

DCB COMMERCIAL BANK PLC
ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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DCB COMMERCIAL BANK PLC

ANNUAL REPORTS AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

LIST OF ABBREVIATIONS

AGM	Annual General Meeting
ALCO	Asset and Liability Committee
BOT	Bank of Tanzania
DSE	Dar es Salaam Stock Exchange
EAD	Exposure at time of default
ECL	Expected Credit Losses
EPS	Earnings per Share
FVOCI	Fair Value through Other Comprehensive Income
IASB	International Accounting Standards Board
IESBA	International Ethics Standards Board for Accountants
IFRS	International Financial Reporting Standards
ISA	International Standards on Auditing
LC	Letters of credit
LDR	Loan to Deposit Ratio
LGD	Loss Given Default
OCI	Other Comprehensive Income
PD	Probability of Default
POCI	Purchased or originated credit-impaired
SICR	Significant Increase in Credit Risk
SME	Small and Medium Enterprises
SMR	Statutory Minimum Reserve
SPPI	Solely Payments of Principal and Interest
SPV	Special Purpose Vehicles
TMRC	Tanzania Mortgage Refinance Company Limited
TZS	Tanzanian Shillings
USD	United States Dollars

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of DCB Commercial Bank Plc ('the Bank').

1. INCORPORATION

The Bank was incorporated in 2001 under the Companies Ordinance, Cap 212 (later repealed by the Companies Act, 2002) and is listed at the Dar es Salaam Stock Exchange. The Bank of Tanzania under the Banking and Financial Institutions Act, 2006, licenses the bank.

2. VISION

The vision of DCB Commercial Bank Plc is to be the preferred financial services provider in Tanzania.

3. MISSION

The mission of DCB Commercial Bank Plc is to provide convenient, excellent and innovative financial services to our esteemed customers, while contributing to the social and economic development and generating value to shareholders.

4. PRINCIPAL ACTIVITIES

The principal activities of the Bank are taking deposits on demand, providing short term and medium term credit facilities and other permitted banking services allowed under Banking and Financial Institutions Act, 2006.

5. CAPITAL STRUCTURE

The Bank's capital structure for the year under review is as below:

Authorized	400,000,000 ordinary shares of TZS 250 each.
Called up and fully paid	67,827,897 ordinary shares of TZS 250 each.

Update on the recapitalization through Rights Issue

DCB Commercial Bank Plc conducted a share Rights Issue from 12th November 2018 to 31st January 2019 which provided shareholders with the right to purchase one share for every two shares they owned at the date of closing the register, at the price of TZS 265 per share. The exercise also gave the opportunity to new shareholders to subscribe for lapsed shares at the same price. The total offer for subscription approved by the Capital Markets and Securities Authority (CMSA) was 33,913,948 shares, aiming to raise share capital of TZS 8,987,196,220.

DCB Commercial Bank Plc is delighted to announce that the Rights Issue has been completed in line with the bank's plan as approved by the Capital Markets and Securities Authority, receiving a subscription of 36,613,114 shares which is 108 percent of the target. Out of the subscribed shares, 22,374,645 shares were subscribed by existing shareholders and the remaining 14,238,469 shares by new shareholders, the total of which resulted in gross proceeds of TZS 9,702,475,270. The subscription level is above the planned amount by 2,699,166 shares which have subsequently been issued and allotted.

The CMSA has approved the shareholders' register reflecting these results, ready for crediting the allotted shares to the respective shareholders' Central Securities Depository (CSD) accounts.

This is another significant milestone that signifies the confidence that investors have on the bank and the capital markets in Tanzania. Through the rights issue, DCB Bank Plc share capital will increase by TZS 9,702,475,270, from the current TZS 16,956,974,250. Following accomplishment of the rights issue, the number of shares in DCB Bank Plc is now 104,441,011 shares.

The shares subscribed for are expected to start trading on the DSE on 02nd May 2019, after the official listing of the new shares.

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

5. CAPITAL STRUCTURE (CONTINUED)

The bank's new capital position has been depicted below and phased out from the actual position in 2018. The updated regulatory capital, summarizes the expected impact of the recapitalization process subject to approval from Capital Markets Authority;

REGULATORY CAPITAL	31st Dec 2018	31st March 2019	30th June 2019	30th Sept 2019
	Actual TZS 000	TZS 000	Forecast TZS 000	Forecast TZS 000
Share capital	16,956,974	23,055,547	26,101,350	26,101,350
Share premium	4,104,046	4,104,046	4,104,046	4,104,046
Retained earnings	(1,607,366)	(1,418,187)	(1,168,187)	(568,187)
Less: Intangible assets	(4,742,452)	(4,592,452)	(4,442,452)	(4,292,452)
Less: Other Capital charge	(5,442,269)	(6,142,853)	(5,942,853)	(5,742,853)
Total qualifying Tier 1 Capital	9,268,933	15,006,101	18,651,904	19,601,904
General reserve	704,362	722,911	741,460	797,107
Total qualifying Tier II Capital	9,973,295	15,729,012	19,393,364	20,399,011
Risk Weighted Assets	103,860,256	104,898,859	105,947,847	107,007,326
CAR Tier I	9%	14%	18%	18%
CAR Tier II	10%	15%	18%	19%

6. THE SHAREHOLDERS OF THE BANK

The total number of shareholders as at 31 December 2018 was 4,771 (2017: 4,609 shareholders). The shares of the Bank are as follows:

As at 31 December 2018

Name	No. of shares	Value of shares TZS	% holding
UTT-AMIS	15,414,454	3,853,613,500	22.73
Dar es Salaam City Council	6,832,094	1,708,023,500	10.07
Ilala Municipal Council	6,357,426	1,589,356,500	9.37
National Health Insurance Fund	4,000,000	1,000,000,000	5.9
Kinondoni Municipal Council	3,750,013	937,503,250	5.53
Temeke Municipal Council	3,422,252	855,563,000	5.05
*Ubungu Municipal Council	2,500,009	625,002,250	3.69
*Kigamboni Municipal Council	2,281,502	570,375,500	3.36
Other 4,763 members	23,270,147	5,817,536,750	34.31
Total share capital	67,827,897	16,956,974,250	100.00

*Ubungu and Kigamboni are the new shareholders following the split of Kinondoni and Temeke shares respectively to accommodate and align with the local government structural changes.

As at 31 December 2017

Name	No. of shares	Value of shares TZS	% holding
UTT-AMIS	15,414,454	3,853,613,500	22.73
Dar es Salaam City Council	6,832,094	1,708,023,500	10.07
Ilala Municipal Council	6,357,426	1,589,356,500	9.37
Kinondoni Municipal Council	6,250,022	1,562,505,500	9.21
Temeke Municipal Council	5,703,754	1,425,938,500	8.41
National Health Insurance Fund	4,000,000	1,000,000,000	5.90
Other 4,603 members	23,270,147	5,817,536,750	34.31
Total share capital	67,827,897	16,956,974,250	100.00

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

7. DIRECTORS

The Directors of the Bank at the date of this report, who have served in office since 1 January 2018, except where otherwise stated, are:

Name	Position	Age	Nationality	Qualification/ discipline	Date of appointment/ resignation
Prof. Lucian A. Msambichaka	Chairman	76	Tanzanian	B.Sc. in Agriculture, M.Sc. in Agricultural Economics and Ph.D. in Agricultural Economics.	Appointed on 24 May 2017
Mr. Maharage A. Chande	Vice Chairman	44	Tanzanian	Masters in Business Leadership and BSC Electronic and Communications.	Appointed on 28 May 2016
Ms. Sipora K. Liana	Member	55	Tanzanian	Masters in Community Economic Development and Bachelor of Agriculture Education and Extension.	Appointed on 28 May 2016
Mr. Aron T. Kagurumjuli	Member	55	Tanzanian	Masters Degree in Education Administration, Planning and Policy Studies, Bachelor of Education in Political Science and Public Administration and Diploma in Adult Education.	Appointed on 28 May 2016
Ms. Zawadia J. Nanyaro	Member	46	Tanzanian	MBA (Finance), B.Com (Hons) in Accounting, holder of CPA (T) in Public Practice (CPA -PP) and Certified Information System Auditor -CISA.	Appointed on 20 October 2016
Ms. Pamela F. Nchimbi	Member	37	Tanzanian	MBA, Bachelor of Commerce (Corporate Finance), holder of ACI dealing certificate, Authorized Dealer's Representative, Level 1 Candidate in the Chartered Financial Analyst program, Fundamental Securities Certificate.	Appointed on 27 May 2017
Mr. Benard H. Konga	Member	38	Tanzanian	Master's Degree in Economics (Policy and Planning), Degree in Economics (Policy & Planning)	Appointed on 27 May 2017
Mr. Msongela N. Palela	Member	46	Tanzanian	Masters of Law (LLM), Bachelor of Law (LLB), Diploma in Law	Appointed on 27 May 2017/Resigned on September 2018
Mr. Nassib B. Mbagga	Member	53	Tanzanian	BSc in Agricultural Economics and Agribusiness, Diploma in Agricultural Mechanization.	Appointed on 27 May 2017/Resigned September 2018
Mr. Godfrey Ndaluhwa	Managing Director	43	Tanzanian	MBA, CPA (T), Bachelor of Commerce (in Accounting)	Appointed on 1 January 2018

DCB COMMERCIAL BANK PLC**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018****8. DIRECTORS (CONTINUED)****Directors' interest in the Bank's shares**

Name of the director	Number of shares held 2018	Number of shares held 2017
Prof. Lucian A. Msambichaka	126,449	126,449
Mr. Maharage A. Chande	2,000	2,000
Ms. Zawadia J. Nanyaro	288	-
Pamela F. Nchimbi	4,885	4,885
Total shares held by directors	133,622	133,334

9. COMPANY SECRETARY

The Bank's Secretary as at 31 December 2018 was Ms. Regina Mduma.

10. CORPORATE GOVERNANCE

The Bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. The Bank had 10 directors including the Managing Director. Apart from the Managing Director no other Director holds an executive position in the Bank.

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

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

The Board of Directors

During the year the Board held five (5) ordinary meetings and three (3) extra ordinary meetings. The attendance is as shown in the table below:

No	Name	Position	Total Meeting	No. of meetings attended
1.	Prof. Lucian A. Msambichaka	Chairman	8	8
2.	Mr. Maharage A. Chande	Vice chairman	8	5
3.	Ms. Zawadia J. Nanyaro	Member	8	8
4.	Ms. Sipora J. Liana	Member	8	6
5.	Mr. Aron T. Kagurumujuli	Member	8	0
6.	Ms. Pamela F. Nchimbi	Member	8	6
7.	Mr. Benard H. Konga	Member	7	3
8.	Mr. Msongela N. Palela	Member	7	3
9.	Mr. Nassib B. Mmbagga	Member	7	0
10.	Mr. Godfrey Ndalawha	Member	8	8

DCB COMMERCIAL BANK PLC**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018****10. CORPORATE GOVERNANCE (CONTINUED)****Board Committees**

Each Committee has a charter to govern the roles and responsibilities as well as the efficiency and effectiveness of board performance. During the year, the Board had the following Board sub-committees to ensure a high standard of corporate governance.

a. Board Audit, Risk and Compliance Committee (BRCC)

The BRCC held four (4) ordinary meeting and one (1) extra ordinary meetings whose attendance is as shown in the table below:

No	Name	Position	Total Meetings	No. of meetings attended
1.	Ms. Zawadia J. Nanyaro	Chairperson	5	5
2.	Mr. Maharage A. Chande	Member	5	4
3.	Mr. Aron T. Kagurumujuli	Member	5	0
4.	Ms. Pamela F. Nchimbi	Member	5	5

b. Board Nomination and Human Resources Committee (BNHRC)

The BNHR Committee held four (4) ordinary meetings and one (1) extra ordinary meeting. The attendance is as shown in the table below:

No	Name	Position	Total Meetings	No. of meetings attended
1.	Ms. Sipora J. Liana	Chairperson	5	4
2.	Mr. Maharage A. Chande	Member	5	3
3.	Ms. Zawadia Nanyaro	Member	4	4
4.	Mr. Benard H. Konga	Member	2	1
5.	Mr. Msongela Palela	Member	1	1

c. Board Strategy & Credit Committee

The BSC Committee held four (4) ordinary meetings and one (1) extra ordinary. The attendance is as shown below:

No	Name	Position	Total Meetings	No. of meetings attended
1.	Mr. Maharage A. Chande	Chairman	5	5
2.	Ms. Zawadia J. Nanyaro	Member	5	5
3.	Ms. Pamela F. Nchimbi	Member	5	5
4.	Mrs. Sipora Liana	Member	2	2
5.	Mr. Msongela N. Palela	Member	3	4
6.	Mr. Benard konga	Member	2	1

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

11. MANAGEMENT TEAM

As at 31 December, the management of the Bank was under the Managing Director, assisted by the following: -

Managing Director	Mr. Godfrey Ndalawa
Chief Manager – Finance	Mr. Zacharia Kapama
Chief Manager – Operations	Mr. Saidi Kapilima
Chief Manager – Credit	Mr. Isidori Msaki
Chief Manager - Risk & Compliance	Ms. Doreen Joseph
Chief Internal Auditor	Mr. Deogratius Thadei
Chief Manager - Human Resources	Ms. Evelyn Rugambo
Chief Manager - Legal Affairs & Company Secretary	Ms. Regina Mduma
Chief Manager - Commerce	Mr. James Ngaluko

12. STOCK EXCHANGE INFORMATION

The Bank's shares are listed at the Dar es Salaam Stock Exchange and were actively trading. In the year 2018, the performance of the Bank's shares in the secondary market was as follows: Market capitalization as at 31 December 2018 was TZS 23.06 billion (2017: TZS 25.77 billion); Average price per Bank's share was TZS 353.33 (2017: TZS 390) and the closing share price was TZS 340 (2017: TZS 380) per share.

13. PERFORMANCE FOR THE YEAR

The Bank posted profit before tax of TZS 1.6 billion for the year ended 31 December 2018 (2017: Loss of TZS 6.9 billion) which translates to the profit after tax of TZS 1.084 billion (2017: Loss 6.0 billion). Our commendable financial results are against the run of the challenging market liquidity and a tight economic environment which has limited both deposits and assets growth.

The turnaround in profitability has been backed up by the bank's initiatives to take advantage of both balance sheet and operational efficiency and ensure there is a sizeable and optimized balance sheet structure. Total assets have declined by 14% to reach 132.8 billion in 2018 on account of declining loans and advances to customer, driven by increased impairment charges. The decline in loans to customers is a result of implementation of the new accelerated loan provision model as required by the accounting standards.

Customer deposits decreased by 17%, from 90.4 billion to TZS 75.1 billion, a reflection of continued tightness in the liquidity environment. The bank has continued to strengthen its customer relationship and sharpened its marketing approach to ensure its core deposits are maintained and repaid obligations are reinstated. In addition, the bank further strengthened its deposit base by launching the digital account, enabling customers to open accounts, transact and invest in term and savings accounts.

Gross Loans and Advances before considering IFRS provisions have grown by TZS 2.0 billion, a reflection of the bank's efforts to grow its customer portfolio and take advantage of the existing opportunities in the market. The level of disbursements to the SME and Personal sector has increased during the year, leading to an increase in gross loans from 88.7 billion to reach TZS 90.6 billion. Total loan disbursement for the year amounts to TZS 65 billion, up from the 2017 level of TZS 55 billion.

Branch network and outreach

The Bank had eight branches as at 31 December 2018 (2017: eight branches), seven of which are located in Dar es Salaam and one branch located in Dodoma. As at the year end, the Bank's total number of depositors and borrowers were as follows:

	2018	2017
Current accounts	2,058	1,889
Savings accounts	200,028	186,196
Time deposits	351	220
Total number of deposit accounts	202,437	188,305
Loan accounts	45,609	52,826

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

14. DIVIDEND

The Directors do not propose payment of dividend for the year 2018 (2017: NIL).

15. OPERATING ENVIRONMENT

The banking sector has remained resilient in 2018 supported by the Central Bank's accommodative monetary policy throughout the year. Credit risk continued to persist, with higher provisions squeezing banks' profitability and reducing credit flow to the private sector, as banks took a precautionary lending stance. Interest rates on loans remained high averaging 17 to 18 percent in the market while industry liquidity volatility eased up in comparison to 2017, but remaining tight throughout the year. Considerable measures have been taken by the Central Bank to leverage the environment through issuance of monetary policy instruments such as Treasury bills, Treasury bonds, Repos, Reverse Repos, standby facilities including Lombard facility and discount window lowering the discount rate to 7 percent from 9 percent.

Economic growth was sustained at the levels of 7% during the year, an impressive growth rate that surpasses that of most of our neighboring countries, despite slightly dipping down from the 2017 level of 7.1%. This growth is mainly attributable to sectors related to construction, transportation, manufacturing and power generation and is a reflection of the refocused state policies to strengthen the economy by instituting a strong machinery towards both fiscal and monetary policies. Inflation has remained stable throughout the year and on a downward trend, mainly driven by the tactical but efficient production timings and backed up by the blessed rainy seasons of 2018 which have boosted the abundance of food produce.

The solid economic momentum evidenced during the year 2018 is likely and is already showing signs to carry over into 2019. Economic activity is expected to be boosted by construction sectors in the wake of the country's economic policy and the ongoing major projects such as Standard Gauge Railway and Stiegler's Gorge. The Government is expected to continue its overhaul of the agriculture and mining sectors through some staged economic reforms aiming at boosting the local processing and increase the value chain behind exports. Air transport industry is expected to support perishable produce international trading while strengthening the tourism sector and enhance the shilling stability against foreign currencies.

The growth outlook for 2019 remains bright; the agricultural sector should benefit from more favorable weather conditions, while increased infrastructure spending should lift investment activity. However, the challenges in banking sector, the depreciating shilling and ongoing liquidity concerns will continue to present significant risks to the outlook. Gross Domestic Product (GDP) is expected to grow at an estimated 7% in both 2019 and 2020.

16. FUTURE PROSPECTS

DCB Commercial Bank, through its vision of becoming the preferred financial services provider, is committed to the country's economic growth agenda and will continue to support the Government's initiatives through ensuring that individuals and SMEs have access to useful and affordable financial solutions that meet their needs in line with the bank's strategic plan. The bank will continue to focus on Mortgage and Micro Lending while selectively and cautiously tapping in the Small and Medium Enterprises (SMEs). The bank will continue to leverage into the digital platform to ensure it optimizes its limited network by extending short-term loans such as salary advance to approved schemes.

The bank will sustain its deposit growth agenda through direct sales, promotions and market penetration through deposit campaigns. The core deposits are expected to be extracted from small businesses and individuals, a reflection of a continued digital deposit agenda via innovative products. The core deposits shall continuously be supported with short term and fixed deposits from selected institutions.

The Bank's performance is expected to continue with its positive trend in the year 2019, in line with the strengthened capital base and the supportive economic environment, running against the past liquidity trend. The non-performing loans have continued to affect the banking industry performance over the past year, the trend that is expected to continue into most of the year 2019. DCB Commercial Bank Plc, not being an exception, shall continue to control the quality of its assets, while managing its NPL portfolio and reducing it to the acceptable levels.

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

16. FUTURE PROSPECTS (CONTINUED)

The improvement in performance during 2019 shall be driven by the growth of loans and advances, deposits growth and aggressive monitoring of the quality of the assets. The Bank, in addition, shall continue with the strategic cost management approach, which will increase the operational efficiency levels and sustain the targeted profitability.

In its performance forecast, the Bank intends to take advantage of the growth opportunities in the areas of micro lending, SME and mortgage. The bank's strategic plan 2017-2022 requires the bank to grow its total assets from the current TZS 132.8 billion to TZS 269.6 billion in 2022 and customer's deposits from TZS 73.8 billion to TZS 193.4 billion in the period

In the longer term, the Bank shall continue to leverage on its strategic expansion of delivery channels through digital platform, agency banking, strategic partnerships and branch expansion.

17. PRINCIPAL RISKS AND UNCERTAINTIES

Bank's activities expose it to a variety of financial risks including credit, liquidity, market and strategic risks. The Bank's overall risk management policies are set out by the Board of Directors and implemented by management. These policies involve analysis, evaluation, acceptance and management of some degrees of risks or a combination of risks. More details of the financial risks facing the Bank are provided in Note 5 to these financial statements.

18. KEY PERFORMANCE INDICATORS

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

Performance indicator	Definition and calculation method	2018	2017
Return on equity	Net income/Total equity	5%	(25%)
Return on assets	Net income/Total assets	1%	(4%)
Cost to income ratio	Operating costs/Net income	66%	74%
Interest margin on earning assets	Total interest income/(Government securities + inter-Bank loan receivables + investments in other securities + net loans, advances and overdrafts)	22%	21%
Non - interest income to Gross income	Non - interest income/total income	12%	10%
Earnings per share	Basic earnings/number of ordinary shares in issue	16%	(89)
Non - performing loans to gross loans	Non-performing loans/gross loans and advances	19%	19%
Earning assets Ratio	Earning assets/Total assets	76%	79%
Growth on total assets	(Current year total assets/ prior year total assets) - 1*100%	(14%)	(3%)
Growth on loans and advances to customers	(Current year net loans and advances/prior year net loans and advances) - 1*100%	(6%)	(10%)
Growth on total deposits	(Current year total deposits/prior year total deposits) - 1*100%	(17%)	4%
Capital adequacy			
Tier 1 Capital	Risk weighted assets including off-statement of financial position items/Core Capital	9%	8%
Tier 1+Tier 2 Capital	Risk Weighted assets including off-statement of financial position items/Total Capital	10%	9%

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

19. RISK MANAGEMENT AND INTERNAL CONTROL

Risk management framework

The management of risk lies at the heart of business. The Bank's major risks arise from extending credit to customers through our trading and lending operations. The Bank is also exposed to a range of other risk types such as market, liquidity, operational, reputational and other risks that are inherent to Bank's strategy, product range and geographical coverage. Effective risk management is fundamental to being able to generate profits consistently and sustainably and is thus an integral part of the financial and Bank's operational management.

Risk governance

The ultimate responsibility for setting our risk appetite and for the effective management of risk rests with the Board. Acting within an authority delegated by the Board, The Board Audit, Risk and Compliance Committee (BRCC) has responsibility for oversight and review of prudential risks including but not limited to credit, market, capital, liquidity and operational. It reviews the bank's overall risk appetite and makes recommendations thereon to the Board. It's responsibilities also include reviewing the appropriateness and effectiveness of the Bank's risk management systems and controls, considering the implications of material regulatory change proposals, ensuring effective due diligence on material transactions. The BRCC reviews regular reports on risk management, policies, stress testing, liquidity and capital adequacy, and is authorized to investigate or seek any information relating to an activity within its terms of reference.

The Board accepts final responsibility for the risk management and internal control systems of the Bank. It is the task of the Directors to ensure that adequate internal financial and operational control systems are developed and maintained on an ongoing basis. The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against miss-statement 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 assessed the internal control systems throughout the financial year ended 31 December 2018 and is of the opinion that they met accepted criteria. The Board carries out risk and internal control assessment through the Board Audit, Risk and Compliance Committee.

Risk Management Culture

The Bank is cognizant of the fact that people are its most valuable asset and are core to the establishment of a positive and responsible risk management culture. To that end, the Bank continues to invest in the capability of its people through carefully designed initiatives and programs towards embedding a positive risk management culture in the Bank. Roles and responsibilities for risk management are defined under a two lines of defense model. Each line of defense describes a specific set of responsibilities for risk management and control:

First line of defense: This compose of management and internal controls, operational managers own and manage risks. They also are responsible for implementing corrective actions to address process and control deficiencies.

Second line of defense: this comprises the independent risk function and is responsible for ensuring that the risks remain within the Bank's risk appetite.

Third line of defense the independent assurance provided by the Internal Audit Department. Its role is defined and overseen by the Board Audit Committee.

20. SERIOUS PREJUDICIAL MATTERS

In the opinion of the Directors, there are no serious prejudicial matters that can affect the Bank.

DCB COMMERCIAL BANK PLC

REPORT OF THE DIRECTORS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

21. SOLVENCY

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

22. EMPLOYEES' WELFARE

Management and employees' relationship

The Bank has adequate number of employees with pre-requisite competency and experience in key positions to manage the banking operations as well as pursuing the business objectives. As at 31 December 2018 the number of employees were 226. (2017: 200).

There has been a good working relationship between management and employees as well as employees and their supervisor's/line managers. Complaints are resolved through meetings and discussions. Work morale is good and there were no unresolved complaints from employees. During the year, there were no cases referred to the Commission for Mediation and Arbitration (CMA).

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties.

Training

During the year, the Bank spent TZS 71.89 million for training of its staff (2017: TZS 156.34 million). Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees received training to upgrade skills and enhance productivity.

Staff loans and advances

The Bank provides housing, home appliances, and education loans to staff as well as salary advances to enable them overcome financial needs and promote their personal development. Staff loans and advances are based on specific terms and conditions approved by the Board of Directors. During the year the Bank issued staff loans of TZS 3.4 billion to 115 employees (2017: TZS 2.4 billion to 91 employees) and the outstanding staff loans balance at year end was TZS 5.141 billion (2017: 4.4 billion).

Medical facilities

The Bank pays medical expenses for all members of staff and the Board members with a maximum number of four beneficiaries (dependents) for each employee through medical insurance arrangement.

Retirement benefits

The Bank makes contributions in respect of staff retirement benefits to statutory pension schemes namely National Social Security Fund and Public Service Social Security Fund. The Bank's obligations in respect of these contributions are limited to 10% of the employees' gross salary.

23. GENDER PARITY

The Bank is an equal opportunity employer. As at 31 December 2018 the Bank had the following distribution of employees by gender.

Gender	2018	%	2017	%
Female	112	49.6	94	47
Male	114	50.4	106	53
Total	226	100	200	100

DCB COMMERCIAL BANK PLC

**REPORT OF THE DIRECTORS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

24. RELATED PARTY TRANSACTIONS

All related party transactions and balances are disclosed in Note 37 to these financial statements.

25. POLITICAL DONATIONS

The Bank did not make any political donations during the year.

26. RELATIONSHIP WITH STAKEHOLDERS

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

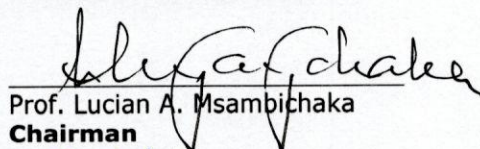
27. CORPORATE SOCIAL RESPONSIBILITY (CSR) AND CHARITABLE DONATIONS

The Bank participates actively in community activities and development programs; contribution through corporate Social responsibility for the year ended 31 December 2018 reached TZS 1 million. (2017: TZS 1 million) and the amount was directed to the Ministry of Information, Culture, Arts and Sports on the cultural festival.

28. AUDITORS

The auditors, PricewaterhouseCoopers have expressed their willingness to continue in office. A resolution proposing the appointment of auditor of the Bank for financial year 2019 will be tabled at the Annual General Meeting.

BY ORDER OF THE BOARD


Prof. Lucian A. Msambichaka
Chairman
5th April 2019


Ms. Zawadia J. Nanyaro
Director

DCB COMMERCIAL BANK PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2018

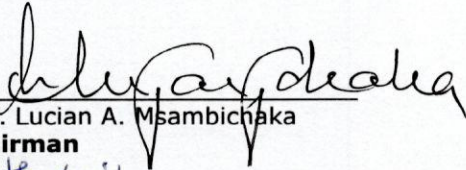
The Companies Act, No.12 of 2002 requires Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the profit or loss for the year. It also requires the Directors to ensure that the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

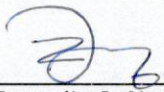
The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act,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

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

The going concern basis of preparing financial statements is adopted on the basis of the explanations in notes 4(e) and 5.5 to the financial statements.

Signed on behalf of the Board of Directors by:


Prof. Lucian A. Msambichaka
Chairman
5th April 2019


Ms. Zawadia J. Nanyaro
Director

DCB COMMERCIAL BANK PLC

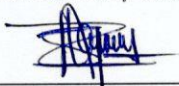
DECLARATION OF THE HEAD OF FINANCE FOR THE YEAR ENDED 31 DECEMBER 2018

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the 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 a true and fair view of the entity's financial position and performance in accordance with applicable International Financial Reporting Standards (IFRS) and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors' as per the Statement of Directors' Responsibility on page 14.

I, Zacharia Kapama, being the Chief Financial Officer of DCB Commercial Bank Plc hereby acknowledge my responsibility of ensuring that consolidated financial statements for the year ended 31 December 2018 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002 and Banking and Financial Institutions Act (BFIA), 2006 and its regulations.

I thus confirm that the financial statements give a true and fair view of the financial performance of DCB Commercial Bank Plc for the year ended on 31 December 2018 and its financial position as on that date and that they have been prepared based on properly maintained financial records.



Zacharia A. Kapama
Chief Manager – Finance
NBAA Membership No.: GA 1909

5th April 2019

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC

Report on the audit of the Bank financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of DCB Commercial Bank Plc (the "Bank") as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, No. 12 of 2002.

What we have audited

The financial statements of DCB Commercial Bank Plc as set out on pages 21 to 104 comprise:

- Statement of financial position as at 31 December 2018;
- Statement of profit or loss and other comprehensive income for the year then ended;
- Statement of changes in equity for the year then ended;
- Statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Bank's financial statements section of our report.

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

Independence

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

Key audit matter

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

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC**

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

Key audit matter (continued)

Key audit matter	How our audit addressed the key audit matter
<u>Impairment of loans and advances to customers</u> Management exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment. The Bank adopted IFRS 9 on its mandatory effective date of 1 January 2018. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives. The key changes arising from adoption of IFRS 9 are that the credit losses are now based on expected loss model rather than an incurred loss model. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provisions in the following areas:- • Quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default; • Determination of the probability of defaults (both 12 months and lifetime); • Determination of the forward looking parameters to be incorporated in the estimation of expected credit losses; and • Estimation of the expected cash flows (including from collateral realization) used the determination of the loss given default. The value of the loans and advance to customers is also significant. Further details on loans and advances to customers have been disclosed in Note 3(d), Note 4(a), Note 5.1 and Note 22 of the financial statements.	• We tested the reasonableness of the quantitative and qualitative criteria used in the classification of loans and advances. • As the quantitative basis of classification of loans and advances is reliant on information systems, we understood and tested key information technology general and application controls including the accurate calculation of the number of days past due. • We tested management's application of the qualitative criteria in the classification of loans and advances. • We tested the reliability and reasonableness of information used for estimating probability of default and loss given default. • We tested the reasonableness of the forward looking parameters considered by management. • We agreed the collateral values used in the impairment model to valuation reports. • We tested the reasonableness of the expected cash flows and challenged management's assumptions of recovery estimates.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC

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

Emphasis of matter – Non-compliance with minimum required capital adequacy ratios

We draw attention to Note 5.5 of these financial statements, which indicates that the Bank's core capital as at 31 December 2018 was TZS 9.2 billion was below the minimum regulatory capital required of TZS 15 billion. In addition capital adequacy ratios of 9% for Tier I and 10% for Tier II as at 31 December 2018 were below the minimum required ratios of 10% and 12% respectively. The actions taken by the Bank to deal with the capital shortfall have been disclosed in Note 5.5. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the Corporate Information, List of abbreviations, Report of the Directors, Statement of Directors' responsibilities and Declaration of the Head of Finance but 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 Bank's financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Bank's financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the directors for the Bank's financial statements

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

In preparing the Bank's 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 Bank's financial reporting process.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC

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

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

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

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

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

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

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

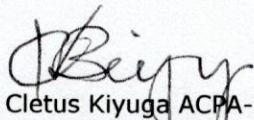
From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the Bank financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)
TO THE SHAREHOLDERS OF DCB COMMERCIAL BANK PLC

Report on other legal and regulatory requirements

This report, including the opinion, has been prepared for, and only for, the Bank's members as a body in accordance with the Companies Act, No. 12 of 2002 and for no other purposes.

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



Cletus Kiyuga ACPA-PP 1981

For and on behalf of PricewaterhouseCoopers

Certified Public Accountants

Dar es Salaam

Date

5th April 2019

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018`

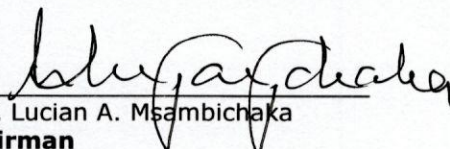
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

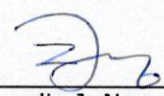
	Notes	2018 TZS'000	2017 TZS'000
Interest income	7	22,458,167	25,563,068
Interest expense	8	<u>(6,698,526)</u>	<u>(9,793,647)</u>
Net interest income		15,759,641	15,769,421
Credit impairment charge	22	<u>(272,289)</u>	<u>(4,474,678)</u>
Net interest income after loan impairment		15,487,352	11,294,743
Fees and commission income	9	2,337,963	2,949,888
Foreign exchange income	10	45,687	127,522
Other operating income/(loss)	11	<u>757,544</u>	<u>(107,571)</u>
Total non-interest income		3,141,194	2,969,839
Total operating income		18,628,546	14,264,582
Operating expenses			
Staff costs	12	(8,929,031)	(9,353,099)
General administrative expenses	13	(6,421,293)	(10,187,791)
Depreciation and amortization	14	<u>(1,656,708)</u>	<u>(1,626,737)</u>
Total operating expenses		(17,007,032)	(21,167,627)
Profit/(loss) before income tax		1,621,514	(6,903,045)
Income tax (charge)/credit	18	<u>(626,383)</u>	<u>853,876</u>
Profit/(loss) for the year		995,131	(6,049,169)
Other comprehensive income, net of tax		-	-
Total comprehensive Income/ (loss) for the year		995,131	(6,049,169)
Earnings /(loss) per share (basic and diluted)	34	15	(89)

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER**

	Notes	2018 TZS'000	2017 TZS'000
Assets			
Cash and balances with Bank of Tanzania	19	8,696,396	12,930,874
Loans and advances to Banks	20	10,666,970	15,421,506
Government securities	21	12,273,497	24,107,513
Loans and advances to customers	22	76,351,754	81,231,010
Equity investment	23	1,804,200	1,120,000
Other assets	26	3,170,701	1,018,012
Property and Equipment	24	8,303,855	8,531,074
Intangible assets	25	4,742,452	5,262,960
Corporation tax recoverable	27	1,631,681	2,075,888
Deferred income tax asset	29	5,112,854	3,184,201
Total assets		132,754,360	154,883,038
Liabilities			
Due to other banks	28.a	19,271,481	28,803,316
Deposits from customers	28.b	75,155,541	90,402,375
Borrowings	30	8,590,061	7,500,000
Other liabilities	31	9,100,321	3,610,257
Total liabilities		112,117,404	130,315,948
Equity			
Share capital	32	16,956,974	16,956,974
Share premium	33	4,104,046	4,104,046
Accumulated losses		(1,607,366)	(4,141,485)
General banking risk reserve		-	6,961,742
General reserve		704,362	685,813
Fair valuation reserve		478,940	-
Total equity		20,636,956	24,567,090
Total liabilities and equity		132,754,360	154,883,038

The financial statements on pages 21 to 104 were approved and authorized for issue by the Board of Directors on 5th April 2019 and signed on its behalf by:


Prof. Lucian A. Msambichaka
Chairman


Ms. Zawadia J. Nanyaro
Director

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

STATEMENT OF CHANGES IN EQUITY

	Share capital TZS'000	Share premium TZS'000	Accumulated losses TZS'000	**General banking risk reserve TZS'000	* General reserve TZS '000'	Fair valuation reserve TZS'000	Total equity TZS'000
At 31 December 2017	16,956,974	4,104,046	(4,141,485)	6,961,742	685,813	-	24,567,090
Changes on initial application of IFRS 9, net of deferred tax (Note 2.1 (c))	-	-	(5,404,205)	-	-	478,940	(4,925,265)
Balance at 1 January 2018 after IFRS 9 day one adjustment	16,956,974	4,104,046	(9,545,690)	6,961,742	685,813	478,940	19,641,825
Profit for the year	-	-	995,131	-	-	-	995,131
Transfer to general reserve	-	-	(18,549)	-	18,549	-	-
Transfer from general banking risk reserve	-	-	6,961,742	(6,961,742)	-	-	-
At 31 December 2018	16,956,974	4,104,046	(1,607,366)	-	704,362	478,940	20,636,956
At 1 January 2017	16,956,974	4,104,046	4,080,583	4,675,761	798,895	-	30,616,259
Loss for the year	-	-	(6,049,169)	-	-	-	(6,049,169)
Transfer from general reserve*	-	-	113,082	-	(113,082)	-	-
Transfer to general risk reserve**	-	-	(2,285,981)	2,285,981	-	-	-
At 31 December 2017	16,956,974	4,104,046	(4,141,485)	6,961,742	685,813	-	24,567,090

* General reserve is made up of 1% general provision on unclassified loans (current book) as required by the revised Bank of Tanzania regulations, 2014. General Reserve is created by transferring the amount from retained earnings.

**General Banking Risk Reserve represents an amount set aside to cover additional provision for loan losses required in order to comply with the requirements of the Bank of Tanzania prudential guidelines. This reserve is not available for distribution.

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

STATEMENT OF CASH FLOWS

	Notes	2018 TZS'000	2017 TZS'000
Cash flows from operating activities			
Profit/(Loss) before income tax		1,621,514	(6,903,045)
<i>Adjusted for:</i>			
Depreciation and amortization	14	1,656,708	1,626,737
Loss on sale of property and equipment	11	-	855,603
Property and equipment write off	24	41,895	19,243
Interest expense on borrowings	36	923,117	2,084,781
Dividend income		(19,315)	(19,859)
Cash flow from/(used in) operating activities before changes in operating assets and liabilities		4,223,919	(2,336,540)
<i>Changes in operating assets and liabilities:</i>			
Change in statutory minimum reserve	19	1,860,436	2,201,704
Change in loans and advances to customers		(2,841,036)	9,350,581
Change in other assets		(2,152,690)	1,866,385
Change in deposits from banks		(9,531,835)	1,222,980
Change in deposits from customers		(15,246,834)	3,861,889
Change in other liabilities		5,490,064	1,008,603
Change in government securities with maturity over three months		(4,128,845)	1,210,882
Cash (used in)/generated from operations		(22,326,821)	18,386,484
Income tax paid		-	(1,595,917)
Net cash (used in)/generated from operating activities		(22,326,821)	16,790,567
Cash flows from investing activities			
Purchase of property and equipment	24	(834,011)	(2,336,940)
Purchases of intangible assets	25	(116,866)	(916,331)
Dividend received		19,315	19,859
Proceeds on disposal of equipment		-	499,890
Net cash used in investing activities		(931,562)	(2,733,522)
Cash flows from financing activities			
Proceeds from borrowing		2,000,000	1,500,000
Principal repayments		(1,000,000)	(7,180,653)
Interest repayments		(833,056)	(1,967,199)
Net cash generated from/(used in) financing activities		166,944	(7,647,852)
(Decrease)/Increase in cash and cash equivalents		(23,091,439)	6,409,193
Cash and cash equivalents at the beginning of the year		35,249,961	28,840,768
Cash and cash equivalents at the end of the year	35	12,158,522	35,249,961

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

DCB Commercial Bank Plc is a Public Limited Company and is incorporated and domiciled in the United Republic of Tanzania. The Bank is listed on the Dar es Salaam Stock Exchange (DSE). The address of its registered office and principal place of business are disclosed in the corporate information on page 1 of this report. The principal activities of the Bank are described in the report of the Directors.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Statement of compliance

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, 2002; the Banking and Financial Institutions Act, 2006 and National Board of Accountants and Auditors Technical Pronouncements.

For the Companies Act, 2002 reporting purposes, in these financial statements the balance sheet is represented by equivalent to the statement of financial position and the profit and loss account is included in the statement of profit or loss and other comprehensive income.

Basis of preparation

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the Tanzania Companies Act, 2002 is included where appropriate.

The financial statements comprise the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the notes. The measurement basis applied in the preparation of these financial statements is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania shillings (TZS).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The Directors believe that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(CONTINUED)****2.1 CHANGES IN ACCOUNTING POLICIES***(i) New and amended standards adopted by the Bank*

The following new and revised IFRSs have been applied in the current year and had material impact on the amounts reported in these financial statements.

IFRS 9 – Financial Instruments, Classification, Recognition and Measurements

The Bank has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods. As permitted by IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments; Disclosures'. Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in section 3 below.

(a) Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

Financial assets	Measurement category	IAS 39	Measurement category	IFRS 9
		Carrying Amount 'TZS 000'		Carrying Amount 'TZS 000'
Cash and balances with Bank of Tanzania	Amortized cost (Loans and receivables)	12,930,874	Amortized cost	12,930,874
Loans and advances to banks	Amortized cost (Loans and receivables)	15,421,506	Amortized cost	15,421,506
Loans and advances to customers	Amortized cost (Loans and receivables)	81,231,010	Amortized cost	73,516,172
Government securities	Amortized cost (Held to maturity)	24,107,513	Amortized cost	24,107,513
Equity investment	Available for sale	1,120,000	Fair value through other comprehensive income	1,804,200
Other assets	Amortised cost (loans and receivables)	60,896	Amortised cost	60,896

There were no changes to the classification and measurement of financial liabilities.

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

2.1 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer to note 3(d) for more detailed information regarding the new classification requirements of IFRS 9. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018.

	IAS 39 31 December 2017	Re- classifications	Re- measuremen ts	IFRS 9 1 January 2018
	TZS '000'	TZS '000'	TZS '000'	TZS '000'
Amortised Cost				
Cash and balances with Bank of Tanzania				
Balance under IAS 39 and balance under IFRS 9	12,930,874	-	-	12,930,874
Loans and advances to banks				
Balance under IAS 39	15,421,506	-	-	-
Balance under IFRS 9	-	-	-	15,421,506
Loans and advances to customers				
Balance under IAS 39	81,231,010	-	-	-
Remeasurements; ECL allowance	-	-	(7,720,293)	-
Balance under IFRS 9	-	-	-	73,510,717
Government securities - Amortised cost				
Addition from held to maturity	-	24,107,513	-	-
Balance under IFRS 9	-	-	-	24,107,513
Held to maturity				
Opening balance under IAS 39	24,107,513	-	-	-
Reclassification	-	(24,107,513)	-	-
Closing balance under IFRS 9	-	-	-	-
Other assets				
Balance under IAS 39 and balance under IFRS 9	60,896	-	-	60,896
Total financial assets at amortised cost	133,751,799	-	(7,720,293)	126,031,506
Available for sale financial assets				
Opening under IAS 39	1,200,000	-	-	-
Reclassification	-	(1,200,000)	-	-
Closing under IFRS 9	-	-	-	-
Equity investments at FVTOCI				
Addition from available for sale	-	1,200,000	-	-
Remeasurements; Fair valuation	-	-	684,200	-
Balance under IFRS 9	-	-	-	1,804,200
Total financial assets measured at FVTOCI	1,200,000	-	684,200	1,804,200

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(CONTINUED)****2.1 CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

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

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Bank as shown in the table above:

Designation of equity instruments at FVOCI

The Bank has elected to irrevocably designate equity investments of TZS 1.8 billion at FVOCI as permitted under IFRS 9. These securities were previously classified as available for sale. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of.

Reclassification from retired categories with no change in measurement

In addition to the above, the following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to them. measurement basis:

- (i) Those previously classified as available for sale and now classified as measured at FVOCI; and
- (ii) Those previously classified as held to maturity and now classified as measured at amortized cost.
- (iii) Those previously classified as loans and receivables and now classified as measured at amortized cost.

There are no financial assets and liabilities that were measured at fair value and have been reclassified to the amortised cost category as at 1 January 2018 and 31 December 2018.

c) Reconciliation of impairment allowance from IAS 39 to IFRS 9

The following table reconciles the period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	Loan Loss allowance under IAS 39	Reclassification	Re-measurements	Loan loss allowance under IFRS 9
Loan and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash and balances with the Bank of Tanzania	-	-	-	-
Loans and advances to banks	-	-	-	-
Loans and advances to customers	7,423,163	-	7,720,293	15,143,456
Other assets	-	-	-	-
Total	7,423,163	-	7,720,293	15,143,456

Held to maturity (IAS 39)/Financial assets at amortised cost (IFRS 9)

Government securities.	-	-	-	-
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DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

2.1 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(c) Reconciliation of impairment allowance from IAS 39 to IFRS 9 (continued)

Measurement category	Loan Loss allowance under IAS 39	Reclassification	Re-measurements	Loan loss allowance under IFRS 9
Loan commitments and financial guarantees contracts				
Loan commitments	-	-	-	-
Financial guarantee	-	-	-	-
Letters of credits	-	-	-	-
Total	-	-	-	-

Balances due from other banks are categorized as stage 1. The Loss Given Default (LGD) for these assets is zero hence no impairment was recognized as at 31 December 2018 (2017: Nil). The expected credit Loss is expected to be insignificant.

The Bank hold investments in Treasury Bills and Treasury bonds issued by the Government as well as balances with Bank of Tanzania. At the end of reporting period, these investments were categorized as stage 1. There are no credit ratings for these investments. The Loss Given Default (LGD) for these assets is zero hence no impairment was recognized as at 31 December 2018 (2017: Nil).

Further, other assets are categorized as stage 1. The impact has been determined to be insignificant.

Off balance sheet items consists of guarantees and letters of credit which are fully secured by cash as well as loan commitments. The undrawn portion of the overdraft as disclosed in Note 38 results into insignificant ECL as this is in relation to stage 1 corporate facilities.

The total impact on the Bank's retained earnings as at 1 January 2018 is as follows:

	Amount TZS '000
Accumulated losses at 31 December 2017	(4,141,485)
Increase in provision for debt investments at amortised cost	(7,720,293)
Increase in deferred tax assets relating to impairment provisions	2,316,088
Net impact on retained earnings from adoption of IFRS 9 on 1 January 2018	(5,404,205)
Fair valuation reserve at 31 December 2017	-
Increase in fair valuation reserve resulting from re-measurement of equity instruments at FVOCI	684,200
Deferred tax liability relating fair valuation gain	(205,260)
Net impact on retained earnings from adoption of IFRS 9 on 1 January 2018	478,940
Total impact to equity as a result of IFRS 9 adoption	4,925,265

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

2.1 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

(c) Reconciliation of impairment allowance from IAS 39 to IFRS 9 (continued)

Impact on Capital

The Bank of Tanzania has issued guidelines on transition requirements for the implementation of IFRS 9 that require in the first adoption, when IFRS 9 impairment is greater than BOT provision, for the purpose of computing core capital banks and financial institutions shall spread the excess impairment equally over three years. The BoT provision recorded by the bank is higher than IFRS 9 provision and therefore the regulation does not have any impact to the Bank.

The following standards and interpretations became effective from 1 January 2018 and were relevant to the Bank but had no material impact on the amounts reported in these financial statements.

Title	Key requirement
IFRS 15 Revenue from contracts with customers and associated amendments to various other standards	The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18, which covers contracts for goods and services, and IAS 11, which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognized: • identify contracts with customers • identify the separate performance obligation • determine the transaction price of the contract • allocate the transaction price to each of the separate performance obligations, and • recognise the revenue as each performance obligation is satisfied. Key changes to current practice are: • Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. • Revenue may be recognised earlier than under current standards if the consideration varies for any reasons (such as for incentives, rebates, performance fees, royalties, success of an outcome etc.) – minimum amounts must be recognised if they are not at significant risk of reversal. The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa. There are new specific rules on licenses, warranties, non-refundable upfront fees and, consignment arrangements, to name a few. As with any new standard, there are also increased disclosures. These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

2.1 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

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

Title	Key requirement
IFRS 15 Revenue from contracts with customers and associated amendments to various other standards (continued)	Entities will have a choice of full retrospective application, or prospective application with additional disclosures. In nearly all cases the Bank's the pattern of revenue recognition under previous accounting policies is consistent with the requirements of IFRS 15, however, while certain income streams from LCs and guarantees differ in pattern of recognition, the differences were not material. Thus, apart from disclosure requirements, the standard did not have a significant impact to the Bank.
Annual improvements 2014-2016 cycle	The following improvements were finalised in December 2016: • IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10, which are no longer relevant. • IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.
Interpretation 22 Foreign Currency Transactions and Advance Consideration	The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/contract liability). If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation: • retrospectively for each period presented • prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or prospectively from the beginning of a prior reporting period presented as comparative information

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(CONTINUED)****2.1 CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

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

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

Title	Key requirements	Effective Date
IFRS 16 Leases	IFRS 16 was issued in January 2016. It will result in almost all leases being recognized on the statement of financial position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The Bank has set up a project team which has reviewed all of the Bank's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Bank's operating leases. The Bank will apply the standard from its mandatory adoption date of 1 January 2019. The Bank intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).	1 January 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time
IFRS 17 Insurance Contracts	IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021. IFRS 17 is effective for accounting periods beginning on or after 1 January 2021 and is not expected to have significant impact on the financial statements.	1 January 2021

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(CONTINUED)****2.1 CHANGES IN ACCOUNTING POLICIES (CONTINUED)**

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

Title	Key requirements	Effective Date
IFRIC 23 Uncertainty over Income Tax Treatments	The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively • Assumptions for taxation authorities' examinations • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates • The effect of changes in facts and circumstances IFRIC 23 is effective for accounting periods beginning on or after 1 January 2019 and the Directors do not anticipate that its adoption will result into material impact on the financial statements.	1 January 2019

3. SIGNIFICANT ACCOUNTING POLICIES**(a) Foreign currency translation***(i) Functional and presentation currency*

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Tanzania shillings (TZS), rounded to the nearest thousands, which is the Bank's functional currency.

(ii) Transactions and balances

Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the end of the reporting period. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Interest income and expense

Accounting policies applicable in current period under IFRS 9

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

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

Accounting policies applicable in prior period under IAS 39

For all interest bearing instruments measured at amortised cost, interest income and expenses are recognized in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(c) Fee and commission income and expense

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

Fees and commission are generally recognised on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from various services offered by the Bank are recognized upon completion of underlying transaction on which the bank will have satisfied the performance obligation.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and Financial liabilities

Accounting policies applicable in current period under IFRS 9

(i) *Initial recognition and measurement*

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

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

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

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

Financial Assets

(ii) *Classification and subsequent measurement*

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

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

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and Liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

ii) Classification and subsequent measurement (continued)

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

- **Amortised cost:** Assets that are held for collection for contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 6. Interest income from these financial assets is included in 'Interest and similar income' using effective interest rate method.
- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principals and interest, and that are not designated at FVPL, re measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit and loss. When the financial asset is derecognised in 'Net Investment income'. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model for a Bank of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and

Reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows, with sales of loans only being made internally to a consolidated SPV for the purpose of collateralising notes issued, with no resulting derecognition by the Bank. Another example is the liquidity portfolio of assets, which held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purposes of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of Short-term profit taking. These securities are classified in the 'other' business model and measured at FVPL

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and Liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

ii) Classification and subsequent measurement (continued)

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

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

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

Equity instruments

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

The Bank subsequently measures all equity investments at fair value through profit or loss, except where the Bank's management has elected, at initial recognition, to irrevocably designated an equity investment at fair value through other comprehensive Income. The Bank's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

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

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and Liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

(iii) Impairment

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

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

(iv) Modification of loans

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

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

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

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

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and Liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (continued)

(v) *Derecognition other than on a modification*

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

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

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

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

Financial Liabilities

(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;
- 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 guarantee contracts and loan commitments

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and liabilities (continued)

Accounting policies applicable in current period under IFRS 9 (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.

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 debt 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.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and liabilities (continued)

Accounting policies applicable in prior period under IAS 39

The Bank classifies its financial assets into the following categories: loans and receivables, held-to-maturity and available for sale financial assets. Management determines the appropriate classification of its financial assets at initial recognition.

Financial assets

The Bank classifies its financial assets into the following categories: loans and receivables; held-to-maturity financial assets; and available-for-sale financial assets. The Directors determine the appropriate classification of its financial assets at initial recognition

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value - which is the cash consideration to originate or purchase the loan including any transaction costs - and measured subsequently at amortised cost using the effective interest method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's Directors have the positive intention and ability to hold to maturity, other than:

- those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank designates as available-for-sale; and
- those that meet the definition of loans and receivables.

Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in profit or loss and reported as 'Interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in profit or loss as 'net gains/(losses) on Government securities'.

[IFRS 7.14-15].The standard requires disclosing information about financial assets pledged as collateral and about financial or non-financial assets held as collateral. As of 31 December 2017 the Bank pledged part of its held- to-maturity investments to other banks (Financial Institution and Bank) for soliciting deposits or loans to meet its daily operations.

The Bank has investments in ordinary shares in Umoja Switch Co. Ltd being founder member of the Switch and Tanzania Mortgage Refinancing Company Limited (TMRC) which were initially and as reporting date recognized at cost as no impairment provision was considered necessary.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and liabilities (continued)

Accounting policies applicable in prior period under IAS 39 (continued)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the profit or loss account. The Bank's available for sale financial assets include investment in the ordinary shares of Tanzania Mortgage Refinancing Company for purpose of accessing mortgage funds for on lending and Umoja Company for Umoja switch operations.

Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from Banks and customers and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, Foreign exchange rates, volatilities and counterparty spreads) existing at the end of the reporting period.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to Banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and liabilities (continued)

Accounting policies applicable in Prior period under IAS 39 (continued)

Derecognition of financial assets and liabilities

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent Derecognition).

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made is as seen here in below:

Financial assets

Cash and balance with Bank of Tanzania
Loans and advances to banks
Loans and advances to customers
Government securities
Equity investment
Other assets excluding prepayment and stationery stock

Class

Loans and receivables
Loans and receivables
Loans and receivables
Held to maturity
Available for sale

Loans and receivables

Financial liabilities

Deposits from Banks
Deposits from customers
Other liabilities excluding accrued expenses and commitment fees
Borrowing

Financial liabilities at amortised cost
Financial liabilities at amortised cost

Financial liabilities at amortised cost
Financial liabilities at amortised cost

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and liabilities (continued)

Accounting policies applicable in Prior period under IAS 39 (continued)

Impairment of financial assets

(i) *Assets carried at amortised cost*

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payment;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Bankruptcy proceedings; and
- Deterioration in the value of collateral.

The estimated period between a loss occurring and its identification is determined by the Directors for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cashflows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is revised by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss and other comprehensive income in impairment charge for credit losses.

(ii) *Assets classified as available-for-sale*

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Financial assets and liabilities (continued)

Accounting policies applicable in prior period under IAS 39 (continued)

Impairment of financial assets (continued)

(ii) Assets classified as available-for-sale (continued)

profit or loss. Impairment losses recognised in of profit or loss on equity instruments are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(e) Offsetting financial instruments

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

(f) Impairment of non-financial assets

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

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

(g) Income tax

Income tax expense is the aggregate of the charge to the statement of profit or loss comprehensive income in respect of current income tax and deferred income tax. Current income tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Tanzanian Income Tax Act.

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit/loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(h) Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property and equipment

Property and equipment are stated at cost, less accumulated depreciation and any accumulated impairment in value. Depreciation is calculated on the 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 rates in use are:

Office machinery and equipment	20.0%
Furniture, fixtures and fittings	20.0%
Computers and IT equipment	25.0%
Generator	12.5%
Motor vehicles	25.0%
Leasehold improvements	10.0%
Leasehold building	Lease period
Computer software	10.0%

The assets residual values and useful lives are reviewed and adjusted, if appropriate, at the end of the reporting period. An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

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

(j) Leases

Leases entered into by the Bank are operating leases. The total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

Leasehold improvements and buildings are depreciated over the lease term.

When an operating lease is terminated before expiry of the lease period, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. Leases of property, plant and equipment where the Bank has substantially, all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other longterm payables. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(k) Intangible assets

Acquired computer software licenses 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. Intangible assets are amortised over the useful economic life of 10 years.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Cash and cash equivalents

Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand, deposits held at call with Banks and investments in money market instruments with maturity periods of three months.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and all cash equivalent items maturing within 90 days from the date of acquisition including non-restricted balances with the Bank of Tanzania, treasury bills, loans and advances to Banks, amounts due from other Banks and short term investment securities. Cash and cash equivalents excludes the cash reserve requirement held with the Bank of Tanzania

(m) Employees' benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognized in profit or loss when they fall due.

(i) Post retirement benefits

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 10% and 10%, respectively, of the employees' monthly gross salaries to the Managed Statutory Funds, namely the Parastatal Pension Fund (PPF) or the National Social Security Fund (NSSF) or Local Authority Pension Fund. Apart from these monthly contributions, the Bank has no further commitments or obligations to the Funds and it has no other post-retirement benefit scheme. The contributions are charged to profit or loss in the year to which they relate.

(ii) Other employee benefits

The Bank provides free medical treatment to staff and their eligible dependants. The cost is charged to profit or loss. The estimated monetary liability for employees' accrued leave entitlement at the statement of financial position date is recognized as an expense accrual. The Bank provides severance pay which is 14 days pay per year to maximum of 10 years.

(n) Borrowings

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

(o) Share capital

The Bank has only one class of ordinary shares which is classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

Dividends on shares

Dividend payable is recognized as liability in the period in which it is declared. Proposed dividends are disclosed as a separate component of equity. Before recommending any dividend, the Board of Directors may set aside out of the profits of the Bank, such sums as they think proper, to a reserve fund or reserve account, which shall at the discretion of the Board, be applicable for any purpose for which the profits of the Bank may lawfully be applied. Whenever dividend is declared, the amount shall not exceed 50% of the annual profit after tax.

(p) Dividend

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

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Earnings per share

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

(r) Segment reporting

The Bank has the following operating segments: Treasury, Retail Banking and other. Following the management approach to IFRS 8, operating segments are reported in a manner consistent with the internal reporting to the Bank's management team, which is responsible for allocating resources to the reportable segments and assessing their performances. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

(s) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where necessary, the comparative amount aligned with current year for presentation.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year. Detailed information about each of these estimates and judgements is included in the related notes together with information about the basis of calculation for each affected line item in the financial statements.

a) Measurement of the expected credit loss allowance

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

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

Detailed information about the judgement and estimates made by the Bank are explained under note 5.

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

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

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

c) Taxes

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

The recognition of deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profit, future reversals of existing taxable temporary differences and ongoing tax planning and strategies. The deferred tax recognized in the Bank's statement of financial position as at 31 December 2018 was TZS 4.8 billion (2017: TZS 3.1 billion). The judgment takes into consideration the effect of both positive and negative evidence, including historical financial performance, projections of future taxable income and future reversals of existing taxable temporary differences

d) Provisions and Contingent liabilities

The Bank has contingent liabilities arising out of pending legal cases. Professional expert advice is taken on establishing litigation provisions. Provisions for legal proceedings and regulatory matters typically require a higher degree of judgements than other types of provisions. When cases are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists as a result of a past event, estimating the probability of outflows and making estimates of the amount of any outflows that may arise. As matters progress through various stages of the cases, Management together with legal advisers evaluate on an ongoing basis whether provisions should be recognized, and the estimated amounts of any such provisions, revising previous judgements and estimates as appropriate. At the year-end not legal cases that amount for recognition.

e) Going concern

As at 31 December 2018, the Bank's capital was below the regulatory minimum capital requirement of TZS 15 billion and had a negative cash flow from operations of TZS 22 billion. The directors are however confident that this condition does not indicate a material uncertainty which may cast significant doubt about the Bank's ability to continue as a going concern and that, therefore, assets may not be realized and liabilities discharged in the normal course of business. This assessment is based on the following factors:

- The Bank embarked in a right issue during the year and has subsequently managed to raise capital sufficient to meet regulatory minimum requirements. Further details are on note 5.5 to these financial statements.
- During the year the Bank was profitable and expects to continue being profitable; and
- The Bank's total assets as at 31 December 2018 exceeded total liabilities by TZS 20.7 billion (2017: TZS 24.5 billion)

The financial statements are prepared on the basis of accounting policies applicable to a going concern. This basis presumes that the Bank will continue being profitable and will have adequate resources to meet its liabilities as and when they fall due, and it will realize its assets and discharge its liabilities in the ordinary course of business.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors

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

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign-exchange risk, interest-rate risk, credit risk, and liquidity risk. Risk management is carried out by the Risk and Compliance Department under policies approved by the Board of Directors. The risk and compliance department evaluates financial risk in close co-operation with the operating units.

5.1 Credit risk

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

5.1.1 Credit risk measurement

Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.1 Credit risk measurement (continued)

Risk portfolios

The segmentation into risk portfolios is based on Bank's segments at industry and product levels. For the purpose of impairment assessment, the Bank's total exposure are segmented along product lines. The Bank is of the opinion that these segmentations share similar credit risk characteristics and can be monitored collectively for credit risk. These segments are:

- Corporate Loans
- Housing and Mortgage
- Salaried loans
- Solidarity Group Lending/Micro finance
- SME Loans

The Bank uses internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Bank use internal rating models tailored to the various categories of counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data applied in forward looking scenarios. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

Each risk portfolio is further divided into risk groups based on:

- Days Past Due (DPD) intervals (applicable only for non-defaulted exposures and defaulted exposures),
- Internal client rating.

Additionally, the following rules are applicable for the risk group segmentation process:

- On the default identification approach, days past due (DPD) are examined at the transaction for retail portfolio and at the client level for corporates. The following conditions are taken into account:
 - DPD at the transaction level is counted from the date, on which any part of the exposure becomes due, regardless of the amount of due exposure.
 - DPD at the client level is the maximum DPD out of all exposures to the client.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

Risk portfolios (continued)

The bank segment of Risk Groups (RGs) by categories in the ECL model is as shown below:

Risk Group	Corporate Loans, Housing and Mortgage, Salaried loans and SME Loans	Solidarity Group Lending (Micro- finance)
	Number of days past due	Number of days past due
Risk Group 1 (RG1)	Not due	Not due
Risk Group 2 (RG2)	1-30 days	1-5 days
Risk Group 3 (RG3)	31 - 60 days	6-15 days
Risk Group 4 (RG4)	61-90 days	16 - 30 days
Default Risk Group (RG5)	Above 90 days	Above 30 days

Exposure at Default for term loans is estimated as contractual rundown on the loans. For the off-balance sheet items, the exposure at default is estimated by determining a credit conversion factor (CCF). For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all the customers are segmented into five rating classes as shown below:

<u>Bank's rating</u>	<u>Risk Group</u>	<u>Description of the grade</u>
1	RG1	Current
2	RG2	Especially mentioned
3	RG3	Sub-standard
4	RG4	Doubtful
5	RG5	Loss

Treasury products

For debt securities in the treasury portfolio, balances with central bank, balances due from other banks and other assets, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realized default rates over the prior 12 months, as published by the rating agency.

5.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified. 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 Banks of borrowers.

The Board has delegated responsibility for the management of credit risk to the Board Audit and Risk Compliance Committee responsible for overseeing of the Bank's credit risk including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure of the approval and renewal of the credit facilities. Authorisation limits are allocated to various officers at different levels. Larger facilities require approval by Board of Directors.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.2 Risk limit control and mitigation policies (continued)

- Reviewing and assessing credit risk. Credit department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process
- Reviewing compliance of business units with agreed exposure limits. Regular reports are provided to Board through Board Audit and Compliance Committee in respect of the quality of loan portfolio; and
- Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

Regular audits of credit department processes are undertaken by internal audit department.

The internal rating scale assists Directors to determine whether there is significant increase in credit risk, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets regularly and monitoring is on weekly basis for solidarity group lending product, while for the remaining portfolio which is largely made up of salaried loans is on monthly basis.

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

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

Corporate loans, SME loans, Mortgage and Solidarity Group Lending are generally secured while Salaried Workers loans are unsecured.

Credit-related commitments

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.3 Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Refer to note 5.1.3.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 5.1.3.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 5.1.3.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 5.1.3.4 includes an explanation of how the Bank has incorporated this in its ECL models.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition, their ECL is always measured on a lifetime basis (Stage 3).

Further explanation is also provided of how the Bank determines appropriate groupings when ECL is measured on a collective basis (refer to note 5.1.3.5).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Change in credit quality since initial recognition		
Stage 1	Stage 2	Stage 3
Initial recognition	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12 month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

5.1.3.1: Significant increase in credit risk (SICR)

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

The Bank applies qualitative and quantitative criteria for stage classification and for its forward and backward migration.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.3 Expected credit loss measurement (continued)

5.1.3.1: Significant increase in credit risk (SICR) (continued)

Quantitative factors:

The bank monitors the performance based on aging and therefore uses days past due criteria in line with the Bank on Tanzania. The table below shows the stages assigned to various risk groups depending on the number of days past due which is a measure of the significant increase in credit risk: The bank also uses 30 days' rebuttable presumption that credit risk has increased significantly when repayment is on monthly basis and 5 days when repayment is on weekly basis.

	Corporate Loans, Housing and Mortgage, Salaried loans and SME Loans	Solidarity Group Lending (Micro- finance)	
Risk Group	Number of days past due	Number of days past due	Staging based on IFRS 9
Risk Group 1 (RG1)	Not due	Not due	Stage 1
Risk Group 2 (RG2)	1-30 days	1-5 days	Stage 1
Risk Group 3 (RG3)	31 - 60 days	6-15 days	Stage 2
Risk Group 4 (RG4)	61-90 days	16 - 30 days	Stage 2
Default Risk Group (RG5)	Above 90 days	Above 30 days	Stage 3

Qualitative factors

There are other factors that are considered by the bank policies in the determination of significant increase in credit risk. They include but not limited to the following:

Significant changes in the terms of the same instrument if it were issued at the reporting date that indicate a change in credit risk since initial recognition, e.g.: increase in credit spread; more stringent covenants; increased amounts of collateral or guarantees; or higher income coverage.

Significant changes in external market indicators of credit risk for the same financial instrument (or similar instrument of the borrower), E.g. credit spread; credit default swap prices; length of time or the extent to which the fair value of a financial asset has been less than its amortized cost; other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments; or external credit rating (actual or expected).

Changes in the Bank's credit management approach in relation to the financial instrument (e.g. based on emerging indicators of changes in the credit risk of the financial instrument, the bank's credit risk management practice is expected to become more active or focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the bank specifically intervening with the borrower).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.3 Expected credit loss measurement (continued)

5.1.3.1: Significant increase in credit risk (SICR) (continued)

Qualitative factors (continued)

Actual or expected adverse changes in business, financial or economic conditions significantly affecting borrower's ability to meet its debt obligations (e.g. increase in interest rates or unemployment rates); operating results of the borrower e.g. declining revenues or margins, increasing operating risks, working capital deficiencies, decreasing asset quality, increased balance sheet leverage, liquidity, management problems or changes in the scope of business or organizational structure (such as the discontinuance of a segment of the business) that results in a significant change in the borrower's ability to meet its debt obligations; or regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations (e.g. a decline in the demand for the borrower's sales product because of a shift in technology).

Significant changes in the value of collateral or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to pay or otherwise effect the probability of default (e.g. if the value of collateral declines because house prices decline, borrowers in some jurisdictions have a greater incentive to default on their mortgages); or quality of a guarantee provided by a shareholder (or an individual's parents) if the shareholder (or parents) have an incentive and financial ability to prevent default by capital or cash infusion.

Expected changes in the loan documentation (e.g. breach of contract leading to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees).

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

5.1.3.2: Definition of default and credit impaired assets

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

Quantitative

The Bank considers a term loan to be in default if the repayments on the loan are more than 90 days past due for all Corporate Loans, Housing and Mortgage, Salaried loans and SME Loans. Term loans under the solidarity group lending are in default if the repayments on the loans are more than 30 days past due. See the table in section 5.1.3.1 above.

Qualitative criteria

The borrower meets unlikelihood to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where the borrower is in long-term forbearance, the borrower is deceased, the borrower is insolvent, the borrower is in breach of financial covenant(s), an active market for that financial asset has disappeared because of financial difficulties, Concessions have been made by the lender relating to the borrower's financial difficulty, or it is becoming probable that the borrower will enter bankruptcy.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.3 Expected credit loss measurement (continued)

5.1.3.3: Measuring ECL — Explanation of inputs, assumptions and estimation techniques

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

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

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.3 Expected credit loss measurement (continued)

5.1.3.4: Forward-looking information incorporated in the ECL models

The calculation of ECL incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

In the expected credit losses models, the Bank relies on a broad range of forward looking information as economic factors, which includes:

- Interest rate.
- Gross domestic product GDP.
- Population.
- Employment, Labor force.
- Money supply.
- Exchange rate.
- House hold spending.
- Foreign reserve.

The bank tested correction between macroeconomic variables and Historical data per segments, the highest correction selected and applied to a specific segment to forecast the future probability of default, recovery rate and cure rate. The Historical and forecasted economic variables have been adopted from among of the big three credit rating agencies in the world for year 2018.

Sensitivity Analysis

The bank has sensitized the assumptions affecting the ECL allowance based on weightings and macro-economic variables applied.

Weightings assigned to each economic scenario into Base line (50%), Best Case (25%) and worst case (25%), by taking Base line (80%), Best Case (10%) and worst case (10%) the bank ECL would change as indicated below:

Segment	Base line (50%), Best Case (25%) and worst case (25%) year Dec 2018	Base line (80%), Best Case (10%) and worst case (10%) year Dec 2018	Impact of changing weightings
SME Loans	335,675,571	336,917,432	1,241,861
Corporate loans	28,728,774	28,378,758	(350,016)
Mortgage	141,315,028	133,840,209	(7,474,819)
Solidarity Group Lending	3,328,105,156	3,321,548,139	(6,557,017)
Salaried loans	10,359,891,348	10,359,496,742	(394,607)
Total	14,193,715,877	14,180,181,280	(13,534,597)

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FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.1 Credit risk (continued)****5.1.3 Expected credit loss measurement (continued)*****Sensitivity Analysis (continued)***

The bank tested correction between macroeconomic variables and historical data per segments, the highest correction selected and applied to a specific segment to forecast the future probability of default, recovery rate and cure rate. The following table indicates the impact of increasing each macroeconomic variable selected per segment by 5% per annual.

Segment	ECL at 31 December 2018	ECL after increase of 5% for each highest correlated variable per segment	Impact of Changing each Macroeconomic variable by 5% pa
SME Loans	335,675,571	335,095,490	(580,081)
Corporate loans	28,728,774	33,351,626	4,622,852
Mortgage	141,315,028	1,067,467,521	926,152,493
Solidarity Group Lending	3,328,105,156	3,366,746,471	38,641,315
Salaried loans	10,359,891,348	10,298,220,335	(61,671,013)
Total	14,193,715,877	15,100,881,443	907,165,566

5.1.3.5 Grouping of instruments for losses measured on a collective basis

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

According to IFRS, the Bank shall group its financial assets into homogenous groups with similar credit risk characteristics for the purpose of credit risk parameters calculation. In the Methodology the process of grouping the portfolio is further referred to as portfolio segmentation.

For the purpose of practical implementation, it is assumed that exposures with similar risk profile are allocated to the same *risk portfolio*, and further to the same *risk group* within the portfolio. A single risk group within the given portfolio is assumed to be the homogenous group of assets according to the IFRS definition.

The segmentation criteria used by the Bank are primarily based on expert judgment and experience of the Bank's employees, supported by statistical verification of historical data where necessary. The general segmentation criteria are presented below:

- **Corporates Loans**

The corporate loans include all overdraft and all commercial loans of above TZS 200m. Overdrafts facilities will be granted for duration not exceeding twelve (12) months for working capital purposes as revolving line of credit and not for personal consumption or expansion or modernization of the plant and facilities. Except overdraft, Corporate loans duration is to a maximum of three years, the corporate commercial loans are for working capital and investment. Both overdraft and corporate commercial loans are secured by legal mortgage or against own fund. This Loans have monthly repayment of both principal and interest unlike overdraft where repayment depend on account operations.

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.3 Expected credit loss measurement (continued)

5.1.3.5 Grouping of instruments for losses measured on a collective basis (continued)

- **Housing Microfinance and Mortgage**

The loans are granted for the purpose of house purchase, renovation and construction. The house finance by the bank is pledged as security. Loans tenure up to 5 years for housing microfinance and 15 years for mortgage with monthly instalment of principal and interest. All housing microfinance is for residential purposes and mortgage for both commercial and residential purposes.

- **Salaried Loans**

This Credit Scheme intends to cater for salaried employees' financial needs and in particular to assist salaried employees to gain financial home needs for both public and private sectors employees. A Collective Guarantee Agreement between the bank and the employer shall act as a security for the loan, for loans above TZS 30 million the borrower should pledge security. Employers deduct loans instalment on monthly basis from employees monthly earning. This loans have maximum of 7 years' tenures. The maximum loans amount for government employees is TZS 100 Million and TZS 50 million for private sector employees.

- **Solidarity Group Lending**

These loans granted to self-employed households and youth, small amount which security is based on group guarantee with weekly regular re-payments and deposits. Loan amount range from TZS 350,000 to TZS 4,000,000 with loan tenure to maximum of 1 year (12 months). Weekly Cash deposit and Group guarantee are the main collateral for this product.

- **SME Loans**

All business loans to maximum of TZS 200Million is classified are small and Medium Loans (SME), the loans maximum tenure is three years with equal monthly instalment of principle and interest. The bank accepts both equitable and legal mortgage as security. Other securities accepted are Cash (FDR), listed shares, and chattel mortgage.

5.1.4 Credit risk exposure

5.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.4 Credit risk exposure

5.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

(a) Corporate loans

	2018				2017
	ECL Staging				
Amounts in TZS'000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Credit grade (Risk Group)					
RG 1	2,997,589	-	-	2,997,589	468,644
RG 2	732,722	-	-	732,722	2,846,619
RG 3	-	472,130	-	472,130	25,855
RG 4	-	-	-	-	-
RG Default	-	-	947,108	947,108	1,889,181
Gross Carrying amount	3,730,311	472,130	947,108	5,149,549	5,230,299
Loss allowance	(28,729)	-	-	(28,729)	(47,280)
Carrying amount	3,701,582	472,130	947,108	5,120,820	5,183,019

(b) Housing micro-finance and mortgage

	2018				2017
	ECL Staging				
Amounts in TZS'000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Credit grade (Risk Group)					
RG 1	2,934,486	-	-	2,934,486	1,780,847
RG 2	4,077,006	-	-	4,077,006	4,062,953
RG 3	-	603,541	-	603,540	248,017
RG 4	-	-	-	-	-
RG Default	-	-	1,084,126	1,084,126	1,767,517
Gross Carrying amount	7,011,492	603,541	1,084,126	8,699,158	7,859,334
Loss allowance	(73,284)	(16,761)	(51,270)	(141,315)	(24,267)
Carrying amount	6,938,208	586,780	1,032,856	8,557,843	7,835,067

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.4 Credit risk exposure

5.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

(c) Salaried loans

Amounts in TZS'000 Credit grade (Risk Group)	2018 ECL Staging				2017	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total	
RG 1	9,106,132	-	-	9,106,132	4,257,050	
RG 2	41,270,782	-	-	41,318,918	42,517,324	
RG 3	-	1,211,520	-	1,163,384	2,077,163	
RG 4	-	-	-	-	-	
RG Default	-	-	9,421,321	9,421,321	10,000,930	
Gross Carrying amount	50,376,914	1,211,520	9,421,321	61,009,755	58,852,467	
Loss allowance	(1,991,123)	(323,364)	(8,045,404)	(10,359,891)	(5,492,295)	
Carrying amount	48,385,791	888,156	1,375,917	50,649,864	53,360,172	

(d) Solidarity Group Lending (SGL)

Amounts in TZS'000 Credit grade (Risk Group)	2018 ECL Staging				2017	
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total	
RG 1	4,183,577	-	-	4,183,577	6,018,802	
RG 2	767,047	-	-	767,047	1,805,955	
RG 3	-	1,122,813	-	1,122,813	1,172,252	
RG 4	-	639,269	-	639,269	643,591	
RG Default	-	-	4,119,594	4,119,594	3,484,135	
Gross Carrying amount	4,950,624	1,762,082	4,119,594	10,832,300	13,124,735	
Loss allowance	(31,453)	(21,967)	(3,274,685)	(3,328,105)	(1,858,549)	
Carrying amount	4,919,171	1,740,115	844,909	7,504,195	11,266,186	

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.4 Credit risk exposure

5.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

(e) SME Loans

	2018				2017
	ECL Staging				
Amounts in TZS'000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Credit grade (Risk Group)					
RG 1	2,004,176	-	-	2,004,176	1,187,206
RG 2	746,093	-	-	746,093	1,000,980
RG 3	-	495,785	-	495,785	225,220
RG 4	-	-	-	-	-
RG Default	-	-	1,608,654	1,608,654	1,173,932
Gross Carrying amount	2,750,269	495,785	1,608,654	4,854,708	3,587,338
Loss allowance	-	(89)	(335,587)	(335,676)	(772)
Carrying amount	2,750,269	495,696	1,273,067	4,519,032	3,586,566

(f) Off balance sheet exposures

	2018				2017
	ECL Staging				
Amounts in TZS'000	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
Credit grade (Risk Group)					
RG 1	1,117,893	-	-	1,117,893	396,991
RG 2	11,607	-	-	11,607	801,877
RG 3	-	-	-	-	-
RG 4	-	-	-	-	-
RG Default	-	-	1,990	1,990	2,333
Gross Carrying amount	1,129,500	-	1,990	1,131,490	1,201,201
Loss allowance	-	-	-	-	-
Carrying amount	1,129,500	-	1,990	1,131,490	1,201,201

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.4 Credit risk exposure

5.1.4.1: Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

(g) Other financial instruments

Other financial assets are in stage 1. ECL was determined to be immaterial and therefore has not been recorded. See the summary of the maximum exposures below;

	2018	2017
Amounts in TZS'000	12-month ECL	Total
Financial Asset		
Cash balances with Bank of Tanzania	8,696,396	12,930,874
Amounts due from other Banks	10,666,970	15,421,506
Other assets	2,590,548	60,896
Government securities	12,273,497	24,107,513
Equity investments at FVTOCI	1,804,200	1,120,000
Carrying amount	36,031,611	53,640,789

5.1.4.2 Collateral and other credit enhancements

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated when the loan is up for renewal or when the loan is individually assessed as impaired.

For loans and advances to customers, the amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are as follows:

- For solidarity group lending, the security is group guarantee, cash cover as well as movable assets.
- For micro and small medium enterprises (MSME); collateral over residential properties.
- For salaried loans; employers' guarantees.
- For housing micro finance and mortgages; over residential properties.
- For Corporate loans, collateral over residential properties.

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.4 Credit risk exposure

5.1.4.2 Collateral and other credit enhancements (continued)

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	TZS'000	TZS'000	TZS'000	TZS'000
Corporate loans	947,108	-	947,108	2,840,700
Housing microfinance and mortgage	1,084,126	51,270	1,032,856	4,566,644
Salaried loans	9,421,321	8,045,404	1,375,917	253,725
Solidarity Group Lending	4,119,594	3,274,685	844,909	236,124
SME loan	1,608,654	335,587	1,273,067	4,157,690
Total credit impaired assets	17,180,803	11,706,946	5,473,857	12,054,883

5.1.5: Gross carrying amount

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

- New loans booking/Disbursements which increases stage 1, the bank do not have purchased credit impaired.
- Write off loans gross caring amount which resulted to decrease in impairment for stage 3 and
- Restructuring of credit accommodation/ Modification of contractual cash flows of financial assets.

The following table further explains changes in the gross carrying amount of the each segmented portfolio to help explain their significance to the changes in the loss allowance for the same portfolio.

(a) Corporate loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	3,315,263	25,855	1,889,181	5,230,299
Movements				
Transfer from stage 1 to stage 2	(488,462)	488,462	-	-
Transfer from stage 1 to stage 3	(20,143)	-	20,143	-
Transfers from stage 2 to stage 3	-	(14,845)	14,845	-
Transfer from stage 3 to stage 1	294,727	-	(294,727)	-
Financial assets derecognized during the period other than write-offs	-	(27,342)	(648,011)	(675,353)
New financial assets originated or purchased	628,926	-	-	628,926
Write-offs	-	-	(34,323)	(34,323)
Gross carrying amount as at 31 December 2018	3,730,311	472,130	947,108	5,149,549

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5: Gross carrying amount (continued)

(b) Mortgage loans

As at 1 January 2018	5,843,800	248,017	1,767,517	7,859,334
Movements				
Transfer from stage 1 to stage 2	(430,691)	430,691	-	-
Transfer from stage 1 to stage 3	(427,741)	-	427,741	-
Transfer from stage 2 to stage 1	93,563	(93,563)	-	-
Transfers from stage 2 to stage 3	-	(14,097)	14,097	-
Transfer from stage 3 to stage 1	385,333	-	(385,333)	-
Transfer from stage 3 to stage 2	-	160,555	(160,555)	-
Financial assets derecognized during the period other than write-offs	-	(128,062)	(270,150)	(398,212)
New financial assets originated or purchased	1,547,227	-	-	1,547,227
Write-offs	-	-	(309,191)	(309,191)
Gross carrying amount as at 31 December 2018	7,011,491	603,541	1,084,126	8,699,158

(c) Salaried loans

	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	46,774,375	2,077,162	10,000,930	58,852,467
Movements				
Transfer from stage 1 to stage 2	(702,791)	702,791	-	-
Transfer from stage 1 to stage 3	(1,837,010)	-	1,837,010	-
Transfer from stage 2 to stage 1	1,008,141	-1,008,141	-	-
Transfers from stage 2 to stage 3	-	(438,176)	438,176	-
Transfer from stage 3 to stage 1	1,054,980	-	(1,054,980)	-
Transfer from stage 3 to stage 2	-	202,115	-202,115	-
Financial assets derecognized during the period other than write-offs	-	(294,511)	(862,633)	(1,157,144)
New financial assets originated or purchased	4,056,141	-	-	4,056,141
Write-offs	(12,312)	(29,720)	(699,677)	(741,709)
Gross carrying amount as at 31 December 2018	50,341,524	1,211,520	9,456,711	61,009,755

(d) Solidarity Group lending

As at 1 January 2018	7,824,757	1,815,842	3,484,136	13,124,735
Movements				
Transfer from stage 1 to stage 2	(672,107)	672,107	-	-
Transfer from stage 1 to stage 3	(2,162,849)	-	2,162,849	-
Transfer from stage 2 to stage 1	214,041	(214,041)	-	-
Transfers from stage 2 to stage 3	-	(764,031)	764,031	-
Transfer from stage 3 to stage 1	52,457	-	(52,457)	-
Transfer from stage 3 to stage 2	-	17,644	(17,644)	-
Financial assets derecognized during the period other than write-offs	(305,675)	-	(2,110,214)	(2,415,889)
New financial assets originated or purchased	-	234,561	-	234,561
Write-offs	-	-	(111,107)	(111,107)
Gross carrying amount as at 31 December 2018	4,950,624	1,762,082	4,119,594	10,832,300

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5: Gross carrying amount (continued)

(e) MSME loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	2,188,186	225,220	1,173,932	3,587,338
Movements				
Transfer from stage 1 to stage 2	(125,057)	125,057	-	-
Transfer from stage 1 to stage 3	(251,378)	-	251,378	-
Transfer from stage 2 to stage 1	30,171	(30,171)	-	-
Transfers from stage 2 to stage 3	-	(72,708)	72,708	-
New financial assets originated	908,347	248,387	136,334	1,293,068
Write-offs	-	-	(25,698)	(25,698)
Gross carrying amount as at 31 December 2018	2,750,269	495,785	1,608,654	4,854,708

5.1.6: Loss allowance

The loss allowance recognized 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).

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

(a) Corporate loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	27,824	771	88,278	116,873
Movements				
Write-offs	-	-	(34,323)	(34,323)
Changes to model assumptions and methodologies	-	-	-	-
Total net P&L charge during the period	905	(771)	(53,955)	(53,821)
As at 31 December 2018	28,729	-	-	28,729

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.6: Loss allowance (continued)

(b) Mortgage loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	49,397	4,411	461,060	514,868
Movements				
Transfer from stage 1 to stage 3	(197)	-	197	-
Transfer from stage 2 to stage 1	3,356	(3,356)	-	-
Transfers from stage 2 to stage 3	-	(133)	133	-
Transfer from stage 3 to stage 1	81,691	-	(81,691)	-
Transfer from stage 3 to stage 2	-	38,516	(38,516)	-
Write-offs	-	-	(309,191)	(309,191)
Total net P&L charge during the period	(60,963)	(22,677)	19,278	(64,362)
As at 31 December 2018	73,284	16,761	51,270	141,315

(c) Salaried loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	1,869,161	466,878	8,921,681	11,257,720
Movements				
Transfer from stage 1 to stage 2	(24,848)	24,848	-	-
Transfer from stage 1 to stage 3	(64,496)	-	64,496	-
Transfer from stage 2 to stage 1	244,097	(244,097)	-	-
Transfers from stage 2 to stage 3	-	(92,699)	92,699	-
Transfer from stage 3 to stage 1	947,140	-	(947,140)	-
Transfer from stage 3 to stage 2	-	92,699	(92,699)	-
Write-offs	(12,312)	(29,720)	-699,677	(741,709)
Total net P&L charge during the period	(967,619)	105,455	706,044	(156,120)
As at 31 December 2018	1,991,123	323,364	8,045,404	10,359,891

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.6: Loss allowance (continued)

(d) Solidarity Group lending	Stage 1	Stage 2	Stage 3	
Amounts in TZS' 000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	333,270	146,188	2,699,436	3,178,894
Movements				
Transfer from stage 1 to stage 2	(24,913)	24,913	-	-
Transfer from stage 1 to stage 3	(107,209)	-	107,209	-
Transfer from stage 2 to stage 1	15,921	(15,921)	-	-
Transfers from stage 2 to stage 3	-	(70,661)	70,661	-
Transfer from stage 3 to stage 1	40,930	-	(40,930)	-
Transfer from stage 3 to stage 2	-	13,338	(13,338)	-
Write-offs	-	-	(111,107)	(111,107)
Total net P&L charge during the period	(226,546)	(75,889)	562,753	260,318
As at 31 December 2018	31,453	21,968	3,274,684	3,328,105

(e) MSME loans	Stage 1	Stage 2	Stage 3	
Amounts in TZS'000	12-month ECL	Lifetime ECL	Lifetime ECL	Total
As at 1 January 2018	-	-	75,100	75,100
Movements				
Write-offs	-	-	(25,698)	(25,698)
Changes to model assumptions and methodologies	-	-	-	-
Total net P&L charge during the period	-	89	286,185	286,274
As at 31 December 2018	-	89	335,587	335,676

(f) Off-balance sheet items	TZS' Millions
As at 1 January 2018	-
Movements during the year	-
As at 31 December 2018	-

(g) Other financial assets	Government securities	Balances with Bank of Tanzania	Amounts due from other banks	Other assets	Equity investment at FVTOCI
	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions	TZS' Millions
As at 1 January 2018	-	-	-	-	-
Movements during the year	-	-	-	-	-
As at 31 December 2018	-	-	-	-	-

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FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.1. Credit risk (continued)****5.1.7 Concentration of risks of financial assets with credit risk exposure**

The following table breaks down the Bank's credit exposure at carrying amounts, as categorized by the industry sectors of the Bank's counterparties. The bank's financial assets are all confined within Tanzania and therefore no separate disclosure for geographical segmentation was considered necessary.

	Financial institution	Wholesale and retail trade	Individual	Other	Total
2018 (TZS'000)					
Balances with Bank of Tanzania	7,451,521	-	-	-	7,451,521
Loans and advances to banks	10,666,970	-	-	-	10,666,970
Government securities	12,273,497	-	-	-	12,273,497
Other assets	2,590,548	-	-	-	2,590,548
Equity investments at FVTOCI	1,804,200	-	-	-	1,804,200
Loans and advances to customers	-	9,639,853	58,202,194	8,509,707	76,351,754
Total	34,786,736	9,639,853	58,202,194	8,509,707	111,138,490

2017 (TZS'000)					
Cash and balances with Bank of Tanzania	9,959,231	-	-	-	9,959,231
Loans and advances to banks	15,421,506	-	-	-	15,421,506
Equity investments at FVTOCI	1,120,000	-	-	-	1,120,000
Government securities	24,107,513	-	-	-	24,107,513
Loans and advances to customers	-	16,350,544	58,391,197	6,489,269	81,231,010
Other assets	-	-	-	60,869	60,869
Total	50,608,250	16,350,544	58,391,197	6,550,138	131,900,129

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.8 Loans and advances credit quality

In line with IFRS 9, the disclosures in notes 5.1.4 to 5.1.6 above shows the credit quality of the loans and advances to customers. The loans and advances to Banks are neither past due nor impaired. The disclosure below shows analysis of the comparative numbers in line with IAS 39.

	2017 (TZS'000)	
	Loans and advances to customers	Loans and advances to Banks
Neither past due nor impaired	66,068,329	15,421,506
Past due but not impaired	4,270,148	-
Impaired	18,315,696	-
Gross	88,654,173	15,421,506
Less provision for impairment	(7,423,163)	-
Net loans	81,231,010	15,421,506

The total impairment for loans and advances as at 31 December 2017 was TZS 15.14 billion of which TZS 12.24 billion represents specific impairment assessed on individually significant loans while the remaining amount of TZS 2.9 billion represents impairment assessed on a portfolio basis.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

2017 (TZS'000)

	Salaried loans	MSME and Investment Loans	Housing and Mortgage loans	Solidarity Group Lending	Overdraft	Loans and advances to banks	Total
Current	46,896,323	2,188,186	5,843,800	7,824,757	3,315,263	15,421,506	81,489,835

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 180 and 60 days past due for salaried loans and group lending, respectively, are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

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	Between 3 to 6 months	6 months to 1 year	over 1 year	Total
Past due but not impaired	2,302,382	124,009	1,843,757	4,270,148

(c) Loans and advances individually impaired

	Salaried loans	MSME and Investment Loans	Housing and Mortgage loans	Solidarity Group Lending	Overdraft	Total
2017 (TZS'000)						
Individually impaired	10,000,930	1,173,932	1,767,517	3,484,136	1,889,181	18,315,696

5.1.9 Repossessed collateral

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

5.1.10 Write-off policy

The Bank writes off loans as and when the Board of Directors approves after accepting the recommendations by the management that the loans are irrecoverable. 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.

5.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates. The Bank separates exposures to market risk into either trading or non-trading portfolios. The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and heads of department.

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FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.2 Market risk (continued)***Market risk measurement techniques*

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimizing 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. The stress tests carried out by the Bank covers: interest rate, credit, foreign exchange and liquidity risks, where stress movements are applied to each risk category to assess the overall impact and the Bank's capital resilience to different market risk factor shocks. The results of the stress tests are reviewed by the Asset and Liability Management Committee (ALCO) and reported to the Board of Directors. Below are the results of stress test in relation to foreign exchange, interest rate, credit and liquidity risks as at 31 December 2018.

5.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency which is monitored daily.

The Bank's net foreign currency exposure as at 31 December 2018 was TZS 1.24 billion (2017: TZS 594 million). The bank stress test for forex exchange fluctuation is shown in the below table

Year	Risk category	Impact on statement of profit or loss and other comprehensive income	Impact on core capital
2018	Exchange rate : fluctuate by 10%	decrease/increase profit by TZS 102 million.	Reduce/increase profit by TZS 102 million.
2017	Exchange rate : fluctuate by 10%	decrease/increase profit by TZS 59.4 million.	Reduce/increase profit by TZS 59.4million.

The Bank is exposed mainly to USD currency for which as at 31 December 2018 the exposure is summarized in the table below (All amounts expressed in equivalent Tanzanian Shillings).

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.1 Foreign exchange risk (continued)

2018	TZS'000	US '000	GBP '000	EURO '000	ZAR '000	Total '000
Assets						
Cash and balances with Bank of Tanzania	8,435,221	261,074	-	40	61	8,696,396
Loans and advances to banks	2,273,506	8,352,779	13,279	26,615	791	10,666,970
Government securities held to maturity	12,273,497	-	-	-	-	12,273,497
Equity investment	1,804,200	-	-	-	-	1,804,200
Loans and advances to customers	76,351,754	-	-	-	-	76,351,754
Other assets exclude prepayment and stationaries	2,590,548	-	-	-	-	2,590,548
Total financial assets	103,728,726	8,613,853	13,279	26,655	852	112,383,365

Liabilities						
Deposits due to banks	12,939,622	6,331,859	-	-	-	19,271,481
Deposits due to customers	73,859,688	1,295,498	-	-	355	75,155,541
Borrowings	8,590,061	-	-	-	-	8,590,061
Other liabilities	6,802,411	-	-	-	-	6,802,411
Total financial liabilities	102,191,782	7,627,357	-	-	355	109,819,494
Net gap of foreign exchange risk	1,536,944	986,496	13,279	26,655	497	2,563,871

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.1 Foreign exchange risk (continued)

2017	TZS'000	US '000	GBP '000	EURO '000	ZAR '000	Total '000
Assets						
Cash and balances with Bank of Tanzania	12,253,685	645,632	5,179	25,712	666	12,930,874
Loans and advances to banks	1,825,185	13,523,488	23,269	37,420	12,144	15,421,506
Loans and advances to customers	81,231,010	-	-	-	-	81,231,010
Government securities held to maturity	24,107,513	-	-	-	-	24,107,513
Other assets	60,896	-	-	-	-	60,896
Equity investment	1,120,000	-	-	-	-	1,120,000
Total financial assets	120,598,289	14,169,120	28,448	63,132	12,810	134,871,799

Liabilities						
Deposits due to banks	19,995,697	8,807,619	-	-	-	28,803,316
Deposits due to customers	85,535,297	4,866,706	-	-	372	90,402,375
Borrowings	7,500,000	-	-	-	-	7,500,000
Other liabilities	1,058,979	4,751	-	-	-	1,063,730
Total financial liabilities	114,089,973	13,679,076	-	-	372	127,769,421
Net on statement of financial position	6,508,316	490,044	28,448	63,132	12,438	7,102,378

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The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest re-pricing that may be undertaken. Consequently, the interest sensitivity effects on profit or loss would not be significant given the re-pricing frequency.

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market rates on its financial position and cash flows. The table below summarizes the exposure to interest rates risks. Included in the table are the Bank's assets and liabilities at carrying amounts categorized by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items. The stress test for interest rate risk summaries below.

Year	Risk category	Impact on statement of profit or loss and other comprehensive income	Impact on core capital
2018	Interest rate risk: stress reduce interest margin by 5%	Reduce profit by TZS 517 million.	Reduce profit by TZS 517 million.
2017	Interest rate risk: stress reduce interest margin by 5%	Reduce profit by TZS 208 million.	Reduce equity by TZS 208 million.

The table presented here in shows the exposure to interest rate risks.

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.2 Interest rate risk (continued)

	Up to 1 Month	1 - 3 Months	3 - 12 Months	Over 1 year	Non-interest bearing	Total
As at 31 December 2018	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets						
Cash and Bank balances with Bank of Tanzania	-	-	-	-	8,696,396	8,696,396
Loans and balance to banks	10,206,884	460,086	-	-	-	10,666,970
Government securities	-	847,816	4,500,187	6,925,494	-	12,273,497
Loans and advances to customers	5,254,037	3,543,254	10,743,126	56,811,337	-	76,351,754
Other assets	-	-	-	-	2,590,548	2,590,548
Total assets	15,460,921	4,851,156	15,243,313	63,736,831	11,286,944	110,579,165
Liabilities						
Due to other banks	19,271,481	-	-	-	-	19,271,481
Deposit from customers	45,771,527	8,097,419	21,026,707	259,888	-	75,155,541
Borrowings	-	1,500,000	3,340,061	3,750,000	-	8,590,061
Other liabilities	-	-	-	-	6,802,411	6,802,411
Total liabilities and equity	65,043,008	9,597,419	24,366,768	4,009,888	6,802,411	109,819,494
Interest sensitivity gap	(49,582,087)	(4,746,263)	(9,123,455)	59,726,943	4,484,533	759,671

DCB COMMERCIAL BANK PLC

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.2 Interest rate risk (continued)

	Up to 1 Month TZS'000	1 - 3 Months TZS'000	3-12 Months TZS'000	Over 1 year TZS'000	Non-interest bearing TZS'000	Total TZS'000
As at 31 December 2017						
Assets						
Cash and Bank balances with Bank of Tanzania	-	-	-	-	12,930,874	12,930,874
Loans and balance to banks	13,184,506	2,237,000	-	-	-	15,421,506
Government securities held to maturity	-	3,979,139	11,983,722	8,144,652	-	24,107,513
Loans and balance with customers	13,878	9,317,801	9,058,816	62,840,515	-	81,231,010
Other assets	-	-	-	-	60,896	60,896
Total assets	13,198,384	15,533,940	21,042,538	70,985,167	12,991,770	133,751,799
Liabilities and equity						
Due to other banks	28,803,316	-	-	-	-	28,803,316
Deposit from customers	45,307,844	18,235,755	24,841,668	2,017,108	-	90,402,375
Borrowings	-	-	1,000,000	6,500,000	-	7,500,000
Other liabilities	-	-	-	-	1,063,730	1,063,730
Total liabilities and equity	74,111,160	18,235,755	25,841,668	8,517,108	1,063,730	127,769,421
Interest sensitivity gap	(60,912,776)	(2,701,815)	(4,799,130)	62,468,059	11,928,040	5,982,378

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend. Analysis of the Bank's assets and liabilities into relevant maturity groupings is set out in note 3.3.3.

5.3.1 Liquidity risk management

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

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid Government securities, deposits from institutions and other inter-Bank facilities, to ensure that sufficient liquidity is maintained within the institution as a whole. All liquidity policies and procedures are subject to review by Assets and Liabilities Committee and approval by the Board.

The Bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, Directors ensure that the mismatch is controlled in line with allowable risk levels and includes:

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

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

5.3.2 Funding approach

Sources of liquidity are regularly reviewed by the Bank to maintain a wide diversification by currency, provider, product and term.

5.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual discounted cash flow discounted to 31 December 2018. The bank does not manage liquidity based on undiscounted cash-flows and hence the disclosure is based on discounted cash flows.

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**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3. Liquidity risk (continued)

5.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk (Continued)

At 31 December 2018	Due on Demand	Up to 1 Month	1 - 3 Months	3 - 6 Months	6 - 12 Months	1 - 5 Years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Liabilities							
Due to other banks	-	19,271,481	-	-	-	-	19,271,481
Deposits from customers	45,771,527	-	8,097,419	12,284,939	8,741,768	481,186	75,376,839
Borrowings	-	-	1,500,000	-	2,000,000	5,090,061	8,590,061
Other liabilities	311,688	-	-	-	713,059	-	1,024,747
Total liabilities	46,083,215	19,271,481	9,597,419	12,284,939	11,454,827	5,571,247	104,263,128
Assets held for managing liquidity risk	8,696,396	18,051,469	4,851,155	5,452,572	9,790,741	65,541,032	112,383,365
Net liquidity gap	(37,386,819)	(1,220,012)	(4,746,264)	(6,832,367)	(1,664,086)	59,969,785	8,120,237

At 31 December 2017							
Liabilities							
Due to other banks	-	28,803,316	-	-	-	-	28,803,316
Deposits from customers	45,307,844	-	18,235,755	2,703,855	22,137,813	2,017,108	90,402,375
Borrowings	-	-	1,000,000	-	-	6,500,000	7,500,000
Other liabilities	323,102	-	-	-	740,628	-	1,063,730
Total liabilities	45,630,946	28,803,316	19,235,755	2,703,855	22,878,441	8,517,108	127,769,421
Assets held for managing liquidity risk	14,050,874	13,259,280	6,475,124	5,169,794	24,931,560	70,985,167	134,871,799
Net liquidity gap	(31,580,072)	(15,544,036)	(12,760,631)	(2,465,939)	(2,053,119)	62,468,059	7,102,378

The analysis above assumes that all deposits falling due in each of the periods will be withdrawn, which is unlikely.

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3. Liquidity risk (continued)

5.3.4: 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);
- Items in the course of collection and treasury and other eligible bills;
- Placements 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, accordingly the behavioural pattern does not necessarily follow the contractual pattern. The Bank would also be able to meet unexpected net cash outflows by selling investment securities and accessing additional funding sources such as asset-backed markets.

The bank performs the following to manage its liquidity positions:

- Based on its judgement of financial market trends, the Bank actively adjusts its business strategies to manage liquidity risk.
- The bank performs periodic cash flow projections considering its impact on internal and regulatory limits.
- The bank control of non-earning assets proportion to manage its impact on the Bank's overall financial position.
- Conduct regular liquidity stress tests including testing of contingency plans.
- Monitor diversification of funding sources in order to control concentration risk and ensure a satisfactory funding mix.
- Monitoring the level of undrawn commitments.
- Regular conduct of the Asset and Liability management Committee (ALCO) meetings which focuses on:
 - Establishing policies and tolerance levels, from both risk and return perspectives, for liquidity, interest rate and balance sheet valuation management.
 - Manage the intra-day liquidity position to ensure that payment and settlement obligations are met on a timely basis.
 - Strategic financial position planning from both risk and return perspective.
 - Strategically coordinate the management of the Bank's financial position in consideration of changing economic conditions.

In addition, the bank carried out a right issue as disclosed in note 5.5 to these financial statements.

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.3.5 Commitments***(a) Operating lease commitments*

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 38, and summarized below.

(b) Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 37) are summarized in the table below.

	No later than 1 year	1-5 years	Over 5 years	Total
At 31 December 2018	TZS 000	TZS 000	TZS 000	TZS 000
Operating lease commitments	621,423	1,928,639	2,430,247	4,980,309
Capital commitments	99,591	-	-	99,691
Total	721,014	1,928,639	2,430,247	5,080,000
At 31 December 2017				
Operating lease commitments	722,481	2,076,071	2,913,201	5,711,753
Capital commitments	122,039	-	-	122,039
Total	844,520	2,076,071	2,913,201	5,833,792

(c) Commitments to extend credit and other facilities

As at 31 December 2018, the Bank had outstanding commitments to extend credit to customers and other facilities amounting to TZS 1.13 billion (2017: 1.20 million).

5.4 Fair value of financial assets and liabilities

IFRS 13 requires the Bank to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements.

The Bank specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.4 Fair value of financial assets and liabilities (continued)*****Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on recurring basis***

The Bank has equity investment with TMRC and Umoja switch worth TZS 1.80 billion Cost TZS 1.12 billion. These investments are measured at Fair value through OCI.

Financial instruments not measured at fair value:

The following table analyses within the fair value hierarchy the Bank's assets and liabilities (by class) measured at amortized cost at 31 December 2018.

Assets	Level 1 TZS '000	Level 2 TZS '000	Level 3 TZS '000
Cash and balances with Bank of Tanzania	-	8,696,396	-
Loans and balance to banks	-	10,666,970	-
Government securities	-	12,273,497	-
Loans and balance with customers	-	-	76,351,754
Other assets	-	-	2,590,548
Total assets	-	31,636,863	78,942,302
Liabilities			
Due to other banks	-	19,271,481	-
Deposit from customers	-	75,155,541	-
Borrowings	-	-	8,590,061
Other liabilities	-	-	6,802,411
Total liabilities	-	94,427,022	15,392,472

The following table analyses within the fair value hierarchy the Bank's assets and liabilities (by class) measured at fair value at 31 December 2017.

Assets	Level 1 TZS '000	Level 2 TZS '000	Level 3 TZS '000
Cash and balances with Bank of Tanzania	-	12,930,874	-
Loans and balance to banks	-	15,421,506	-
Government securities held to maturity	-	24,107,513	-
Loans and balance with customers	-	-	81,231,010
Other assets	-	-	60,896
Total assets	-	52,459,893	81,291,906
Liabilities			
Due to other banks	-	28,803,316	-
Deposit from customers	-	90,402,375	-
Borrowings	-	-	7,500,000
Other liabilities	-	-	1,063,730
Total liabilities	-	119,205,691	8,563,730

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Capital management

The primary objectives of the Bank's capital management which is a broader concept than the 'equity' on the face of statement of financial positions are:

- To comply with the capital requirements set by the Bank of Tanzania (BOT);
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.
- To ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and
- To maximize shareholders value.

Regulatory capital

The Bank of Tanzania sets and monitors capital requirements for the Banking industry as a whole. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a Bank's capital.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines, as implemented by the Bank of Tanzania (BoT), for supervisory purposes. The required information is filed with the BoT on a quarterly basis.

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

The Bank's regulatory capital is analyzed in two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions 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 capitals, which includes qualifying subordinated liabilities and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. Tier 1 capital (Core capital) is also subjected to various limits like limitation in risk weighted assets by 12.5% and investments in movable and immovable assets not to exceed 70% of core capital.

The Bank's management and the Board of Directors recognize the need to comply with regulatory capital requirements to address the increased threshold levels for regulatory capital. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The bank embarked on a recapitalization process after completing all governance procedures and obtained authorization from the Capital Markets and Securities Authority. The bank had intended to raise share capital through right issue whereby one share for every two share held was offered to the existing shareholders. In addition, the bank planned to offer all lapsed shares after the Rights Issue to other investors and the general public at large. The right issue process ended successfully on 31st January 2019 as planned with full subscription of all the shares in issue (33,913,948 shares) and managing to raise TZS 9.7 billion. Of this amount, TZS 6.5 billion was already collected as at the date of signing the financial statements, with collections ongoing for the remaining subscribed for shares.

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The bank is currently finalizing registration and listing of the sold shares, the process expected to be completed at the end of April 2019. Completion of the recapitalization process is expected to raise the bank's core capital to reach the required minimum required regulatory capital amount and will raise the capital adequacy ratios to above the minimum required as prescribed under section 17 of the Banking and Financial Institution Act 2006.

The table below summarizes the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2017 and year ended 31 December 2018. As at 31 December 2018, the Bank's Tier 1 & Tier 2 capital adequacy ratios were below the minimum capital adequacy ratios required by the Bank of Tanzania.

REGULATORY CAPITAL	2018	2017
	TZS'000	TZS'000
Tier 1 Capital		
Share capital	16,956,974	16,956,974
Share premium	4,104,046	4,104,046
Accumulated losses	(1,607,366)	(4,141,485)
Less: Intangible assets	(4,742,452)	(5,262,960)
Less: Prepaid expenses	(329,416)	(698,731)
Less: Deferred income tax asset	(5,112,854)	(3,184,201)
Total qualifying Tier 1 Capital	9,268,932	7,773,643
Tier 2 capital		
General reserve	704,362	685,813
Total regulatory capital	9,973,294	8,459,456
Risk - weighted assets		
On balance sheet	91,647,107	94,572,278
Off balance sheet	1,131,467	1,345,855
Total risk - weighted assets	92,778,574	95,918,133
Minimum capital for market risks	675,491	583,924
Minimum capital for Operational risks	10,406,192	-
Total adjusted risk weighted assets	103,860,257	96,502,057
Bank Ratios		
Tier 1 (BoT Minimum 12.5%)	9%	8%
Tier 1+Tier 2 (BoT Minimum 14.5%)	10%	9%

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. SEGMENT REPORTING

The segment reporting format is determined by Bank's risks and rates of returns based on products and services offered. The segment information provided to Bank's senior management for the reportable segments for the year ended 31 December 2018 is as follows:

	Retail	Treasury	Other	Total
	Banking	TZS'000	TZS'000	TZS'000
Statement of profit or loss and other comprehensive income	TZS'000	TZS'000	TZS'000	TZS'000
Net interest income	14,963,420	796,221	-	15,759,641
Fees, commission and other income	2,337,963	-	-	2,337,963
Foreign exchange income	33,129	12,558	-	45,687
Other operating income	-	-	757,544	757,544
Total operating income	17,334,512	808,779	757,544	18,900,835
Expenses				
Loan impairment charge	(272,289)	-	-	(272,289)
Personnel expenses	(8,638,236)	(290,795)	-	(8,929,031)
Administrative and other operating expenses	(6,421,293)	-	-	(6,421,293)
Depreciation and amortization	(1,656,708)	-	-	(1,656,708)
Total expenses	(16,988,526)	(290,795)	-	(17,279,321)
Profit before tax	345,986	517,984	757,544	1,621,514
Income tax charge	(626,383)	-	-	(626,383)
Profit for the year	(280,397)	517,984	757,544	995,131

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. SEGMENT REPORTING (CONTINUED)

31 December 2017

	Retail Banking TZS'000	Treasury TZS'000	Other TZS'000	Total TZS'000
Statement of profit or loss and other comprehensive income				
Net interest income				
Fees, commission and other income	20,888,754	(5,119,333)	-	15,769,421
Foreign exchange income	2,949,888	-	-	2,949,888
Other operating income	100,396	27,126	-	127,522
	-	-	(107,571)	(107,571)
Total operating income	23,939,038	(5,092,207)	(107,571)	18,739,260
Expenses				
Loan impairment credit				
Personnel expenses	(4,474,678)	-	-	(4,474,678)
Depreciation and amortization	(9,046,367)	(306,732)	-	(9,353,099)
Administrative and other operating expenses	(1,626,737)	-	-	(1,626,737)
	(10,187,791)	-	-	(10,187,791)
Total expenses	(25,335,573)	(306,732)	-	(25,642,305)
Loss before tax	(1,396,535)	(5,398,939)	(107,571)	(6,903,045)
Income tax credit	853,876	-	-	853,876
Loss for the year	(542,659)	(5,398,939)	(107,571)	(6,049,169)

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

SEGMENT REPORTING (CONTINUED)

	Retail Banking TZS'000	Treasury TZS'000	Other TZS'000	Total TZS'000
Statement of financial position as at 31 December 2018				
Assets				
Cash and balances with Bank of Tanzania	8,696,396	-	-	8,696,396
Loans and balances to banks	-	10,666,970	-	10,666,970
Government securities	-	12,273,497	-	12,273,497
Equity investment	-	-	1,804,200	1,804,200
Loans and advances to customers	76,351,754	-	-	76,351,754
Property and Equipment	8,303,855	-	-	8,303,855
Intangible assets	4,742,452	-	-	4,742,452
Corporate tax recoverable	-	-	1,631,681	1,631,681
Deferred tax asset	5,112,854	-	-	5,112,854
Other assets	3,170,701	-	-	3,170,701
Total assets	106,378,012	22,940,467	3,435,881	132,754,360
Equity and liabilities				
Equity				
Share capital	-	-	16,956,974	16,956,974
Share premium	-	-	4,104,046	4,104,046
Accumulated losses	(1,607,365)	-	-	(1,607,365)
General reserve	704,362	-	-	704,362
Fair valuation reserve	-	-	478,940	478,940
Total equity	(903,004)		21,539,960	20,636,956
Liabilities				
Deposit from banks	-	19,271,481	-	19,271,481
Deposits from customers	75,155,541	-	-	75,155,541
Borrowings	8,590,061	-	-	8,590,061
Other liabilities	9,100,321	-	-	9,100,321
Total liabilities	92,845,923	19,271,481	-	112,117,404
Total Equity and liabilities	91,942,919	19,271,481	21,539,960	132,754,360

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6.

SEGMENT REPORTING (CONTINUED)

Statement of financial position as at 31 December 2017	Retail Banking TZS'000	Treasury TZS'000	Other TZS'000	Total TZS'000
Assets				
Cash and balances with Bank of Tanzania	12,930,874	-	-	12,930,874
Loans and balances to banks	-	15,421,506	-	15,421,506
Government securities	-	24,107,513	-	24,107,513
Equity investment	-	-	1,120,000	1,120,000
Loans and advances to customers	81,231,010	-	-	81,231,010
Property and Equipment	8,531,074	-	-	8,531,074
Intangible assets	5,262,960	-	-	5,262,960
Corporate tax recoverable	-	-	2,075,888	2,075,888
Deferred tax asset	3,184,201	-	-	3,184,201
Other assets	1,018,012	-	-	1,018,012
Total assets	112,158,131	39,529,019	3,195,888	154,883,038
Equity and liabilities				
Equity				
Share capital	-	-	-	-
Share premium	-	-	16,956,974	16,956,974
General reserve	685,813	-	4,104,046	4,104,046
General banking risk reserve	6,961,742	-	-	6,961,742
Accumulated losses	(4,141,485)	-	-	(4,141,485)
Total equity	3,506,070	-	21,061,020	24,567,090
Liabilities				
Deposit from banks	-	28,803,316	-	28,803,316
Deposits from customers	90,402,375	-	-	90,402,375
Borrowings	-	7,500,000	-	7,500,000
Other liabilities	3,610,257	-	-	3,610,257
Total liabilities	94,012,632	36,303,316	-	130,315,948
Total liabilities and equity	97,518,702	36,303,316	21,061,020	154,883,038

Items reported under others are those which are used by both Retail and Treasury and cannot be specifically allocated to any of the two segments.

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	2018 TZS 000	2017 TZS 000
7. INTEREST INCOME		
Loans and advances	19,746,130	21,531,556
Government securities	2,279,634	3,154,672
Placements	432,403	876,840
	<u>22,458,167</u>	<u>25,563,068</u>
8. INTEREST EXPENSE		
Time deposits	4,148,856	5,193,880
Bank borrowing	1,915,816	3,956,965
Savings deposits	633,768	634,033
Current accounts	86	8,769
	<u>6,698,526</u>	<u>9,793,647</u>
9. FEES AND COMMISSION INCOME		
Loan commitment fees	966,897	974,017
Ledger fees	955,074	1,115,581
Commission on insurance fees	178,626	501,826
Withdrawal fees	88,153	146,895
Commission charged on transfers	22,596	63,773
Commission on Western Union Transfers	10,852	21,214
Commission on ATM withdrawal charges	38,884	55,476
Commission on mobile banking	51,614	41,279
Drafts and transfers	14,975	15,996
Guarantee and indemnities	10,292	13,831
	<u>2,337,963</u>	<u>2,949,888</u>
10. FOREIGN EXCHANGE INCOME		
Foreign exchange dealings gains	<u>45,687</u>	<u>127,522</u>
11. OTHER OPERATING (LOSS)/INCOME		
Loss on sale of property and equipment	-	(855,603)
Other income	757,544	748,032
	<u>757,544</u>	<u>(107,571)</u>
12. STAFF COSTS		
Wages and salaries	5,425,976	5,144,958
Pension and retirement benefits	877,501	874,935
Other staff costs	2,625,554	3,333,206
	<u>8,929,031</u>	<u>9,353,099</u>

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	2018	2017
	TZS '000	TZS '000
13. GENERAL AND ADMINISTRATIVE EXPENSES		
Lending expenses	660,421	1,467,007
Financial expenses	13,047	1,069
Legal expenses	36,911	113,788
ATM Management expenses	214,082	300,692
Consultancy expenses	289,061	106,549
Security expenses	461,185	532,872
Electricity expenses	191,123	237,130
Cleaning, gardening and water expenses	158,815	183,422
Telephone expenses	191,030	211,689
Insurance expenses	210,385	207,254
Office rent expenses	782,838	1,164,691
Stationery and consumables	431,521	1,585,752
Printing expenses	-	440
Sundry stamp duty	-	13,576
Auditors' remuneration	217,459	265,303
Donations & subscriptions	91,291	75,305
Recruitment expenses	26,651	80,468
Write off through profit or loss	41,895	512,567
Maintenance expenses (Note 15)	1,520,465	2,130,594
Provision for other risk assets	142,457	221,953
Marketing and promotion (Note 16)	589,646	631,705
Cost of meeting with shareholders (Note 17)	151,010	143,965
	6,421,293	10,187,791
14. DEPRECIATION AND AMORTISATION		
Amortization of leasehold building	95,044	120,364
Amortization of leasehold improvement	291,676	381,397
Depreciation of motor vehicles	134,348	139,386
Depreciation of Computer and IT equipment	40,724	122,927
Depreciation furniture & fittings and Machinery	457,543	367,224
Amortization of intangible assets	637,373	495,439
	1,656,708	1,626,737
15. MAINTENANCE EXPENSES		
Maintenance premises, furniture & equipment	247,759	334,446
Motor vehicle fuel and repair	201,784	221,660
Intangible assets, software	1,048,859	1,532,073
Computer & IT equipment	16,700	21,128
Maintenance office buildings	5,363	21,287
	1,520,465	2,130,594
16. MARKETING AND PROMOTION		
Publications	35,989	27,305
Advertisement	6,792	64,737
Magazine and journal	13,884	22,427
Promotion	532,981	517,236
	589,646	631,705

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 TZS'000	2017 TZS'000
17. COST OF MEETINGS		
Shareholders meeting expenses	42,714	30,480
Directors' fees	70,121	64,963
Board committees expenses	38,175	48,522
	<u>151,010</u>	<u>143,965</u>
18. INCOME TAX CHARGE/(CREDIT)		
Income tax expense:		
Current income tax - current year (AMT)	89,179	-
- prior year under provision	355,028	1,190,917
Deferred income tax - current year (note 29)	550,299	(2,044,793)
- prior year (note 29)	(368,123)	-
	<u>626,383</u>	<u>(853,876)</u>
Reconciliation of accounting profit to tax charge:		
Accounting profit/(loss) before income tax	1,621,514	(6,903,045)
Tax charge at 30%	486,454	(2,070,914)
Disallowed expenditure	44,945	318,326
Income not subject to tax	-	(292,205)
Prior year under provision of income tax	355,028	1,190,917
Prior year deferred tax	(368,123)	-
Alternative Minimum Tax (AMT)	89,179	-
Other items	18,900	-
	<u>626,383</u>	<u>(853,876)</u>

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

	<u>2018</u> TZS'000	<u>2017</u> TZS'000
19. CASH AND BALANCES WITH BANK OF TANZANIA		
Cash in hand	1,244,875	2,971,643
Balance with Bank of Tanzania	188,942	714,545
Cheques in the course of collection	57,735	179,406
Statutory minimum reserve (SMR)	<u>7,204,844</u>	<u>9,065,280</u>
	<u>8,696,396</u>	<u>12,930,874</u>
Current	<u>8,696,396</u>	<u>12,930,874</u>
The SMR deposit is not available to finance the day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the statement of cash flows (see Note 35). Cash in hand and balances with Bank of Tanzania and SMR are non-interest bearing.		
20. LOANS AND ADVANCES TO BANKS	<u>2018</u> TZS'000	<u>2017</u> TZS'000
Balances with other banks	10,656,886	15,287,961
Accrued interest	<u>10,084</u>	<u>133,545</u>
	<u>10,666,970</u>	<u>15,421,506</u>
Current	<u>10,666,970</u>	<u>15,421,506</u>
21. GOVERNMENT SECURITIES		
Treasury bills and bonds with more than three months original maturity	10,908,202	8,144,652
Treasury bills and bonds with original maturity of three months or less	-	14,586,330
Accrued interest	<u>1,365,295</u>	<u>1,376,531</u>
	<u>12,273,497</u>	<u>24,107,513</u>
Current	<u>5,348,003</u>	<u>15,962,861</u>
Non-current	<u>6,925,495</u>	<u>8,144,652</u>
22. LOANS AND ADVANCES TO CUSTOMERS		
Loans to individuals and corporates (22(a))	75,884,187	72,196,673
Loans to solidarity groups	10,832,300	13,123,559
Overdraft facility	<u>3,828,983</u>	<u>3,333,941</u>
	<u>90,545,470</u>	<u>88,654,173</u>
Allowance for credit losses (22(a))	<u>(14,193,716)</u>	<u>(7,423,163)</u>
At 31 December	<u>76,351,754</u>	<u>81,231,010</u>

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)	2018 TZS'000	2017 TZS'000
(a) Analysis of loans to individuals		
Small Medium Enterprise /Micro enterprise	6,233,066	6,022,556
Mortgage	5,285,022	3,250,115
Housing Microfinance	3,414,136	1,253,426
Salaried loans	60,951,963	61,670,576
	75,884,187	72,196,673
(b) Maturity analysis		
With maturity of 3 months or less	8,797,291	9,331,679
With maturity of between 3 months and 1 year	10,743,126	9,058,816
With maturity of more than 1 year	56,811,337	62,840,515
	76,351,754	81,231,010

(b) Movement in allowance for impairment of loans and advances is as follows;

	2018 TZS'000	2017 TZS'000
At 1 Jan 2018	7,423,163	3,648,249
Adjustment of opening balance IFSR 9	7,720,293	-
Adjusted opening balance 1 Jan 2018	15,143,456	3,648,249
Impairment charge	272,289	4,474,678
Write offs	(1,222,029)	(699,764)
At 31 December 2018	14,193,716	7,423,163

(c) Additional provision as per Bank of Tanzania Regulations

	2018 TZS'000		2017 TZS'000	
Regulatory Impairment	General reserve	General Banking risk reserve	General reserve	General Banking risk reserve
At the beginning of the year	685,813	6,961,742	798,895	4,675,761
Provision during the year	18,549	(6,961,742)	(113,082)	2,285,981
At the end of the year	704,362	-	685,813	6,961,742

General reserve of 1% on unclassified loan assets (current book) is made as per the Banking and Financial Institutions Management of Risk Assets Regulation, 2014.

23. EQUITY INVESTMENTS	Interest held	2018 TZS'000	2017 TZS'000
Tanzania Mortgage Refinancing Company	6.0%	1,784,200	1,100,000
Umoja Switch Co. Ltd	7.7%	20,000	20,000
		1,804,200	1,120,000

The Bank has investments in ordinary shares in Tanzania Mortgage Refinancing Company Limited (TMRC) valued at Fair value and Umoja Switch Co. Ltd being founder member of the Switch.

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

PROPERTY AND EQUIPMENT

	Machinery and equipment TZS'000	Furniture, and fixture TZS'000	Computers and IT equipment TZS'000	Generator TZS'000	Motor vehicle TZS'000	Leasehold improvement TZS'000	Leasehold building TZS'000	WIP TZS'000	Total TZS'000
Cost									
As at 1 January 2018	1,774,701	618,090	1,131,416	365,354	699,887	2,903,745	4,053,472	1,129,307	12,675,972
Additions	32,299	19,309	63,259	15,126	76,800	208,996	-	418,222	834,011
Reclassifications	172,263	(33,119)	(139,144)	-	-	-	-	-	-
Transfer in/(out)	-	-	-	-	-	178,419	-	(178,419)	-
Write off	-	-	-	-	-	-	-	(41,895)	(41,895)
At 31 December 2018	1,979,263	604,280	1,055,531	380,480	776,687	3,291,160	4,053,472	1,327,215	13,468,088
Depreciation									
As at 1 January 2018	925,327	418,304	713,802	284,418	345,085	839,279	618,683	-	4,144,898
Charge for the year	375,438	50,487	40,724	31,618	134,348	291,676	95,044	-	1,019,335
At 31 December 2018	1,300,765	468,791	754,526	316,036	479,433	1,130,955	713,727	-	5,164,233
Net Book Value	678,498	135,489	301,005	64,444	297,254	2,160,205	3,339,745	1,327,215	8,303,855

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

PROPERTY AND EQUIPMENT (CONTINUED)

Cost	Machinery and equipment TZS'000	Furniture, and fixture and fitting TZS'000	Computers and IT equipment TZS'000	Generator TZS'000	Motor vehicle TZS'000	Leasehold improvement TZS'000	Leasehold building TZS'000	WIP TZS'000	Total TZS'000
As at 1 January 2017	1,095,033	566,422	807,347	365,354	894,978	3,579,859	4,004,298	4,375,001	15,688,292
Additions	300,556	52,316	115,228	-	365,261	913,521	61,817	528,241	2,336,940
Disposal	(19,651)	(648)	-	-	(560,352)	(1,719,404)	(12,643)	-	(2,312,698)
Reclassifications	398,763	-	208,841	-	-	149,012	-	(756,616)	-
Transfer out to intangible	-	-	-	-	-	-	-	(3,017,319)	(3,017,319)
Write off	-	-	-	-	-	(19,243)	-	-	(19,243)
At 31 December 2017	1,774,701	618,090	1,131,416	365,354	699,887	2,903,745	4,053,472	1,129,307	12,675,972
Depreciation									
As at 1 January 2017	696,588	332,067	590,875	249,454	501,899	1,100,891	499,031	-	3,970,805
Charge for the year	245,755	86,505	122,927	34,964	139,386	381,397	120,364	-	1,131,298
Eliminated on disposal	(17,016)	(268)	-	-	(296,200)	(643,009)	(712)	-	(957,205)
At 31 December 2017	925,327	418,304	713,802	284,418	345,085	839,279	618,683	-	4,144,898
Net Book Value	849,374	199,786	417,614	80,936	354,802	2,064,466	3,434,789	1,129,307	8,531,074

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018	2017
	TZS'000	TZS'000
25. INTANGIBLE ASSETS		
Cost		
At 1 January	7,304,124	3,370,474
Additions	116,866	916,331
Transfer from PPE (note 24)	-	3,017,319
At 31 December	7,420,990	7,304,124
Amortization		
At 1 January	2,041,165	1,545,725
Charge for the year	637,373	495,439
At 31 December	2,678,538	2,041,164
Net Book Value	4,742,452	5,262,960
26. OTHER ASSETS		
Prepaid expenses	329,416	698,731
Stationery and consumables	250,738	258,385
Mobile banking float	4,114	4,114
Sundry assets	2,770,183	253,691
	3,354,451	1,214,921
Allowance for other assets	(183,750)	(196,909)
	3,170,701	1,018,012
Current	3,170,701	1,018,012
27. INCOME TAX RECOVERABLE		
At 1 January	2,075,888	1,670,888
Charge for the year relating to prior periods	(355,028)	(1,190,917)
Alternative minimum tax charge during the year	(89,179)	-
Corporation tax paid	-	1,595,917
At 31 December	1,631,681	2,075,888
28. DEPOSITS		
28.a DUE TO OTHER BANKS		
Term deposits (takings)	18,287,799	27,763,333
Savings	10,049	624,373
Call deposits	973,633	415,610
	19,271,481	28,803,316
28.b DEPOSITS FROM CUSTOMERS		
Current accounts	13,865,447	16,650,869
Savings deposits	26,781,504	28,656,975
Time deposits	34,508,590	45,094,531
	75,155,541	90,402,375
Current	74,895,653	88,385,267
Non-current	259,888	2,017,108

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. DEFERRED INCOME TAX ASSET/(LIABILITY)

Deferred income taxes are calculated on all temporary differences under the liability method, using the enacted tax rate of 30%

	2018 TZS'000	2017 TZS'000
The net deferred tax assets/(liabilities) is attributable to the following:		
Accelerated capital allowances	(161,018)	(214,515)
Provisions (loans and other assets)	4,313,240	2,293,535
Loss carried forward	847,307	1,105,181
Revaluation Gain on equity Investment	(205,260)	-
Commitment fee - Prior periods	368,124	-
Commitment fee - current year	(49,539)	-
At end of the year	5,112,854	3,184,201

The movement on the deferred tax account is as follows:

	31 December 2017 TZS'000	IFRS 9 adjustment TZS'000	1 January 2018	Credited to profit or loss TZS'000	31 December 2018 TZS'000
Deferred tax assets/(liabilities) in relation to:					
Property and equipment	(214,515)	-	(214,515)	53,497	(161,018)
Provisions - Loans	2,226,949	2,316,088	4,543,037	(284,922)	4,258,115
Provisions - other assets	66,586	-	66,586	(11,461)	55,125
Loss carried forward	1,105,181	-	1,105,181	(257,874)	847,307
Revaluation Gain on equity Investment	-	(205,260)	(205,260)	-	(205,260)
Commitment fee	-	-	-	318,585	318,585
	3,184,201	2,110,828	5,295,029	(182,175)	5,112,854

30. BORROWINGS

	2018 TZS'000	2017 TZS'000
Tanzania Mortgage and Refinance Corporation(TMRC)	3,500,000	3,500,000
(a)		
BOT Housing Microfinance (b)	3,000,000	3,000,000
Self Microfinance (c)	2,090,061	1,000,000
	8,590,061	7,500,000
Current	4,840,061	1,000,000
Non - Current	3,750,000	6,500,000
	8,590,061	7,500,000

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****30. BORROWINGS (CONTINUED)**

Detailed analysis for each loan is as provided herein below:

a) TMRC term loan

On 14 July 2016 the Bank received a mortgage refinancing loan from TMRC of TZS 2.0 billion. The tenor of the loan is 3 years and bears interest of 11.73% maturing on 14 July 2019. The bank is still paying the loan. The Bank also received new loan of TZS 1.5 billion from TMRC on 26 February 2017 at the annual interest rate of 11.50% with maturity date of two years to 26 February 2019.

	2018	2017
	TZS'000	TZS'000
At 1 January	3,500,000	3,500,000
Loan received	-	1,500,000
Loan repayment	-	(1,500,000)
At 31 December	3,500,000	3,500,000

b) BOT term loan

On 31 July 2015 the Bank received a housing microfinance loan of TZS 1 billion from the Bank of Tanzania bearing annual interest rate of 10% with maturity date of 31 June 2020. On 31 March 2016 new loan was received of TZS 2 Billion with maturity of 5 years with interest rate of 10% maturing on 31 March 2021.

	2018	2017
	TZS'000	TZS'000
At 1 January	3,000,000	3,000,000
Loan received	-	-
At 31 December	3,000,000	3,000,000

c) SELF MICROFINANCE term loan

On 23 December 2016 the Bank received loan of TZS 2 billion from SELF Microfinance bearing annual interest rate of 11% for 2 years with maturity date of 23 December 2018. Of this amount, the unpaid principal at year end was TZS 250 million. The Bank received another loan of TZS 2 billion during the year with interest rate of 8.7% repayable quarterly. The duration is from 17 September 2018 to 17 September 2020.

	2018	2017
	TZS'000	TZS'000
At 1 January	1,000,000	2,000,000
Loan received	2,000,000	-
Repayment	(909,939)	(1,000,000)
At 31 December	2,090,061	1,000,000

DCB COMMERCIAL BANK PLC

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2018 TZS '000	2017 TZS '000
31. OTHER LIABILITIES		
Accrued expenses	1,120,047	1,144,622
Withholding tax	115,916	174,827
Sundry creditors	284,072	381,597
Deferred commitment fees	1,061,947	1,227,078
Dividend payable	311,688	323,102
Accounts payables	2,558,477	359,031
Right Issue Account	3,648,174	-
	9,100,321	3,610,257
32. SHARE CAPITAL		
Authorised 400,000,000 (2017:400,000,000) ordinary shares of TZS 250/= each	100,000,000	100,000,000
Issued and fully paid ordinary shares 67,827,897 (2017:67,827,897) shares of TZS 250/= each	16,956,974	16,956,974
33. SHARE PREMIUM		
67,827,897 shares issued at a premium	4,104,046	4,104,046
34. EARNINGS PER SHARE		
Basic earnings/(loss) per share		
Basic earnings/ (loss) per share amounts are calculated by dividing net profit/(loss) for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year. The calculation is based on:		
	2018	2017
Profit(loss) attributable to ordinary shareholders (TZS'000)	995,131	(6,049,169)
Weighted average number of ordinary shares	67,827,897	67,827,897
	15	(89)
Basic earnings/(loss) per share - TZS		
Diluted loss per share was the same as basic loss per share as the Bank had no potentially dilutive ordinary shares in issue.		
35. CASH AND CASH EQUIVALENTS	2018 TZS'000	2017 TZS'000
Cash and balances with Bank of Tanzania (excluding SMR) (Note 19)	1,433,817	3,686,188
Balances with other banks (Note 20)	10,666,970	15,421,506
Cheques in the course of collection (Note 19)	57,735	179,406
Qualifying treasury bills and bonds	-	15,962,861
	12,158,522	35,249,961

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. NET DEBT RECONCILIATION

The analysis and movement of the Bank's net debt is as follows;	2018	2017
	TZS' 000'	TZS' 000'
Cash and cash equivalents (Note 35)	12,158,522	35,249,961
Due to other banks	(19,271,481)	(28,803,316)
Borrowings repayable after one year	(8,590,061)	(7,500,000)
Net debt	(15,703,020)	(1,053,355)
Cash and cash equivalents (Note 35)	12,158,52	35,249,961
Gross debt – fixed interest rate	(27,861,542)	(36,303,316)
Net debt	(15,703,020)	(1,053,355)

	Assets	Liabilities from financing activities		Total
	Cash and cash equivalents TZS'000	Due to other banks TZS'000	Borrowings TZS'000	
At 1 January 2018	35,249,96	(28,803,316)	(7,500,000)	(1,053,355)
Cash flows	(23,091,439)	9,531,835	(166,944)	(13,726,548)
Interest accruals	-	-	(923,117)	(923,117)
Net debt	12,158,522	(19,271,481)	(8,590,061)	(15,703,020)
At 1 January 2017	28,840,768	(27,580,336)	(13,063,071)	(11,802,639)
Cash flows	6,409,193	(1,222,980)	7,647,852	12,834,065
Interest accruals	-	-	(2,084,781)	(2,084,781)
Net debt	35,249,961	(28,803,316)	(7,500,000)	(1,053,355)

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****37. RELATED PARTY DISCLOSURES**

The Bank is owned by UTT AMIS (22.73%), Dar es Salaam City Council (10.07%), Ilala Municipal Council (9.37%), Kinondoni Municipal Council (9.21%), Temeke Municipal Council (8.41%), National Health Insurance Fund (5.90%) and the General Public (34.31%).

	2018	2017
	TZS'000	TZS'000
Loans to key management personnel:		
Loans outstanding at the beginning of the year	585,275	1,131,482
Loan additions during the year	815,267	465,000
Loan repayments during the year	(630,125)	(1,011,207)
Loans outstanding at the end of the year	770,417	585,275
Interest income earned	67,559	58,277
Loans to shareholders:		
Loans outstanding at the beginning of the year	-	-
Loan additions during the year	-	-
Loan repayments during the year	-	-
Loans outstanding at the end of the year	-	-
Interest income earned	-	-
Deposits from Directors and key management personnel:		
Deposits at the beginning of the year	146,466	168,030
Deposits received during the year	1,656,900	1,943,348
Deposits repaid during the year	(1,651,791)	(1,964,912)
Deposits as at the end of the year	151,575	146,466
Interest expense	3,032	1,721
Deposits from shareholders		
Deposits at the beginning of the year	12,397,891	1,272,003
Deposits received during the year	9,015,301	12,951,321
Deposits repaid during the year	(6,720,682)	(1,825,436)
Deposits as at the end of the year	14,692,510	12,397,888
Interest expense	984,398	830,870
Key management compensation		
Salaries and other short-term benefits	1,622,921	1,291,647
Post-employment benefits – Social security costs	293,495	263,366
	1,916,416	1,555,013

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

DCB COMMERCIAL BANK PLC

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37. RELATED PARTY DISCLOSURES (CONTINUED)

Directors' remuneration

Directors' remuneration- short term benefits

**2018
TZS'000**

**2017
TZS'000**

70,121

64,963

Business relationship with the anchor Shareholders

The Bank continues to strengthen its relationship with the Municipal Councils in alleviating poverty to Women and Youth of Dar es Salaam whereby agreements have been made with Kinondoni Municipal Council, Ilala Municipal Council and Temeke Municipal Council to deposit funds for onward lending to Women and Youths under the Solidarity Group lending model. During the year 2018 total loan disbursement of 5.8 billion was achieved to Women and Youth. Outstanding loan as of 31 December 2018 is TZS (2017: TZS 2.7 billion). Detailed below is total cash received for the Women and Youths Funds and analysis of interest income earned.

(a) Cash received during the year

	As at 1 January TZS'000	Cash received during the year TZS'000	Total TZS'000
Kinondoni Municipal council	1,781,857	(1,612,263)	169,594
Ilala Municipal council	2,766,260	803,914	3,570,174
Temeke Municipal Council	876,274	87,907	964,181
	5,424,391	(720,442)	4,703,949

(b) Income earned during the year

	Interest Income TZS'000	Administration Fees TZS'000	Commitment Fees TZS'000	Total TZS'000
Kinondoni Municipal council	1,355	-	-	1,355
Ilala Municipal council	291,858	-	57,529	349,387
Temeke Municipal Council	82,579	-	14,747	97,326

38. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities

Guarantees and indemnities

Letters of credit

Undrawn balance

**2018
TZS'000**

**2017
TZS'000**

337,040

368,123

794,427

977,732

1,131,467

1,345,855

Capital expenditure

99,591

122,039

Capital commitment for the year 2018 comprises capital expenditure for lease improvement and software.

DCB COMMERCIAL BANK PLC**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018****NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****38. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)****Commitments to extend credit and guarantees**

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. However, the potential credit loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific standards.

Legal claims

Litigation is a common occurrence in banking industry due to the nature of the business. The Bank has established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end the bank had legal claims of which the total loss expected in the worst case scenario is TZS 1.07 Billion (2017: 1.25 billion)

Operating lease commitments - Bank as lessee

The Bank has entered into eight lease arrangements on the premises for Tabata, Temeke, Uhuru, Ukonga, Chanika, Mabibo External, Magomeni and Dodoma.

Future minimum rentals payable under non-cancellable leases as at 31 December are as follows:

	2018	2017
	TZS'000	TZS'000
Within one year	621,423	722,481
After one year but not more than five years	1,928,639	2,076,071
More than five years	2,430,247	2,913,201
	4,980,309	5,711,753

39. DIVIDEND PER SHARE

Dividends are not recognized as a liability until they have been approved at the Annual General Meeting. The Directors do not propose payment in year 2018. In 2017 no dividend was proposed.

40. EVENTS AFTER THE REPORTING DATE

There were no conditions after the statement of financial position date that had a material impact to the financial statements except continued collection of proceeds from the right issue. Further details on right issue have been disclosed in note 5.5 to these financial statements.