP867)**

For and behalf of Ernst & Young

Certified Public Accountants

Dar es Salaam 

Date 30/31 2024

LETSHEGO FAIDIKA BANK LIMITED

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 TZS'000	2022 TZS'000
Income			
Effective Interest income	5	13,957,508	3,181,626
Effective Interest expenses	6	(392,151)	(1,172,241)
Net interest income		13,565,358	2,009,385
Fees and commission income	7	1,002,118	459,246
Foreign currency revaluation gains		-	46,409
		1,002,118	505,655
Total operating income		14,567,475	2,515,040
Impairment losses	8	(5,963,687)	(1,417,687)
Net Operating Income		8,603,788	1,097,353
Employee benefit expenses	9	(6,132,524)	(3,091,290)
Operating expenses	10	(8,192,369)	(2,870,968)
Other expenses	11	(10,005)	(18,570)
Depreciation of property and equipment	18	(587,507)	(279,092)
Amortisation of leasehold improvement	19	(46,478)	(31,919)
Amortisation of intangible assets	17	-	(126,287)
Amortisation of right to use assets	20	(652,266)	(475,351)
		(15,621,150)	(6,893,477)
Loss before tax		(7,017,362)	(5,796,124)
Income tax (expense)/credit	21(a)	(8,002,907)	7,910,143
Total comprehensive (loss)/income for the year		(15,020,270)	2,114,019

LETSHEGO FAIDIKA BANK LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

Assets	Notes	2023 TZS'000	2022 TZS'000
Cash and balances with Bank of Tanzania	12	1,962,523	1,383,024
Balance with other banks	13	14,386,720	8,009,776
Loans and advances to customer	15	69,617,299	13,459,732
Other assets	16	6,664,879	2,683,323
Right of use assets	20	360,351	851,693
Property and equipment	18	976,504	104,598
Leasehold improvements	19	465,450	290,123
Deferred tax asset	21(d)	-	7,928,347
Amount due from related parties	35	19,979,787	-
Taxation	21(c)	5,816	9,699
Total assets		114,419,329	34,720,316
Liabilities and equity			
Liabilities			
Customer deposits	22	9,904,635	9,646,198
Borrowings	23	-	1,241,829
Provision	26	365,142	67,431
Other liabilities	24	2,157,885	509,732
Lease liability	25	360,409	835,266
Amount due to related parties	35	80,311,587	-
Total liabilities		93,099,657	12,300,456
Equity			
Ordinary share capital	27	58,889,074	44,968,992
Preference share capital	27	8,519,900	8,519,900
General risk reserve		-	783,314
Accumulated losses		(46,089,302)	(31,852,347)
Total equity		21,319,672	22,419,860
Total liabilities and equity		114,419,329	34,720,316

The financial statements were approved for issue by the Board of Directors on 28th March 2024 and signed on its behalf by:

SIMON ELIEZER JENGO

Chairman

Signature

30th MARCH 2024

Date

NBEL HENRY SANGIWA

Director

Signature

30th MARCH 2024

Date

LETSHEGO FAIDIKA BANK LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2023

	Ordinary share capital	Preference share capital	General risk reserve	Accumulated Loss	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
At 1 January 2023	44,968,992	8,519,900	783,314	(31,852,346)	22,419,860
Loss for the year	-	-	-	(15,020,270)	(15,020,270)
Issue of share capital	13,920,082	-	-	-	13,920,082
Transfer to specific regulatory reserve	-	-	(783,314)	783,314	-
At 31 December 2023	58,889,074	8,519,900	-	(46,089,302)	21,319,672
At 1 January 2022	39,311,277	8,519,900	105,303	(33,288,354)	14,648,126
Profit for the year	-	-	-	2,114,019	2,114,019
Issue of share capital	5,657,715	-	-	-	5,657,715
Transfer to specific regulatory reserve	-	-	678,011	(678,011)	-
At 31 December 2022	44,968,992	8,519,900	783,314	(31,852,346)	22,419,860

LETSHEGO FAIDIKA BANK LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	2023 TZS'000	2022 TZS'000
OPERATING ACTIVITIES			
Loss before tax		(7,017,362)	(5,796,124)
Adjustment for non-cash Items:			
Impairment losses on loans and advances and bank balances	8	5,963,687	1,417,687
Amortisation of intangible assets	17	-	126,287
Depreciation of property and equipment	18	587,507	279,092
Amortisation of leasehold improvements	19	46,478	31,919
Amortisation of right of use assets	20	652,266	475,351
Loss on disposal-core banking system		-	124,543
Gain on forex		-	2,687
Effective interest income	5	(13,971,114)	(3,181,626)
Interest expense on lease	6	77,710	39,950
Effective interest expenses	6	314,440	1,132,290
		(13,332,782)	(5,347,944)
Interest received from loans and advances and balances with other banks		9,442,214	2,210,249
Interest paid in cash (deposits and borrowings)		(411,099)	(1,920,681)
Changes in operating assets and liabilities:			
(Increase)/decrease/ in loans and advances to customers		(56,157,567)	7,217,174
Increase in other assets		(3,981,556)	(446,548)
Increase in balance with other banks with maturity of more than 90 days.		(1,500,000)	(7,020,974)
Increase in amount due from related parties		(19,979,787)	-
Increase/(decrease) in customer deposits		258,437	(648,835)
Increase in staff bonus provisions		297,711	-
Decrease in other liabilities		1,648,153	134,592
Increase in amount due to related parties		80,311,587	-
(Decrease)/increase of Statutory Minimum Reserve (SMR)		(15,736)	113,503
Tax paid	21	(3,248,523)	(5,709,464)
		(70,677)	(27,903)
Net cash used in operating activities		(3,319,200)	(5,737,367)
INVESTING ACTIVITIES			
Purchase of property and equipment	18	(1,459,413)	(26,102)
Payments for leasehold improvements	19	(221,804)	-
Net cash flow used in investing activities		(1,681,217)	(26,102)
FINANCING ACTIVITIES			
Proceed from issue of ordinary shares	27	13,920,082	5,657,715
Repayments to borrowing	23	(1,241,829)	(4,000,000)
Lease liabilities repayment		(754,521)	(513,948)
Net cash flow generated from financing activities		11,923,732	1,143,767
(Decrease)/ increase in cash and cash equivalents		6,923,316	2,691,790
Cash and cash equivalents at 1 January		8,848,336	6,156,546
Cash and cash equivalents at 31 December	14	15,771,652	8,848,336

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

GENERAL INFORMATION

Letshego Faidika Bank Limited ("the bank") is a limited liability company incorporated in Tanzania under the Companies Act No. 12 of 2002 and is domiciled in Tanzania. The Bank is regulated by the Bank of Tanzania. The Bank's registered office is at disclosed in page 1.

The Bank is primarily involved in providing retail, commercial, corporate banking services.

The Bank financial statements for the year ended 31 December 2023 were authorized for issue in accordance with a resolution of the Board of Directors.

1. BASIS OF ACCOUNTING

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

1.1 Basis of preparation

The financial statements have been prepared on a historical cost basis except where otherwise stated or as required by International Financial Reporting Standards and interpretations to those standards for assets and liabilities to be stated at their fair value as disclosed in the accounting policies hereafter. The financial statements are presented in Tanzania Shillings (TZS) except where explicitly stated.

1.2 Statement of compliance

The financial statements of Letshego Faidika Bank Ltd Limited have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations to those standards and comply with the Companies Act No. 12 of 2002 and the Banking and Financial Institutions Act, 2006.

1.3 Presentation of financial statements

The Bank presents its statement of financial position in order of liquidity based on the Bank's intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. All figures are in thousands of Tanzania Shillings (TZS '000).

Financial assets and financial liabilities are generally reported gross in the statement of financial position except when IFRS netting criteria are met.

1.4 Going Concern considerations.

The Directors confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis. The Bank's Directors has assessed its ability to continue as a going concern and is satisfied that after completion of the merger the bank can maximize potential commercial and operational efficiencies therefore maximize potential commercial and operational efficiencies thus Directors can confirm that the bank has the adequate resources to continue in business for the foreseeable future.

The Bank's business fundamentals remain solid and has, among other assets, substantial cash and bank balances with other banks amounting to over TZS 15,771 million (2022: TZS 8,843.34 million) available to finance its operations. The financial statements have therefore been prepared on the basis of accounting policies applicable to a going concern. The directors have therefore presumed that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

LETSHEGO FAIDIKA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE

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

(i) *New and amended standards adopted by the Bank*

The following standards have been adopted by the Bank for the first time for the financial year beginning on 1 January 2023:

Number	Effective date	Executive summary
IFRS 17, 'Insurance contracts'	Annual periods beginning on or after 1 January 2023.	<p>The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are re-measured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.</p> <p>Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.</p> <p>For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.</p> <p>The Bank is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.</p>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)		
Number	Effective date	Executive summary
Definition of Accounting Estimates - Amendments to IAS 8	The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.	In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are not expected to have a material impact on the Bank.
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier Application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.	In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The Bank is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements going forward.
Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12	Annual periods beginning on or after 1 January 2023	In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

LETSHEGO FAIDIKA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (Continued)

These amendments had no impact on the Bank's financial statements.

(ii) *New standard and interpretations not yet adopted by the Bank*

Number	Effective date	Executive summary
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	Annual periods beginning on or after 1 January 2024	In September 2022, the Board issued <i>Lease Liability in a Sale and Leaseback</i> (Amendments to IFRS 16). The amendment to IFRS 16 specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	Annual periods beginning on or after 1 January 2024	In January 2020 and October 2022, the Board issued amendments to IAS 1 <i>Presentation of Financial Statements</i> to specify the requirements for classifying liabilities as current or non-current. The amendments clarify: <ul style="list-style-type: none"> • What is meant by a right to defer settlement • That a right to defer must exist at the end of the reporting period • That classification is unaffected by the likelihood that an entity will exercise its deferral right • That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification. • Disclosures

The above standards that have been issued but not yet effective are not expected to have a material impact on the Bank's financial statements in the current or future reporting periods and on foreseeable future transactions.

For all new standards and interpretations not yet adopted and the Bank, will be adopted on the respective effective dates.

LETSHEGO FAIDIKA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION

(a) Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest and similar income and expenses

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

(a) Purchased or Originated Credit Impaired (POCI) financial assets, for which the original credit adjusted effective is applied to the amortised cost of the financial asset.

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

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

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in interest revenue/expense calculated using the effective interest method. For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the

principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

In its Interest income/expense calculated using the effective interest method, the Bank only includes interest on those financial instruments.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired is therefore regarded as 'Stage 3', the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis"

LETSHEGO FAIDIKA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(ii) Fees and commission income

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.

Other fee and commission income, including account service fees, sales commissions, custody fees and syndication fees are generally recognized on an accrual basis when the service has been provided.

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

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

Revenue from contracts with customers is presented in fee and commission income.

(iii) Other income

Results is arising from disposal of assets like Office equipment, furniture and fixtures.

(b) Employees' benefits including post-employment benefits

(i) Post retirement benefits

The Bank operates a defined contribution plan whereby each of its employees and the bank contributes 10% and 10%, respectively of the employees' monthly salaries to the state owned and managed (statutory) Funds namely the National Social Security Fund (NSSF), Government Employees Pension Fund (GEPF), Public Service Pensions Fund (PSPF) and Public Pension Fund (PPF). Apart from these monthly contributions, the bank has no further commitments or obligations to the Funds, and it has no other postretirement benefit scheme. The contributions are charged to the profit or loss in the year to which they relate.

(ii) Other employee benefits

A medical insurance is contracted to any existing staff and his/her family, after probation period. The cost is charged to the profit or loss. The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognized as an expense accrual.

(c) Provisions

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(d) Property and equipment and right-of-use assets

Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any excluding the costs of day-to-day servicing. Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term projects if the recognition criteria as per IAS 16 Property, Plant and Equipment, are met.

Description	Depreciation rate	Number of years
Motor vehicles	20%	5 years
Office furniture and fixture	20%	5 years
Office equipment	20%	5 years
Computer equipment	33%	5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognized and presented as other income. The asset's residual values, useful lives and methods are reviewed at each financial year end and adjusted prospectively if appropriate. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(d) Property and equipment and right-of-use assets *(Continued)*

Right-of-use asset

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the short of the useful life of the right of use and the lease term. The right-of-use assets are presented within Note 20 and are subject to impairment in line with the Bank's policy as impairment of non-financial assets.

(e) Intangible assets

The bank's intangible assets include the value of banking software and accounting software. An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset. Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows.

Amortisation	Number of years
Banking software	4 years
Accounting software	4 years

(f) Leasing

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

(g) Bank as a lessee

Determining the lease term of contracts with renewal and termination options – Bank as lessee

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has some lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

LETSHEGO FAIDIKA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(g) Bank as a lessee (Continued)

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

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(h) Bank as a lessor

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

(i) Leasehold improvements

Leases of leasehold improvements include improvements made on leased bank buildings for its head office and branches.

Leasehold improvements are stated at cost, less accumulated amortisation and accumulated impairment in value. Leasehold improvements amortisation is calculated on straight-line basis at annual rates estimated to write down the carrying values of the assets to their residual value over their expected useful lives. The annual amortisation is of operating leasehold in use are:

Description	Useful life
Leasehold improvements	Lease tenure or 10 years

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(j) Impairment of non-financial assets

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

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

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

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

(k) Financial assets

(i) Initial recognition

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions.

Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through Other Comprehensive Income (FVOCI), which results in an accounting loss being recognised in profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities differs from the transaction price on initial recognition the entity recognizes the difference as follows:

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(k) Financial assets *(Continued)*

(ii) Classification and subsequent measurement

The Bank classifies its financial assets into the following category:

Amortised cost

This category includes assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest and are not designated at FVPL. The carrying amounts of these assets is adjusted by any expected credit loss allowance. Interest income from these assets is included in "interest and similar income" using the effective interest rate method. Loans and advances to customers, financial assets held to collect, cash and balances with Bank of Tanzania (BOT), placement with other banks and other assets (excluding prepayments for rent and insurance and advance for goods and services) fall under this classification.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

Classes of financial assets	Business model consideration	Cash flow characteristics
Loans and advances	<p>The business models focus on growing advances within acceptable credit appetite limits and maintaining strong collection practices.</p> <p>The products included under this business models include:</p> <ul style="list-style-type: none"> • Micro Loans • Housing/SME Loans • The key risk in this business model is credit risk. This is influenced by the macro environment within which the business operates. 	<p>The cash flows on retail advances are solely payments of principal and interest. Interest charged to customers compensates the bank for the time value of money, credit risk and administrative costs (including a profit margin).</p>

LETSHEGO FAIDIKA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION (Continued)

(k) Financial assets (Continued)

(ii) Classification and subsequent measurement (Continued)

Amortised cost (Continued)

Classes of financial assets	Business model consideration	Cash flow characteristics
Cash and cash equivalents	Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.
Other assets (excluding prepayments for rent and insurance and advance for goods and services)	Financial accounts receivable are short-term financial assets that are held to collect contractual cash flows.	The cash flows on these assets are solely payments of principal and interest.

The Bank reclassifies financial assets when it changes its business model for managing financial assets.

Reclassifications are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in Bank's business model will occur only when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when the Bank has acquired, disposed of or terminated a business line.

The following are not considered to be changes in the Bank's business model:

1. A change in intention related to particular financial assets (even in circumstances of significant changes in market conditions);
2. A temporary disappearance of a particular market for financial assets; or
3. A transfer of financial assets between parts of the Bank with different business models.

When the Bank's financial asset converts into a different financial asset during the instrument's life, the Bank considers whether the original asset should continue to be recognized or whether, on conversion, the old instrument is derecognized and a new one is recognized.

If the Bank reclassifies its financial assets, it applies the reclassification prospectively from the reclassification date, defined as the first day of the first reporting period following the change in business model that results in the Bank reclassifying financial assets. The reclassification applies prospectively from the reclassification date and therefore previous recognized gains, losses (including impairment gains or losses) or interest are not restated. Changes in the objective of the Bank's business model are usually affected before the reclassification date.

Measurement at the date of reclassification

When the Bank's financial asset is reclassified from amortized cost to FVOCI (or vice versa) the measurement of expected credit losses will not change as both classification categories apply the same impairment approach. However, the presentation and disclosure of the impairment allowance will differ. If the Bank's financial asset is reclassified out of FVOCI to amortized cost measurement, for presentation purposes, a loss allowance would be recognized as an adjustment to the gross carrying amount of the financial asset from the reclassification date.

If the Bank's financial asset is reclassified out of amortized cost to FVOCI measurement, for presentation purposes, a loss allowance would be derecognized (and thus would no longer be recognized as an adjustment to the gross carrying amount) but instead would be recognized as an accumulated impairment amount (of an equal amount) in other comprehensive income and would be disclosed from the reclassification date.

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(k) Financial assets *(Continued)*

(ii) Classification and subsequent measurement *(Continued)*

Amortised cost (Continued)

Measurement at the date of reclassification *(Continued)*

If the Bank reclassifies a financial asset from amortized cost to FVTPL, it discloses as a separate line item in its statement of comprehensive income any gain or loss arising from a difference between the previous carrying amount and its fair value on reclassification.

Similarly, if the Bank reclassifies a financial asset from FVOCI to FVTPL, it discloses as a separate line in its statement of comprehensive income any gain or loss arising from reclassifying the previously recognized amount in other comprehensive income to profit or loss.

(iii) Impairment

The ECL model applies to financial assets measured at amortised cost and debt instruments at Fair Value through Other Comprehensive Income (FVOCI), lease receivables and certain loan commitments as well as financial guaranteed contracts.

Under IFRS 9, loss allowances are measured on either of the following bases:

12-month ECLs: these are a portion of the lifetime expected credit losses and represent the amount of expected credit losses that result from default events that are possible within 12 months after the reporting date.

Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The Bank recognises an allowance for either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk (SICR) since initial recognition. Indicators of a SICR include any of the following:

- 30 days past due rebuttable presumption
- Considering historical delinquency behaviour of accounts that are currently up to date and bucket 1 (1-30 days)
- Technical/operational arrears with proof that an account remains in arrears after the technical/operational error is fixed
- Significant adverse changes in business, financial and/or economic conditions in which the client operates

Measurement of ECLs

The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the entity's best available forward-looking information. The above-mentioned probability-weighted outcome considers the possibility of a credit loss occurring and the possibility of no credit loss occurring, even if the possibility of a credit loss occurring is low. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(k) Financial assets *(Continued)*

(iii) Impairment *(Continued)*

Measurement of ECLs *(Continued)*

Stage 1: When loans are first recognised, the Bank recognises an allowance based on ECL. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2 records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.

Stage 2: Financial instruments which have had a significant increase in credit risk since initial recognition but do not have objective evidence of a credit loss event. Lifetime expected credit losses are recognised. Interest revenue is calculated on the gross carrying amount of the asset.

Stage 3: Financial assets that have objective evidence of impairment at the reporting date. Lifetime expected credit losses are recognized. Interest revenue is calculated based on the amortized cost net of the loss provision, (net carrying amount).

POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECL

The Bank calculates ECL based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- EAD The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise. expected drawdowns on committed facilities and accrued interest from missed payments.
- LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral or credit enhancements that are integral to the loan and not required to be recognised separately.

The assessment of the ECL of a financial asset or portfolio of financial assets entails estimations of the likelihood of defaults occurring and of default correlations between counterparties. The bank measures.

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(k) Financial assets *(Continued)*

(iii) Impairment (Continued)

The calculation of ECL *(Continued)*

ECL using probability of default (PD), exposure at default (EAD) and loss given default (LGD). These three components are multiplied together and adjusted for the likelihood of default.

The calculation of ECL incorporates forward-looking information. The bank has performed historical analyses and identified the key economic variables impacting credit risk and ECL for each portfolio at subsidiary level. These economic variables and their associated impact on the PD, EAD and LGD do not vary by financial instrument. The bank uses BMI Research/Fitch Solutions to assist in the forecast of economic variables and an overview of the economy quarterly or more often if necessary.

Financial assets are written off either partially or in their entirety only when the Bank has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Modification of financial liabilities

When the modification of the terms of an existing financial liability is not judged to be substantial and, consequently, does not result in derecognition, the amortised cost of the financial liability is recalculated by computing the present value of estimated future contractual cash flows that are discounted at the financial liability's original EIR. Any resulting difference is recognised immediately in profit or loss.

For financial liabilities, the Bank considers a modification to be substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent.

Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Bank derecognises the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(k) Financial assets *(Continued)*

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

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

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

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

(l) Financial liabilities

The financial liabilities on the statement of financial position comprise of; deposits from banks, deposits from customers, borrowings and other liabilities (excluding Tax payable and statutory deductions).

(i) Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives financial liabilities held for trading (e.g., short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to Changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss; the derivative liabilities are held in this category.
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and
- Financial guarantees and loan commitments.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(l) Financial liabilities *(Continued)*

(ii) Derecognition

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

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

(m) Classes of financial instruments

IFRS 9 have the same requirements for the classification of financial liabilities. From a recognition of gains and losses perspective, the amount of the change in fair value that is attributable to changes in the credit risk of financial liabilities that have been designated at fair value through profit and loss shall, in terms of IFRS 9, be recognised in OCI with the remaining amount of the change in the fair value of the financial liability being presented in profit or loss. The gains and losses presented in OCI are not subsequently recognised in profit or loss. Where, however, presenting the changes in the fair value of the liability due to changes in credit risk in OCI would create or enlarge an accounting mismatch in profit or loss, IFRS 9 permits the gains and losses due to changes in the credit risk of that liability to be recognised in profit or loss.

(n) Cash and cash equivalents

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

(o) Foreign currency translation

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency). The financial statements are presented in Tanzanian Shillings ("the functional currency) and figures are in thousands of Tanzania Shillings.

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the reporting date. All differences arising on non-trading activities are taken to 'Other operating income' in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(p) Acceptances, Financial guarantee contracts and loan commitments

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

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

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

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

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

(q) Taxation

(i) Current tax

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

The income tax expenses or credit for the period is the tax payable or receivable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributed to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax return with the respect to situations in which applicable tax regulations is subject to interpretation. It establishes tax liabilities where appropriate on the basis of amounts expected to be paid to the tax authorities. If uncertain tax positions arise, they are recognized as part of the income tax liability measured in terms of IFRIC 23.

IAS 12 requires tax to be recognised and measured according to a relatively tightly defined accounting model. IAS 37 requires a provision to be recognised only where it is more likely than not that an outflow of resources will occur as a result of a past obligating event and measured at the best estimate of the amount expected to be paid. In the case of uncertain tax treatments an approach distinct from that in IAS 37 is required when IFRIC 23 is applied.

Deferred income tax is provided in full, using the liability method, on temporary difference arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from the initial recognition of an asset or liability in transactions other than a business combination that at the time of the transactions affects neither accounting nor taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(q) Taxation *(Continued)*

Deferred income is determined using tax rates (and laws) that have been enacted or substantially enacted the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

(ii) Deferred tax

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:
- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity or other comprehensive income are also recognised in equity or other comprehensive income and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(iii) Value added tax

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

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

3. SUMMARY OF MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

(r) Dividends

Ordinary shares;

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the bank. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Preference shares;

The Bank has only irredeemable preference shares, such shares that entity don't have to retrieve and, in this case, they are like ordinary shares. Therefore, they are recorded as part of equity in the statement of financial position.

As irredeemable preference shares are part of equity therefore, any return paid on such shares is treated as distribution of profit and reported in statement of changes in equity.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

(a) Impairment losses on financial assets

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The bank regularly reviews its loan portfolio and makes judgments in determining whether an impairment loss should be recognized in respect of observable data that may impact on future estimated cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce the differences between loss estimates and loss experience.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

(a) Impairment losses on financial assets (Continued)

Sensitivity analysis

The below summarizes the sensitivity analysis on impairment losses as at 31 December 2023 for changes in LGD and PD:

	Existing impairment provision TZS'000	Impact on changes in LGD		Impact on changes in PD	
		(+) 5% TZS'000	(-) 5% TZS'000	(+) 5% TZS'000	(-) 5% TZS'000
Stage 1: 12-month ECL allowance	742,969	517,112	445,381	834,703	227,791
Stage 2: Lifetime ECL allowance – not credit-impaired	244,969	391,882	198,808.54	433,711	356,981
Stage 3: Lifetime ECL allowance – credit-impaired	11,404,290	13,827,273	9,076,958	14,374,723	9,929,513
Total	12,392,228	14,736,267	9,721,148	15,643,137	10,514,285

The below summarizes the sensitivity analysis on impairment losses as at 31 December 2022 for changes in LGD and PD:

	Existing impairment provision TZS'000	Impact on changes in LGD		Impact on changes in PD	
		(+) 5% TZS'000	(-) 5% TZS'000	(+) 5% TZS'000	(-) 5% TZS'000
Stage 1: 12-month ECL allowance	2,012,616	1,496,118	1,288,586	2,125,657	659,048
Stage 2: Lifetime ECL allowance – not credit-impaired	455,108	671,563	578,408	691,745	558,227
Stage 3: Lifetime ECL allowance – credit-impaired	4,096,699	3754804	3,233,961	3,669,102	3,319,664
Total	6,564,423	5,922,485	5,100,955	6,486,504	4,536,939

Therefore, based on the above an increase in LGD or PD would have an adverse impact to Letshego Faidika Bank Limited's profits.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in Note 32.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

(b) Going concern

As explained in Note 1.4 above, the Bank's management has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

(c) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Although in Tanzania tax losses can be utilised indefinitely, judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies. Refer to note 21.

(d) Effective Interest Rate (EIR) method

The Bank's EIR method, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioral life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behavior and life cycle of the instruments, as well expected changes to Tanzania's base rate and other fee income/expense that are integral parts of the instrument.

(e) Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the bank's stand-alone credit rating, or to reflect the terms and conditions of the lease).

	2023	2022
	TZS'000	TZS'000
5 EFFECTIVE INTEREST INCOME		
Loans and advances	13,440,130	2,676,471
Interest from balances with other banks	517,378	505,155
	<u>13,957,508</u>	<u>3,181,626</u>
6 EFFECTIVE INTEREST EXPENSES		
Interest paid to customers	278,998	637,823
Borrowed funds	35,442	494,468
Interest expenses-lease	77,710	39,950
	<u>392,151</u>	<u>1,172,241</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
	TZS'000	TZS'000
7 FEES AND COMMISSION INCOME		
Early closure and processing fees	630,207	138,672
Withdrawal fees on savings account	3,657	4,408
Other fees and commissions*	368,254	316,166
	<u>1,002,118</u>	<u>459,246</u>
<p>* This includes ATMs commissions, loan fees Business Loans, Early closing fee staff loan, Dormant account reactivation fees, Account maintenance fees and M-pesa commission revenue.</p>		
8 IMPAIRMENT LOSSES		
Loan impairment provision	4,921,634	1,626,972
Impairment on bank balances	-	17,391
Bad loans written off	1,376,065	21,099
Recoveries from loans written off	(334,012)	(247,775)
	<u>5,963,687</u>	<u>1,417,687</u>
9 EMPLOYEE BENEFIT EXPENSES		
Wages and salaries	3,043,219	2,402,893
National Social Security Fund (NSSF)	449,903	246,357
Skill Development Levy (SDL)	165,157	99,011
Medical	361,882	238,928
Terminal benefits	1,120,923	-
Other benefits	991,441	104,101
	<u>6,132,524</u>	<u>3,091,290</u>

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
	TZS'000	TZS'000
10 OPERATING EXPENSES		
Auditor's remuneration	120,000	120,215
Utilities	114,808	80,010
Communication cost	713,306	422,643
Rent expense	128,611	-
Transport cost	588,712	237,462
Professional fees	941,189	396,929
Marketing and promotions	992,620	62,513
Service charges	300,803	111,948
Maintenance and repair	47,571	86,096
Directors' fees and expenses	272,887	159,796
Regulatory levies and duties	385,157	88,663
Other operating expenses**	1,721,224	-
Other expenses*	1,865,481	1,104,693
	8,192,369	2,870,968

*Other expenses consist of numerous amounts among them being printing costs, generator running expenses, ATM cards costs, , Office, and security expenses.

**Other operating expenses consists of expenses relating to licences, subscriptions, membership, and inspection fees.

11 OTHER EXPENSES

Bank charges	10,005	18,570
	10,005	18,570

12 CASH AND BALANCE WITH BANK OF TANZANIA
Cash at hand

Local Currency	803,395	783,838
Foreign Currency	1,443	1,443
	804,838	785,281
Balance with Bank of Tanzania		
Statutory Minimum Reserve (SMR)	577,591	561,855
BoT clearing TZS	555,768	24,680
BoT clearing USD	24,326	11,207
	1,157,685	597,743
	1,962,523	1,383,024

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 TZS'000	2022 TZS'000
13 BALANCE WITH OTHER BANKS		
Interest bearing fixed deposit account	5,004,344	7,602,012
Interest bearing current account (payable on demand)	9,347,688	349,648
Accrued Interest on Other bank deposits	34,688	75,507
	<u>14,386,720</u>	<u>8,027,167</u>
Impairment of bank balances		(17,391)
	<u>14,386,720</u>	<u>8,009,776</u>
Maturity analysis		
Interest bearing fixed deposit account maturing more than 90 days	1,500,000	-
Interest bearing fixed deposit account maturing less than 90 days	3,504,344	7,602,012
Current account with less than 90 days maturity from the date of acquisition	9,382,376	425,156
	<u>14,386,720</u>	<u>8,027,167</u>
Fixed deposit with more than 90 days maturity from the date of acquisition	-	-
Interest receivable on FDR	-	-
	<u>14,386,720</u>	<u>8,027,167</u>
14 CASH AND CASH EQUIVALENTS		
Cash at hand (Note 12)	804,838	785,281
Balance with Bank of Tanzania (Note 12)	1,157,685	597,743
Balance with other banks (Note 13)	14,386,720	8,027,167
	<u>16,349,243</u>	<u>9,410,191</u>
Less: Statutory Minimum Reserve	(577,591)	(561,855)
	<u>15,771,652</u>	<u>8,848,336</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
	TZS'000	TZS'000
15 LOANS AND ADVANCES TO CUSTOMERS		
Loans and advances	84,217,852	19,813,473
Accrued Interest receivables	663,745	210,682
Gross loans and advances	84,881,597	20,024,155
Provision for impairment losses	(15,264,298)	(6,564,423)
Net loan and advances	69,617,299	13,459,732

Maturity analysis

Maturity up to 3 Months	5,964,771	3,430,815
Maturity between 3 and 12 months	5,506,679	3,487,625
Maturity between 12 and 24 months	6,276,633	4,181,497
Maturity between 24 and 36 months	5,633,124	3,450,342
Maturity over 36 months	61,500,391	5,473,876
	84,881,598	20,024,155

"The age analysis of amount that are past due but with immaterial impairment is shown in note 32 (a)

	2023	2022
	TZS'000	TZS'000
Movement in provision for impairment losses		
At 1 January	6,564,423	4,937,451
Allowance on new loan and advance (Note 8)	4,921,634	1,626,972
Write offs	(1,376,065)	-
De-recognized during the year	5,154,306	-
At 31 December	15,264,298	6,564,423

16 OTHER ASSETS

Prepayment and advance payments	308,579	444,151
Other receivables	6,356,300	2,239,172
	6,664,879	2,683,323

Other assets are receivable within 12 months which include significantly Timiza deposit balance receivables, Mpesa balance, ATM balances, insurance premium balances, and salary advances.

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 TZS'000	2022 TZS'000
17 INTANGIBLE ASSETS		
Cost		
At 1 January	-	1,267,641
Disposal-core banking system At 31 December	<u>-</u>	<u>(1,267,641)</u>
	<u>-</u>	<u>-</u>
Accumulated amortisation		
At 1 January	-	1,016,811
Amortisation during the year	-	126,287
Disposal-core banking system At 31 December	<u>-</u>	<u>(1,143,098)</u>
	<u>-</u>	<u>-</u>
Net carrying value	<u>-</u>	<u>-</u>

Intangible assets include all computer software (core banking systems) which during the year 2022 they were all replaced with a new system which is controlled by Letshego Holding Limited, hence written off the former bank core system because the bank is not expecting economic benefits to flow to the Bank. The Bank Pay fee for the use of the system, fees paid by the bank are expensed in the statement of profit or loss and other Comprehensive income.

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

18 PROPERTY AND EQUIPMENT

	Office Equipment TZS'000	Office furniture & Fixture TZS'000	Computer equipment TZS'000	Motor vehicles TZS'000	Total TZS'000
Cost					
At 1 January 2022	747,641	475,503	827,471	101,451	2,152,066
Additions	3,216	-	22,886	-	26,102
At 31 December 2022	750,857	475,503	850,357	101,451	2,178,168
At 1 January 2023	750,857	475,503	850,357	101,451	2,178,168
Additions	56,375	2,567	29,473	-	88,415
Transferred from Letshego Tanzania Limited t/a Faidika	259,812	42,273	972,192	96,721	1,370,998
At 31 December 2023	1,067,044	520,343	1,852,022	198,172	3,637,581
Accumulated depreciation					
At 1 January 2022	598,582	453,049	704,460	38,387	1,794,478
Charge for the year	143,686	22,454	87,896	25,056	279,092
At 31 December 2022	742,268	475,503	792,356	63,443	2,073,570
At 1 January 2023	742,268	475,503	792,356	63,443	2,073,570
Charge for the year	81,389	67,792	386,779	51,547	587,507
At 31 December 2023	823,657	543,295	1,179,135	114,990	2,661,077
Net book value					
At 31 December 2023	243,387	22,953	672,887	83,182	976,504
At 31 December 2022	8,589	-	58,001	38,008	104,599

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

19 LEASEHOLD IMPROVEMENTS	2023	2022
	TZS'000	TZS'000
Cost		
At 1 January	1,352,071	1,352,071
Additions	89,095	-
Transferred from Letshego Limited t/a Faidika	132,710	-
At 31 December	1,573,876	1,352,071
Accumulated amortisation		
At 01 January	1,061,948	1,030,029
Amortization for the year	46,478	31,919
At 31 December	1,108,426	1,061,948
Net carrying value		
At 31 December	465,450	290,123
20 RIGHT OF USE ASSET		
Cost		
At 1 January	1,124,606	1,304,741
Transferred from LTL*	1,037,151	-
Additions	76,112	-
Derecognition during the year	(617,526)	-
Reassessment during the year	-	(180,135)
At 31 December	1,620,342	1,124,606
Accumulated Amortisation		
At 1 January	272,913	895,006
Transferred from LTL*	711,997	-
Derecognition during the year	(377,185)	(146,742)
Amortisation during the year	652,266	(475,351)
At 31 December	1,259,991	272,913
Net carrying value	360,351	851,693

The Bank has lease contracts for office buildings (i.e., head office and branches).

* - LTL – Letshego Tanzania Limited t/a Faidika

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 TZS'000	2022 TZS'000
21 TAXATION		
(a) Income tax charge/(credit)		
Income tax charge during the year	-	-
Deferred tax release/(credit) during the year	7,928,347	(7,928,347)
Alternative minimum tax (AMT)	74,560	18,204
	<u>8,002,907</u>	<u>(7,910,143)</u>
(b) Reconciliation of tax income/(loss) to tax base on accounting Loss		
Accounting (Loss) before Taxation	(7,017,362)	(5,796,124)
Tax at domestic rate (30%)	(2,105,209)	(1,738,837)
Alternative Minimum Tax (AMT)	74,560	18,204
Deferred tax (release)/charged during the year	7,928,347	(7,928,347)
Permanently disallowed expenditure	723,372	1,738,838
	<u>6,621,070</u>	<u>(7,910,143)</u>
(c) Tax Recoverable		
At 1 January	(9,699)	-
Tax paid	(70,677)	(27,903)
Tax expense for the year	74,560	18,204
At 31 December	<u>(5,816)</u>	<u>(9,699)</u>
<p>The bank had accumulated tax losses of TZS 19.10 billion as at 31 December 2023 (2022: TZS 19.55 billion). However, income tax has been charged in accordance with the Alternative Minimum Tax provisions that require that entities that are tax loss making for more than two tax periods should pay tax at the rate of 0.5% of the revenue reported.</p> <p>However, it should be noted that Tanzania Revenue Authority (TRA) has not assessed and verified the accumulated tax losses. Upon completion of TRA assessment, accumulated tax losses may be adjusted.</p>		
(d) Deferred Tax		
Accelerated depreciation for tax purpose	(474,062)	(639,136)
Tax losses carried forward	19,093,108	(19,546,629)
Provision for bad debt		(6,564,423)
Provision for trade and other payables	6,264,640	(955,910)
	<u>24,883,686</u>	<u>(26,427,825)</u>
Deferred tax asset thereon at the domestic rate (30%)	7,465,106	7,928,347
Deferred tax as at 31 December	<u>7,465,106</u>	<u>7,928,347</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023 TZS'000	2022 TZS'000
22 CUSTOMER DEPOSITS		
Interest bearing deposits		
Savings account	8,651,313	7,945,564
Term deposit	1,230,795	1,623,278
Accrued interest on Term deposit	22,527	77,356
	<u>9,904,635</u>	<u>9,646,198</u>
Maturity analysis		
Maturity up to 3 months	9,027,060	8,164,547
Maturity between 3 and 12 months	677,575	1,381,651
Maturity over 12 months	200,000	100,000
	<u>9,904,635</u>	<u>9,646,198</u>

23 BORROWINGS

31 December 2023	Principal	Interest Payable	Total
Maturity after 12 months			
Letshego Tanzania Limited t/a Faidika (LTL)	-	-	-
Maturity within 12 months			
Letshego Tanzania Limited t/a Faidika	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
31 December 2022	Principal	Interest Payable	Total
Maturity within 12 months	-	-	-
Letshego Tanzania Limited (Note 35)	1,200,000	41,829	1,241,829
	<u>1,200,000</u>	<u>41,829</u>	<u>1,241,829</u>

The long-term borrowing of TZS 6.7 billion was granted on 25 April 2019 by Letshego Tanzania Limited t/a Faidika. The loan has interest rate of 11% per annum, interest is paid on bi-annual basis. There is no collateral pledged for the borrowings, this long-term loan was fully settled in 2023.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

23 BORROWINGS (Continued)

Borrowing reconciliation	2023	2022
	TZS'000	TZS'000
	LTL Loan	Total
At 1 January 2023	1,241,829	1,241,829
Interest accrued during the year		-
Repayment of Loan (Principal and Interest)	(1,241,829)	(1,241,829)
At 31 December 2023	-	-
At 1 January 2022	5,308,132	5,308,132
Interest accrued during the year	502,021	502,021
Loan repayment during the year (principal and interest)	(4,568,324)	(4,568,324)
At 31 December 2022	1,241,829	1,241,829

24 OTHER LIABILITIES

Tax payable and statutory deductions	218,269	111,482
Suppliers payable	516,850	47,668
Sundry creditors and accruals	1,422,766	350,582
	2,157,885	509,732

Other liabilities are payable within 12 months

25 LEASE LIABILITIES

At 1 January	835,266	391,919
Transferred from LTL	309,035	-
Lease reassessment	-	903,173
Additions	76,112	-
Lease repayments	(754,521)	(513,948)
Termination	(222,241)	
Translation difference	39,047	14,172
Interest expenses lease	77,710	39,950
At 31 December	360,408	835,266

Maturity analysis

Within one year	360,408	469,654
After one year but not more than five years	-	365,612
	360,408	835,266

26 PROVISION

At 1 January	67,431	67,431
Additions	297,711	-
At 31 December	365,142	67,431

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

27 SHARE CAPITAL	2023	2022
	TZS'000	TZS'000
Ordinary share capital		
Authorized share capital	67,688,900	51,988,900
Issued and fully paid		
At 1 January	44,968,992	39,311,277
Issued during the year	13,920,082	5,657,715
At 31 December	<u>58,889,074</u>	<u>44,968,992</u>
Non- cumulative preference share		
Authorized share capital		
Issued and fully paid	8,519,900	8,519,900
At 1 January	8,519,900	8,519,900
At 31 December	<u>8,519,900</u>	<u>8,519,900</u>

During the year the Letshego Holdings Limited injected capital through ordinary share of 100,000 each amounting TZS 13,920,082.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

27. SHARE CAPITAL *(Continued)*

During the year, the authorised share capital of the bank increased from TZS 53,488,900,000 to TZS 67,408,974,219 divided into TZS 58,889,074,219 (2022: TZS 44,968,992,180) Ordinary Shares of TZS 100,000 (2022:100,000) each and 8,519,000,000 (2022: 8,519,000,000) Perpetual Non-Cumulative Preference share, with quantity of TZS 100,000 (2021:100,000) each.

Called up and fully paid share capital.

588,891 (2022: 449,690) ordinary shares of TZS 100,000 each amounting to TZS 58,889,074,219 (2022: TZS 44,968,992,180) as at end of year 2023 and 85,199 (202: 85,199) preferences share of TZS 100,000 amount to TZS 8,519,900,000 (2022: 8,519,900,000) giving the total of TZS 67,408,974,219 (2022: TZS 53,488,892,180).

Non-cumulative preference shareholders are given priority on receiving dividend over ordinary share. Holders of non-cumulative preference shares are not entitled to carry over the dividend for the year the Bank has not declared to issue dividend.

28. GENERAL REGULATORY RESERVE

	2023	2022
	TZS'000	TZS'000
At 1 January	783,314	105,303
Appropriation from /(to) retained earnings	(783,314)	678,011
At 31 December	<u><u>-</u></u>	<u><u>783,314</u></u>

Regulatory reserve represents an amount set aside to cover additional provisions for loan losses required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution and not part of the bank's core capital.

	2023	2022
	TZS'000	TZS'000
29 FINANCIAL INSTRUMENTS BY CATEGORY		
Financial assets categorised at amortised cost		
Cash and balance with Bank of Tanzania	1,962,523	1,383,024
Balances with other banks	14,386,720	8,027,167
Loans and advances to customers	69,617,299	13,459,732
Amount due from related parties	19,979,787	-
Other assets (excluding prepayment)	6,356,300	2,239,172
Total	<u><u>112,302,630</u></u>	<u><u>25,109,095</u></u>
Financial liabilities at amortised cost		
Customer deposits	9,904,635	9,646,198
Other liabilities	1,939,616	398,250
Amount due to related parties	80,311,587	-
Borrowings	-	1,241,829
Lease liabilities	360,409	835,266
Total	<u><u>92,516,247</u></u>	<u><u>12,121,543</u></u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

30. REGULATORY CAPITAL

The Bank aims to manage its capital not only to be in compliant with BOT capital regulations but able to grow its business. Therefore, its main objectives are broader concept than the 'equity' on the statement of financial position.

BOT set Regulatory capital consists of:

Tier 1 Capital, which comprises share capital, share premium, retained earnings including current year loss, after deduction for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

Tier 2 Capital, which includes subordinated long-term debt, preference shares and available-for-sale reserves and general provision as determined by Bank of Tanzania regulation.

	Nominal Statement of financial position amounts	Risk weighted amounts	Nominal Statement of financial position amounts	Risk weighted amounts
	2023 TZS'000	2023 TZS'000	2022 TZS'000	2022 TZS'000
Cash and balances with Bank of Tanzania	1,962,523	-	1,383,024	-
Balances with other banks	14,386,720	2,877,344	8,027,167	1,592,572
Cheque and Item for Clearing	387,802	193,901	-	-
Loans and advances	69,617,299	68,063,168	13,459,732	11,153,254
Other assets	4,511,553	4,511,553	3,110,088	3,110,088
Leasehold improvements	465,450	465,450	290,123	290,123
Amount due from related parties	19,979,787	19,979,787	-	-
Prepayment expenses	308,579	-	444,151	-
Deferred income tax asset	-	-	7,788,845	-
Deferred Commission Charges	1,823,112	-	-	-
Property and equipment	976,504	976,504	104,599	104,599
	114,419,329	97,067,707	34,607,730	16,250,636

LETSHEGO FAIDIKA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

30. REGULATORY CAPITAL (Continued)

	2023	2022
	TZS'000	TZS'000
Tier 1 capital		
Ordinary share capital	58,889,074	44,968,992
Preference share capital	8,519,900	8,519,900
Less: Accumulated losses	<u>(46,089,302)</u>	<u>(31,842,822)</u>
	21,319,672	21,646,070
Less:		
Prepaid expenses	(308,579)	(444,151)
Deferred charges	<u>(1,823,112)</u>	<u>(7,928,347)</u>
Total qualifying Tier 1 capital	<u>19,187,982</u>	<u>13,273,571</u>
Tier 2 capital		
Specific provision	-	-
General provision*	-	-
Total supplementary capital	<u>19,187,982</u>	<u>13,273,571</u>

*The minimum core capital requirement set by the Bank of Tanzania is TZS 15 billion. As at 31 December 2023, the Bank recorded a minimum core capital of TZS 19,187.98 million which is above the BOT threshold and hence compliance situation (2022: 13,273.57 million) below BoT threshold..

Risk - weighted assets

On balance sheet	97,067,707	16,250,635
Market risk	33,157	61,105
Operational risk	<u>3,032,645</u>	<u>3,909,286</u>
Total risk - weighted assets	<u>100,133,509</u>	<u>20,221,026</u>

Bank Ratios

Tier 1 (BoT Minimum required is 12.5%)	19%	66%
Tier 1 + Tier 2 (BoT Minimum required is 14.5%)	19%	66%

*The Bank of Tanzania during Covid removed general provision reserve - 1% of performing loans to align with regulatory capital limits.

31. FINANCIAL RISK MANAGEMENT

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

Risk management is carried out by the individual departments concerned under policies approved by the Board of directors. These written policies cover all type of risks of the bank. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes foreign currency risk, interest rate and other price risk.

a) Credit risk

The bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the bank by failing to pay amounts in full when due.

Credit risk is the most important risk for the bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to regular reviews.

(i) Credit risk measurement

Exposure to credit risk is managed through systematic analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.

The Board of directors has delegated responsibility for the management of credit risk to the CEO who is responsible for implementing appropriate policies and procedures for credit risk monitoring. In particular, the Financial Inclusion department which is under Head of financial inclusion is responsible for:

- (i) Formulating credit policies, covering credit assessment, risk grading, documentary and legal procedures, collateral requirements.
- (ii) Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to various officers at different levels; credit committees, aiming to analyze and appraise the loan request, based on the financial analysis. Performed by the client relationship officer in charge of the loan request, are organized on a daily basis. Lending decisions can only be taken through Credit committee.

32. FINANCIAL RISK MANAGEMENT *(Continued)*

a) Credit risk *(Continued)*

(i) Credit risk measurement *(Continued)*

- (iii) Reviewing and assessing credit risk. Financial inclusion department assesses all credit exposures prior to facilities being committed to customers concerned;
- (iv) Assessing portfolio quality according to type of customer/sector; regular reports are
- (v) provided to Board of directors in respect of the quality of loan portfolio and
- (vi) Promoting best practices in management of credit risk

Regular audits of the Bank's department processes are undertaken by Internal audit and Risk department.

In measuring credit risk of loans and advances to customers and to banks and government securities at a counterparty level and other, the Bank reflects three components (i) the 'probability of default' by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'; and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are embedded in the Bank's daily operational management. The operational measurements on impairment allowances required under IFRS 9 which is based on the expected credit losses than incurred losses at the balance sheet date.

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

Qualitative criteria is also considered in grading credit risk exposures.

(ii) Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

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

The exposure to any one borrower including further restricted banks is by limits stipulated in Central Bank regulations covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily. Exposure to credit risk is also

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iii) Impairment and provisioning policies

The internal rating systems focus more on credit-quality mapping from the inception of the lending. In contrast, impairment provisions are recognized for financial reporting purposes for expected credit losses at the balance sheet date based on objective evidence available to the bank. Due to the different methodologies applied, the amount of expected credit losses provided for in the financial statements using internal credit ratings are usually higher than the amount determined from the incurred credit model that is used for banking regulation purposes.

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the loss, doubtful, and substandard grades.

(iv) Expected credit loss measurement

The Banks follows a "three-stage" model for impairment based on changes in credit quality since initial recognition as follows:

- 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.

Significant increase in credit risk

(i) Loans and advances to customers

The Bank considers both qualitative and quantitative criteria to determine whether a loan to customer has experienced a significant increase in credit risk.

Quantitative criteria

A financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments or in case of non-amortising facilities, has an expired line or exposure above limit which has not been regularized for a period exceeding 30 days.

Qualitative criteria

A financial instrument is considered to have experienced a significant increase in credit risk if the borrower meets one or more of the following criteria: expectations of forbearance, covenant breaches, affordability scores, death, unemployment, bankruptcy, divorce, drop of interest rate in mortgages and restructuring. Backstop indicator referred to instrument which are more than 30 days past due. There may be other backstop indicators.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT *(Continued)*

a) Credit risk *(Continued)*

(iv) Expected credit loss measurement *(Continued)*

(ii) Balances due from other banks

The Bank considers both qualitative and quantitative criteria to determine whether a credit facility to other banks has experienced a significant increase in credit risk.

Quantitative criteria

A balance with other bank is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments or in case of non-amortising facilities, has an expired line or exposure above limit which has not been regularized for a period exceeding 30 days.

Qualitative factors

In estimating the qualitative factors, our assessment took into account various components useful to support the assessment.

- Financial Stability of the banking Sector; Sector is stable given comprehensive guidelines and strict oversight of the Bank of Tanzania.
- Recoverability: Banks that experienced liquidity and other regulatory challenges opted for merger and acquisition strategy to safeguard interest of depositors.

Definition of default and credit-impaired assets

Loans and advances to banks

Quantitative factors

The default in this case is considered when a counterparty bank fails to honor contractual obligation and official instructions to repay or transfer cash and cash equivalent, on behalf of Letshego for more than 30 days.

Definition of default and credit-impaired assets

Letshego's default definition across all subsidiaries is set at more than 90 days past due.

"Default" is not defined under IFRS 9. Careful consideration was taken when defining default as this will be used for the calculation of PDs, LGDs and EADs, hence impacting Letshego's ECL results.

Indications of inability to pay include;

- The credit obligation is placed on non-accrued status;
- Letshego makes a specific provision or charge-off due to a determination that the obligor's credit quality has declined (subsequent to taking on the exposure);
- Letshego sells the credit obligation or receivable at a material credit related economic loss;
- Letshego agrees to a distressed restructuring resulting in a material credit related diminished asset stemming from such actions as material forgiveness or postponement of payments or repayments of amount owing;
- Letshego has filed for the obligor's bankruptcy in connection with the credit obligation
- The obligor has sought or been placed in bankruptcy resulting in the delay or avoidance of the credit obligation's repayment.
- There is a rebuttable presumption within the standard that default does occur once a loan is more than 90 days past due.

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT *(Continued)*

a) Credit risk *(Continued)*

(iv) Expected credit loss measurement *(Continued)*

Definition of default and credit-impaired assets *(Continued)*

Backstop criteria

Accounts that are 30 calendar days or more past due. The 30 days past due criteria should be treated as a backstop rather than a primary driver of moving exposures into stage 2.

Exposures will move back to stage 1 once they no longer meet the criteria for a significant increase in credit risk and when any cure criteria used for credit risk management are met. This is subject to all payments being up to date and the customer evidencing ability and willingness to maintain future payments.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

Definition of default, impaired and cure

The Bank considers a financial instrument defaulted for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

Loans and advances to customers

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- Loss Given Default (LGD) represents the Banks's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default.
- EAD is calculated by considering outstanding balance of loan plus interest receivable excluding upfront fee recovered initially in disbursement. Interest from all defaulted loans (over 90 days) is suspended from accrued interest income.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT *(Continued)*

a) Credit risk *(Continued)*

(iv) Expected credit loss measurement *(Continued)*

Balances due from other banks

- The ECL model for interbank placements is built on key variables Exposure at Default (EAD), Loss Given Default (LGD) and Probability of default (PD)
- The PD refers to the likelihood of a default over a time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its debt obligations. PD for counterparties are assessed under the framework of external rating of the counter parties.
- The EAD defined as gross exposure in the event of obligor default over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). The bank assesses EAD at each deal/facility level. EAD is equivalent to the existing outstanding balance (including interest accrued at the reporting date).
- The LGD, this refers to the share of an asset that is lost if a borrower default. LGD for interbank investment is computed based on recovery rate that is assessed based on historical recovery experience of counterparties' experience in the market.

Forward-looking information

The estimates of expected credit losses to reflect reasonable and supportable information that is available without undue cost or effort – including information about: past events, current conditions, and forecasts of future economic conditions.

- Information that is available for financial reporting purposes is considered to be available without undue cost or effort. The information should include factors that are specific to the borrower and general economic conditions, including assessment of both the current conditions and the forecast direction of the change of conditions.
- The policy stipulates in appendix below how the macro-economic factors were engraved in relation to impairment for the past 2 years through regression analysis to establish the degree of correlation to the following potential data sources: internal historical credit loss experience, internal and external ratings, credit loss experience of other entities, or external reports and statistics.
- As the forecast horizon increases the availability of detailed information decreases, and the judgement required to estimate expected credit losses increases. For periods far in the future, projections could be extrapolated from the information that is available for earlier periods.
- Macro-economic factors incorporated before statistical test include, exchange rate, inflation rate, TB bills, fuel prices, total credit to GDP, non-government sector to GDP, GDP per capital current price (TZS), Money supply, (M3) and food price.
- The predictive model considers macro-economic factors which have correlation of more than 40% in trend of 5 years.
- The predictive model considers economic significance factor which have correction of more than 1 T statistic.
- Management using regression analysis for establishing the relationship between macro-economic factors and monthly impairment. The statistical relationship test establishes the economic significant, statistical significant, R square, Adjusted R square, T statistics and P value
- Macro-economic adjustment to be adjusted is only when proved there is a factor which is going to change based on the proved facts presented either from economist, government budget and policy changes, continued trade deficit and tumour economic war which might adversely disrupt the current conditions.
- If the change in macroeconomic factors will remain below the 20% of the move all the PD's will be adjusted to align to the Macroeconomic factors in context of the provision at the reporting date. If the change remained below the predetermined provision, management adopt the existing provisions without adjustments.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT *(Continued)*

a) Credit risk *(Continued)*

(iv) Expected credit loss measurement *(Continued)*

Forward-looking information *(Continued)*

Forward looking information are reviewed by the credit committee and submitted quarterly to central bank for review as part of the credit returns to be made to the bank. The model is backtested against actual outcomes. Within its risk management framework, the Bank has introduced various measures to limit its economic losses arising from prepayment risk.

Renegotiated loans treatment

Both performing and non-performing restructured assets are classified as stage 3 except where it is established that the concession granted has not resulted in diminished financial obligation and that no other regulatory definitions of default criteria has been triggered, in which case the asset is classified as stage 2. The minimum probationary period is 6 months to move to cure state.

Write-off policy

Loans shall be written off only when reaching above 720 days past due. This determination is reached after considering information such as the occurrence of significant changes in the borrower's 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.

Loss allowance

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(iv) Expected credit loss measurement (Continued)

ECL allowance reconciliation:

	Stage I 12 - Month ECL TZS'000	Stage II Lifetime ECL TZS'000	Stage III Lifetime ECL TZS '000	Total TZS'000
At 1 January 2023	2,012,616	455,108	4,096,700	6,564,424
Stage transfer				
Stage 1 to stage 2				-
Stage 1 to stage 3				-
Stage 2 to stage 3		257,738	(257,738)	-
Stage 2 to stage 1	210,140	(210,140)		-
Stage 3 to stage 1	1,287,222		(1,287,223)	-
Stage 3 to stage 2				-
Allowance on new loan and advance	(2,772,107)	(206,408)	7,900,149	4,921,634
Write off	-	-	(1,376,065)	(1,376,065)
De-recognized during the year		-	5,154,307	5,154,307
At 31 December 2023	737,871	296,298	14,230,129	15,264,298

The entity did not have off-balance sheet exposure as of 31 December 2023.

	Stage I 12 - Month ECL TZS'000	Stage II Lifetime ECL TZS'000	Stage III Lifetime ECL TZS '000	Total TZS'000
At 1 January 2022	2,113,879	390,082	1,923,502	4,427,462
Stage transfer:				
Stage 1 to stage 2	(561,846)	561,846	-	-
Stage 1 to stage 3	(1,978,325)	-	1,978,325	-
Stage 2 to stage 3	-	(379,563)	379,563	-
Stage 2 to stage 1				-
Stage 3 to stage 1				-
Stage 3 to stage 2				-
Allowance on new loan and advance	240,715	4,477	1,381,781	1,626,973
Write off*	-	-		
At 31 December 2022	2,012,616	455,108	4,096,700	6,564,424

The entity did not have off-balance sheet exposure as of 31 December 2022.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Financial instruments whose carrying amounts represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are shown below:

	2023		2022	
	TZS'000	%	TZS'000	%
Balances with Bank of Tanzania	1,962,523	2%	1,383,024	6%
Balances due from other banks	14,386,720	16%	8,009,776	32%
Loans and advances to customers	69,617,299	75%	13,459,732	54%
Other assets (Excluding prepayments)	6,356,300	7%	2,239,172	9%
	92,322,843	100%	25,091,704	100%

The table below show the profile of the loans and advances to customers analyzed according to the internal ratings grading system.

31 December 2023	Stage I	Stage II	Stage III	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
Current	66,477,052	-	-	66,477,052
Especially mentioned	-	1,945,443	-	1,945,443
Substandard	-	-	752,129	752,129
Doubtful	-	-	2,185,548	2,185,548
Loss	-	-	13,521,425	13,521,425
Gross carrying amount	66,477,052	1,945,443	16,459,103	84,881,598
ECL allowance	(737,871)	(296,298)	(14,230,129)	(15,264,298)
Net loans and advances	65,739,181	1,649,145	2,228,974	69,617,299

31 December 2022:	Stage I	Stage II	Stage III	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	
Current	9,090,085	-	-	9,090,085
Especially mentioned	-	924,351	-	924,351
Substandard	-	-	1,016,781	1,016,781
Doubtful	-	-	766,743	766,743
Loss	-	-	8,226,194	8,226,194
Gross carrying amount	9,090,085	924,351	10,009,719	20,024,155
ECL allowance	(2,012,616)	(455,108)	(4,096,699)	(6,564,423)
Net loans and advances	7,077,469	469,243	5,913,020	13,459,732

The bank does quarterly stress tests to consider various market scenarios for the credit loss provisions.

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

The meaning of the classifications has been explained below

Number of days Past Due	Classification
0-30	Current
31-60	Especially Mentioned
61-90	Substandard
91-180	Doubtful
180 or more	Loss

Loans and advances that are past due but not impaired.

Loans and advances that are 'past due but not impaired' are those for which contractual interest or principal payments are past due but the Bank believes that no objective evidence of impairment both qualitatively and quantitatively exists for impairment assessment to be conducted. The table below shows the aging of assets that are past due at the reporting date but not impaired, per class of financial assets, the financial assets excluded here are not past due nor impaired:

Ageing analysis	Less than 30 days TZS '000	31 to 60 days TZS '000	61 to 90 days TZS '000	Total TZS '000
31 December 2023				
Loans and advances to customers	65,573,896	1,729,242	522,207	67,825,345
31 December 2022				
Loans and advances to customers	9,090,085	924,351	1,016,781	11,031,217

Forward looking factors have been considered in addition to historical loss rates" and the impairment on these items were concluded to be immaterial as technically under IFRS 9.

Collateral held

The bank closely monitors collateral held for financial assets considered to be credit impaired, as it becomes likely that the bank will take possession of collateral to mitigate potential credit losses. In 2023, unperfected collaterals did not form part of the LGD computations pending registration of unregistered collaterals.

31 December 2023	Gross exposure TZS'000'	Impairment allowance TZS'000'	Carrying amount TZS'000'
Substandard	752,129	289,140	462,989
Doubtful	2,185,548	864,621	1,320,927
Loss	13,521,425	12,833,718	687,707
Total	16,459,103	13,987,479	2,471,623

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Collateral held (Continued)

At 31 December 2022	Gross exposure	Impairment allowance	Carrying amount
	TZS'000	TZS'000	TZS'000
Credit impaired assets			
Substandard	766,743	153,349	613,394
Doubtful	1,342,391	671,196	671,195
Loss	6,463,940	4,096,699	2,367,241
Total credit impaired assets	8,573,074	4,921,243	3,651,830

The bank maintains banking relationships with local banks which are of good reputation and regulated by the Bank of Tanzania, hence none of the balances are past due nor impaired.

While collateral is an important mitigant to credit risk, the Bank's underwriting policy ensures that loans are strictly granted on a going concern basis with adequate demonstration of repayment capacity. Other than exposures that are unsecured, all other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery, amongst other.

Concentration of risks of financial assets with credit risk exposure (By Geography):

	Tanzania TZS'000	Total TZS'000
31 December 2023:		
Financial Assets		
Balances with Bank of Tanzania	1,962,523	1,962,523
Balances with other banks	14,386,720	14,386,720
Loans and advances to customers(net)	69,617,299	69,617,299
Other asset (excluding non-financial assets)	6,664,879	6,664,879
Total financial assets	92,631,422	92,631,422
31 December 2022:		
Financial Assets		
Balances with Bank of Tanzania	1,383,024	1,383,024
Balances with other banks	8,009,776	8,009,776
Loans and advances to customers(net)	13,459,732	13,459,732
Other asset (excluding non-financial assets)	2,239,172	2,239,172
Total financial assets	25,091,704	25,091,704

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Concentration of risks of financial assets with credit risk exposure (By economic sector):

Industry Analysis	Financial Service		Agriculture and Fishing		Retail and Wholesale		Manufacturing		Building and Construction		Others*		Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	
31 December 2023:													
Financial assets													
Balances with Bank of Tanzania	1,962,523	-	-	-	-	-	-	-	-	-	-	-	1,962,523
Balances with other banks	14,386,720	-	-	-	-	-	-	-	-	-	-	-	14,386,720
Loans and advances to customers	-	-	8,939,140	-	-	-	1,064,337	-	-	-	59,613,823	-	69,617,299
Other assets	-	-	-	-	-	-	-	-	-	-	6,664,879	-	6,664,879
Total financial assets	16,349,243	-	8,939,140	-	-	-	1,064,337	-	-	-	66,278,701	-	92,631,422
31 December 2022:													
Financial assets													
Balances with Bank of Tanzania	1,383,024	-	-	-	-	-	-	-	-	-	-	-	1,383,024
Balances with other banks	8,009,776	-	-	-	-	-	-	-	-	-	-	-	8,009,776
Loans and advances to customers	-	11,782	6,651,037	-	-	13,970	-	-	-	-	6,782,943	-	13,459,732
Other assets	-	-	-	-	-	-	-	-	-	-	2,239,172	-	2,239,172
Total financial assets	9,392,800	11,782	6,651,037	-	-	13,970	-	-	-	0	9,466,266	-	25,091,704

Others*: comprises of personal loans and advances granted to local and central government employees.

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

ECL allowance reconciliation	Loans and advances - Allowances			Total
	Stage I 12 - Month ECL TZS'000	Stage II Lifetime ECL TZS'000	Stage III Lifetime ECL TZS'000	
At 1 January 2023	2,012,616	455,108	4,096,700	6,564,424
Stage transfer				
Transfer to Lifetime ECL (Stage 2)		257,738	(257,738)	-
Transfer to Lifetime ECL credit impaired (Stage 3)	1,497,363	(210,140)	(1,287,223)	-
Transfer to Lifetime ECL – Stage 1				-
Net re-measurement of loss allowance	3,509,978	502,706	2,551,739	6,564,423
New financial assets originated	(2,772,107)	(206,408)	7,900,149	4,921,634
Financial assets derecognised			3,778,241	3,778,241
At 31 December 2023	737,871	296,298	14,230,129	15,264,298

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

	Loans and Advances – Gross				Total
	12 - Month ECL	Stage I Lifetime ECL	Stage II Lifetime ECL	Stage III Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
ECL allowance reconciliation					
At 1 January 2023	9,090,085	924,351	10,009,719	20,024,155	
Stage transfer					
Transfer to Lifetime ECL (Stage 2)		558,637	(558,637)	-	
Transfer to Lifetime ECL credit impaired (Stage 3)		(420,341)	(2,357,223)	-	
Transfer to Lifetime ECL – Stage 1	2,777,564				
Net re-measurement of loss allowance	11,867,649	1,062,647	7,093,859	20,024,155	
New financial assets originated	54,609,403	882,796	16,200,135	71,692,334	
Financial assets derecognised (Write off, repaid and restructured loans)			(6,834,891)	(6,834,891)	
At 31 December 2023	66,477,052	1,945,443	16,459,103	84,881,598	

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

ECL allowance reconciliation	Loans and advances - Allowances				Total
	12 - Month ECL	Stage I	Stage II	Stage III	
	TZS'000	Lifetime ECL TZS'000	Lifetime ECL TZS'000	Lifetime ECL TZS'000	
At 1 January 2022	4,312,072	4,312,072	268,349	357,030	4,937,451
Stage transfer					
Transfer to Lifetime ECL (Stage 2)	(561,846)	(561,846)	561,846	-	-
Transfer to Lifetime ECL credit impaired (Stage 3)	(1,978,325)	(1,978,325)	(379,563)	2,357,889	-
Net re-measurement of loss allowance	1,771,901	1,771,901	450,632	2,714,919	4,937,451
New financial assets originated	240,715	240,715	4,477	1,381,781	1,626,973
Financial assets derecognised	-	-	-	-	-
At 31 December 2022	2,012,616	2,012,616	455,108	4,096,700	6,564,424

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

ECL allowance reconciliation	Stage I 12 - Month ECL TZS'000	Stage II Lifetime ECL TZS'000	Stage III Lifetime ECL TZS'000	Total
At 1 January 2022	15,571,548	3,356,358	6,686,450	25,614,356
Stage transfer				
Transfer to Lifetime ECL (Stage 2)	(658,637)	658,637		-
Transfer to Lifetime ECL credit impaired (Stage 3)	(1,592,883)	(644,341)	2,237,223	0
Net re-measurement of loss allowance				
New financial assets originated	13,320,029	3,370,654	8,923,673	25,614,356
	8,355,965	279,775	2,890,284	11,526,024
Financial assets derecognised (Write off, repaid and restructured loans)	(12,585,909)	(2,726,078)	(1,804,238)	(17,116,225)
At 31 December 2022	9,090,085	924,351	10,009,719	20,024,155

32. FINANCIAL RISK MANAGEMENT *(Continued)*

b) Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The bank sets up a liquidity management framework likely to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. The bank enforces a proper liquidity management to be in the capacity to address daily liquidity requirements and resist to a period of liquidity stress. In order for Letshego Faidika Bank Ltd to maintain at any time a sufficient cushion of liquid assets, the bank defines and implements a strong liquidity policy to address its obligations and support the development of the bank activities and the possible changes in the mix of assets or the funding structure.

The bank defines the prudential framework to comply at any time with the Bank of Tanzania regulations and set up the internal limits necessary to always being in the capacity to meet its obligations and resist to crisis situations.

The finance department monitors on a regular basis a set of indicators and ratio likely to detect any downward of the liquidity level and anticipate any exceeding of the limits. The banks management reports quarterly to the Board on Asset Liability Management (ALM).

Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, as the Bank manages the inherent liquidity risk based on un-discounted cash inflows according to how the bank monitors liquidity.

Assets held for managing liquidity risk

The bank holds a diversified portfolio of cash and high-quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with the Bank of Tanzania (excluding SMR);
- Balances with other banks and
- Loans and advances to customers;

In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The bank would also be able to meet unexpected net cash outflows and accessing additional funding sources from parent company and other lenders.

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Non-derivative cash flows:

	Up to 1 month TZS'000	1 to 3 months TZS'000	3 to 6 months TZS'000	6 to 12 months TZS'000	12 to 24 months TZS'000	Total TZS'000
At 31 December 2023						
Financial liabilities:						
Customer deposits	3,661,785	4,788,255	1,454,596	-	-	9,904,635
Borrowings	-	-	-	-	-	-
Other liabilities*	516,850	1,422,766	-	-	-	1,939,616
Amounts due to related parties	-	-	29,998,725	31,147,026	19,165,836	80,311,587
Lease liability	-	-	-	360,408	-	360,408
Total financial liabilities	4,178,634	6,211,021	31,453,321	31,507,434	19,165,836	92,516,247

At 31 December 2022:

	Up to 1 month TZS'000	1 to 3 months TZS'000	3 to 6 months TZS'000	6 to 12 months TZS'000	12 to 24 months TZS'000	Total TZS'000
Financial liabilities						
Customer deposits	8,071,191	-	570,612	904,395	100,000	9,646,198
Borrowings	-	-	-	-	1,241,829	1,241,829
Other liabilities*	398,250	-	-	-	-	398,250
Lease liability	-	-	-	-	835,266	835,266
Total financial liabilities	8,469,441	-	570,612	904,395	2,177,095	12,121,543

*-Other liabilities exclude non-financial liabilities.

32. FINANCIAL RISK MANAGEMENT *(Continued)*

c) Market risk

Market risk is the risk that changes in market prices, which include foreign currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Management is responsible for the development of detailed risk management policies (subject to review and approval by Board) and for the day to day implementation of those policies.

Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The principal measurement technique used to measure and control market risk is the stress tests as outlined below.

Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. Below are the results of stress test in relation to interest rate and foreign exchange risk as at 31 December 2023.

Interest rate risk - stress test

An increase in interest rates will have a negative impact on net interest income and vice versa is true. In total a decrease in interest rates by 1%, 2% and 5% respectively will lead to a decrease in Net Interest Income (NII) by TZS 71 million, 142.16 million and 355 million respectively over the 12-month time horizon. CAR will decrease by 0.08%, 0.17%, and 0.42% respectively. and the increase in interest rate by 1% will have the opposite direction respectively.

Foreign exchange risk - stress test

The bank has a net open foreign exchange long position equivalent to TZS 33.1 million. An increase in exchange rates by 2%, 5%, and 10% would cause an increase in income by TZS 0.663 million, 1.657 million, and 3.31 million respectively. At 2%, 5%, and 10%, an increase in the exchange rate would cause the CAR to increase by 0.001%, 0.002% and 0.004% CAR will still be above the benchmark at 22.21%, 22.21% and 22.22% respectively and capital will be above the minimum regulatory requirement by TZS 3.7 billion (at TZS 18.7 billion). If the exchange rate decreases by 2%, 5% and 10%, the impact on the capital would be the opposite of the above. The bank also manages large purchases and management salaries in local currencies leaving very minimal exposure to international travel, and SWIFT payments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (Continued)

Currency risk

The establishment of foreign currency positions for speculative purposes is not permitted. As a result, currency risk is very limited.

The table below summarises the bank's exposure to foreign currency exchange rate risk at 31 December 2023 and 2022. Included in the table are the bank's financial instruments, categorised by currency (all amounts expressed in Tanzanian Shillings):

Foreign currency exchange risk exposure	USD TZS'000	Euro TZS'000	Total TZS'000
At 31 December 2023			
Financial assets			
Cash and balances from Bank of Tanzania	24,326	-	24,326
Balance due from other banks	29,925	2,409	32,334
	<u>54,251</u>	<u>2,409</u>	<u>56,659</u>
Financial liabilities			
Customer deposits	-	-	-
Borrowings	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Net financial position	<u>54,251</u>	<u>2,409</u>	<u>56,659</u>
At 31 December 2022			
Financial assets			
Cash and balances from Bank of Tanzania	1,443	-	1,443
Balance due from other banks	39,932	1,415	41,347
Other assets	-	-	-
	<u>41,375</u>	<u>1,415</u>	<u>42,790</u>
Financial liabilities			
Customer deposits	2,054	-	2,054
Borrowings	-	-	-
	<u>2,054</u>	<u>-</u>	<u>2,054</u>
Net financial position	<u>39,321</u>	<u>1,415</u>	<u>40,736</u>

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(Continued)* FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT *(Continued)*

c) Market risk *(Continued)*

Interest rate risk

The position regarding interest rate risk is monitored by the bank's Finance department. In addition, the bank reports its positions to the holding bank on a quarterly basis.

Nevertheless, the Bank considers the risk to be limited. The interest rate margin still serves as a reasonable buffer, to absorb some degree of shock in interest rates.

Potential losses based on extraordinary or rare changes in the yield curve are taken into account in the overall process of guiding the bank's operations. At the same time, we are aware that the Euro or US Dollar interest rates frequently used as benchmarks (Euroibor, Libor, Swap or US Treasury interest rate curves) have a limited impact on our business with customers.

The table below summarizes the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The bank does not bear an interest rate risk on off balance sheet items. All figures are in Tanzanian Shillings.

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

32. FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (Continued)

Interest rate risk (Continued)

	Up to 1 month TZS'000	1 to 3 months TZS'000	3 to 6 months TZS'000	6 to 12 months TZS'000	Over 12 months TZS'000	Total TZS'000
At 31 December 2023						
Financial assets						
Balances with other banks	12,886,720	1,500,000	-	-	-	14,386,719
Loans and advances	5,420,765	765,863	2,121,183	3,590,315	57,719,172	69,617,299
Total financial assets	18,307,486	2,265,863	2,121,183	3,590,315	57,719,172	84,004,018
Financial liabilities						
Customer deposits	3,661,785	2,132,000	1,454,596	2,656,255	-	9,904,635
Borrowing	-	-	-	-	-	-
Total financial liabilities	3,661,785	2,132,000	1,454,596	2,656,255	-	9,904,635
Interest sensitivity gap	14,645,701	133,863	666,588	934,060	57,719,172	74,099,383
At 31 December 2022						
Financial assets						
Balances with other banks	5,509,776	2,500,000	-	-	-	8,009,776
Loans and advances	3,348,183	82,632	587,605	2,900,020	6,541,292	13,459,732
Total financial assets	8,857,959	2,582,632	587,605	2,900,020	6,541,292	21,469,508
Financial liabilities						
Customer deposits	8,057,929	-	599,873	888,396	100,000	9,646,198
Borrowing	-	-	1,241,829	-	-	1,241,829
Total financial liabilities	8,057,929	-	1,841,702	888,396	100,000	10,888,027
Interest sensitivity gap	800,030	2,582,632	(1,254,097)	2,011,624	6,441,292	7,364,929

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

32. FINANCIAL RISK MANAGEMENT (Continued)

d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the bank's operations and are faced by all departments.

The bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to head of each department and overseen by the board of directors. In particular, standards for the management of operational risk are developed in the following areas:

Requirements for appropriate segregation of duties, including the independent authorization of transactions;

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of policies, procedures and controls;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss depending on the individual facts and circumstances of the transaction but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Bank believes a third party market participant would consider them in pricing a transaction

The fair value of financial instruments measured at amortised costs was not established. Since a majority of these instruments are short term and carry interest rates which are near existing market rates, then fair value would not significantly differ from amortised cost.

LETSHEGO FAIDIKA BANK LIMITED

**NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023**

33. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Financial instrument not measured at fair value

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

Assets	Carrying value		Fair value	
	2023 TZS '000	2022 TZS '000	2023 TZS '000	2022 TZS '000
Financial assets				
Cash and balances with Bank of Tanzania	1,962,523	1,383,024	1,962,523	1,383,024
Balance with other Banks	14,386,720	8,009,776	14,386,720	8,009,776
Loans and advances to customers	69,617,299	13,459,732	69,617,299	13,459,732
Other asset	6,664,879	2,239,172	6,664,879	2,239,172
Amount due from related parties	19,979,787	-	19,979,787	-
Total asset	112,611,209	25,091,704	112,611,209	25,091,704
Liabilities				
Deposits from customers	9,904,635	9,646,198	9,904,635	9,646,198
Borrowings	-	1,241,829	-	1,241,829
Other liabilities (exclude non-financial liabilities)	2,157,885	415,641	2,157,885	415,641
Amount due to related parties	80,311,587	-	80,311,587	-
Total Liabilities	92,374,107	11,303,668	92,374,107	11,303,668

(i) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(ii) Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

34. COMMITMENTS AND CONTINGENCIES

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the bank makes adjustments (Provisions) to account for any adverse effects which the claims may have on its financial standing. There are no contingent liabilities or assets that arise from legal claims during the period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2023

35. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making either financial or operational decisions. The controlling and ultimate holding company is Letshego Holding Company.

In the normal course of business, a number of banking transactions are entered into with related parties' i.e. key management staff, Directors, their associates and companies associated with Directors. These include loans and deposits. Loans and advances to customers as at 31 December include loans and advances to Directors and other key management personnel.

Loans to key management personnel were issued at an off-market interest rate as per Bank's policy and repayable on demand. They are treated as employee benefits like other staff loans. The following transactions were carried out with related parties:

(a) Balances with related parties

	2023	2022
	TZS'000	TZS'000
(i) Balances with Group Companies		
<i>Balances due to group companies</i>		
Letshego Holding Limited	8,594,944	-
Letshego Tanzania Limited	71,716,643	1,241,829
	<u>80,311,587</u>	<u>1,241,829</u>
(ii) Balances due from group companies		
Letshego Tanzania Limited	<u>19,979,787</u>	<u>-</u>
b) Deposits and loans and advances with related parties		
Loans		
Directors	145,607	44,755
Key management personnel	937,507	133,294
	<u>1,083,114</u>	<u>178,049</u>
Movement in loans to key management personnel during the year is as follows:		
At 1 January	216,011	261,000
Loans issued during the year	764,389	-
Loans repayments during the year	(238,547)	(44,989)
At 31 December	<u>741,853</u>	<u>216,011</u>
Deposits		
Directors	96,620	44,755
Senior management	14,481	10,558
	<u>111,101</u>	<u>55,313</u>
(c) Senior management compensation		
Short term benefits to senior management	559,177	67,431
Directors' emoluments	272,526	178,754
	<u>831,703</u>	<u>246,185</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

36. EVENTS AFTER THE REPORTING DATE

On January 31, 2024, the board approved write off legacy accounts amounting to TZS 10 billion, the basis for Board approval drawn from management presentation regarding legacy book which has regulatory impact on Non Performing Loan (NPL) and write off qualifier accounts. The write off is to align with BOT regulation.

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

37. ULTIMATE HOLDING COMPANY

Letshego Holding Limited is the ultimate holding Company, a company incorporated in Botswana.

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

At 31 December 2023	Within	After	Total
In TZS Thousands	12 months	12 months	
Cash and balances with Bank of Tanzania	1,962,523		1,962,523
Balance with other Banks	14,386,720		14,386,720
Loans and advances to customer	6,491,428	63,125,871	69,617,299
Other assets	6,664,879		6,664,879
Right-of-use asset		360,351	625,792
Property and equipment		976,504	976,504
Leasehold improvements		465,450	465,450
Amount due from related parties	19,979,787		
Taxation		5,816	5,816
Total assets	49,491,153	64,928,177	114,419,330
Customer Deposits	9,904,635		9,904,635
Provision	365,142		365,142
Other liabilities	2,157,885		2,157,885
Lease liability	360,409	-	360,409
Amount due to related parties	80,311,587		80,311,587
Total liabilities	93,099,658	-	93,099,658
Net position	(43,608,505)	64,928,177	21,319,672

LETSHEGO FAIDIKA BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
FOR THE YEAR ENDED 31 DECEMBER 2023

38. MATURITY ANALYSIS OF ASSETS AND LIABILITIES *(Continued)*

At 31 December 2022 In TZS Thousands	Within 12 months	After 12 months	Total
Cash and balances with Bank of Tanzania	1,383,024	-	1,383,024
Balance with other banks	8,009,776	-	8,009,776
Loans and advances to customer	6,842,934	6,616,798	13,459,732
Other assets	2,683,323	-	2,683,323
Right-of-use asset	-	851,693	851,693
Property and equipment	-	104,599	104,599
Leasehold improvements	-	290,123	290,123
Deferred tax asset	-	7,928,347	7,928,347
Taxation	9,699	-	9,699
Total assets	17,545,732	15,396,838	33,337,292
Customer Deposits	9,546,198	100,000	9,646,198
Borrowings	1,241,829	-	1,241,829
Provision	67,431	-	67,431
Other liabilities	509,731	-	509,731
Lease liability	469,654	365,613	835,266
Total liabilities	11,834,843	465,613	12,300,455
Net position	5,710,889	14,931,225	21,036,837