MAENDELEO BANK PLC

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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Abbreviations

The following styles of abbreviation are used in these Financial Statements:

ACPA	Associate Certified Public Accountant
CPA	Certified Public Accountant
12mECL	12 month expected credit loss
EAD	Exposure at default
ECL	Expected credit loss
EIR	Effective Interest Rate
FCPA	Fellow Certified Public Accountant
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
IAS 39	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standard
ISA	International Standard on Auditing
LGD	Loss given default
LTECL	Lifetime expected credit loss
OCI	Other comprehensive income
PD	Probability of default
POCI	Purchased or originated credit impaired (financial assets)
SPPI	Solely payments of principle and interest

MAENDELEO BANK PLC

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COMPANY INFORMATION

Name of organization	Maendeleo Bank PLC	
Chief Officers	Ibrahim Mwangalaba	Managing Director
	Newton Mathew	Ag.Head of Internal Audit
	Peter Tarimo	Head of Finance
	Mumi Philip	Head of Credit
	George Wandwalo	Head of Operations and ICT
	Richard Mashiku	Head of Human Resources
Directors	Amulike Ngeliama	Chairperson
	Dosca Mutabuzi	Vice Chairperson
	Anna Mzinga	Director
	Felix Mlaki	Director
	Reverend Ernest Kadiva	Director
	Naftal Nsemwa	Director
	Ambassador Richard Mariki	Director
	Ibrahim Mwangalaba	Managing Director
Registered Office	Maendeleo Bank PLC Sokoine Drive P.O. Box 216 Dar es Salaam Tanzania	
Auditors	Ernst & Young Tanhouse Tower (4th Floor); Plot No. 34/1- Ursino South, New Bagamoyo Road, P.O. Box 2475 Dar es Salaam, Tanzania	
Bankers	Bank of Tanzania P.O. Box 2939 Dar es Salaam Tanzania	CRDB Bank Plc P.O. Box 70013 Mbagala Branch Dar es Salaam
	EcoBank (T)Ltd Uhuru Branch P.O. Box 20500 Dar es Salaam Tanzania	Bank of India Maktaba Square P.O. Box 7581 Dar es Salaam Tanzania

COMPANY INFORMATION (Continued)

Bank's Attorney	BM Attorneys 1st Floor Canton Building PO Box 4681 Dar es Salaam Tanzania	Bwana Attorneys 5th Floor ITS Building PO Box 20437 Dar es Salaam Tanzania

MAENDELEO BANK PLC

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

1. INTRODUCTION

The Board of Directors of Maendeleo Bank PLC has the pleasure to present their annual report and the audited financial statements for the year ended 31 December 2018, which disclose the state of affairs of the Bank.

2. BACKGROUND

Maendeleo Bank Plc started as a result of the strategical decision made during the Annual General Meeting of the Evangelical Lutheran Church of Tanzania - Eastern and Coastal Diocese in 2008 where it was decided to establish a Regional bank and in September 2013 the bank was established. The broader goal of the bank is to provide banking services to the emerging Tanzanian businesses with affordable price to enable the emerging businesses and financially disadvantaged people in the country to access financial services. Maendeleo Bank PLC is targeting to serve individuals, Savings and Credit Cooperative Society (SACCOS), Micro, Small and Medium Enterprises (SMEs), salaried workers as well as group and corporate customers. The shareholding structure comprises of various church institutions, individuals, Evangelical Lutheran Church Tanzania (ELCT) - Eastern and Coastal Diocese and United Evangelical Mission.

3. ESTABLISHMENT

Maendeleo Bank PLC is a public limited company established under Tanzania Companies Act No. 2 of 2002, with registration number 81006 and granted a Banking License number NBA 00026 issued by the Bank of Tanzania.

4. PRINCIPAL ACTIVITIES

The Bank is engaged in the business of banking and provision of related services and is licensed under Banking and Financial Institutions Act 2006.

The bank carries on business of assets and liabilities management through accounts operations and lending to micro, small and medium enterprises in all its departments, branches and agencies including:

- Receiving deposits of money, including savings and time deposits;
- Lending money to individuals, small scale business, industrial, commercial, Saving and Credit Cooperation Society (SACCOS), etc.;
- Providing money transfer services; and
- Facilitating payment systems through operating current accounts, and other accounts for individuals.

5. VISION AND MISSION STATEMENTS

5.1 Vision

The vision of the Bank is "To become the premier bank in Tanzania, which is customer need driven with competitive returns to shareholders"

5. VISION AND MISSION STATEMENTS (Continued)

5.2 Mission

The mission of the Bank is "To grow our business whilst investing on communities that we serve and improving the lives of our employees. We strive to provide competitive and innovative financial services to all stake holders and the society".

6. OBJECTIVES

The Bank has several objectives, which are:

- To mobilize financial resources from the society in the form of deposits and make them available to entrepreneurs with viable businesses;
- To promote easy access to financial services for entrepreneurs running micro, small and medium enterprises;
- To promote viable investment owned by diocese sectors through making available loans and other financial services and investments advisory services; and
- To become a sustainable and profitable bank so as to enhance public confidence and create return to investors.

7. CAPITAL

The Bank has a paid up capital of TZS.12,455,874,000 (2017: TZS. 10,316,496,000) held by various shareholders who include; Church institutions, individuals, ELCT-Eastern and Coastal Diocese and United Evangelical Mission.

8. CAPITAL EXPANSION THROUGH PUBLIC OFFER

As a means of raising capital that was needed to enable the bank to open branches and strengthen its operations, the shareholders during their first Annual General Meeting held on 16 May 2015 approved issuance of a rights issue, and be followed by public offer and subsequent approval by relevant authorities were obtained. Rights issue of 6,000,000 new ordinary shares of TZS 500 par value was issued at an offer price of TZS 510 per share, at the rate of two new ordinary shares for every three shares held as at 30 October 2015. On 6 May 2017 AGM approved Public Offer of 17,612,417 new ordinary shares of Tzs.600 par value were issued on 18 September 2017. During the period ended 31 December 2018 a total of TZS.5,104,912,000 was already realized which is 51% of the approved Public offer.

9. ANNUAL GENERAL MEETING

The fourth Annual General Meeting for the bank was held on 23 June, 2018 at Diamond Jubilee Hall whereby shareholders were informed on the bank's operations for the fourth full year of operations since its inception. The following resolutions were made by the shareholders:

9. ANNUAL GENERAL MEETING (Continued)

- The AGM packs should be timely availed and sent through emails of Shareholders to enable timely delivery and minimize printing costs.
- The report on Corporate and Social Responsibility (CSR) should be indicating total costs spent on the CSR events.
- Approved directors' allowances and fees as follows;
  - Chairman to be paid sitting allowance of TZ 650,000 and other members to be paid TZS 600,000;
  - Annual directors fees for Chairman were pegged at TZS 1,500,000/- and other directors TZS 1,000,000; and (there were no changes to the rates); and
  - Appointed Ernst &Young as the external auditors for the year ending 31 December 2018.
- Extension of Board tenure for one year and selection of Board nomination committee

10. MEMBERSHIP OF THE BOARD OF DIRECTORS

The Directors of the Bank at the date of this report and who have served since 2013 and their appointment confirmed in 2015 are:

S/No.	Name	Position	Age (Years)	Qualification/Discipline	Nationality	Date of Appointment
1	Amulike S. K. Ngeliama	Chairperson	69	Bachelor of Arts (Economics)	Tanzanian	16/05/2015
2	Dosca K. Mutabuzi	Vice Chairperson	61	Bachelor of Law, High Court Advocate, MBA	Tanzanian	16/05/2015
3	Anna T. Mzinga	Director	42	Advanced Diploma in Accountancy, CPA (T), MBA (Finance.)	Tanzanian	16/05/2015
4	Felix H. Mlaki	Director	44	Bachelor of Arts (Economics), MBA (Finance)	Tanzanian	16/05/2015
5	Reverend Ernest. W. Kadiva	Director	52	Bachelor of Commerce Management, Masters in Theology	Tanzanian	16/05/2015
6	Naftal M. Nsemwa	Director	72	Bachelor of Arts (Economics), PGD in Project Analysis	Tanzanian	16/05/2015
7	Ambassador Richard Mariki	Director	75	Bachelor of Arts, MSc Management	Tanzanian	16/05/2015
8	Ibrahim A. Mwangalaba	Executive Director and Secretary to the Board	50	Bachelor of Commerce (Marketing), MBA (Finance), Associate Diploma in Banking	Tanzanian	16/05/2015

11. CORPORATE GOVERNANCE

The Directors consider corporate governance as a key to good performance of the Bank. In view of this, the Directors continued to strengthen good governance system by reviewing policies in the areas of the Board and Board committees' activities and general management of the Bank. Board guidelines, committees' charters and policies of the Bank were reviewed and approved during the period.

Chairman and Managing Director
The Chairman is a non-executive Director, and the roles of the Chairman and the Managing Director are separate, with their responsibilities clearly defined. The Chairman is responsible for leading the Board and ensuring its effectiveness. The Managing Director is responsible for the execution of the Bank's strategy, policies and the day-to-day business of the Bank, supported by management and executive committees which he chairs.

Board structure
The Board comprises of eight (8) Directors including Chairperson and Vice Chairperson. Members of the Board were appointed by the Bank Steering Committee and vetted by Bank of Tanzania. This was followed by ratification by the shareholders during the Annual General Meeting of 16 May 2015; the Board will serve for the period of three years from 16 May 2015. The Board tenure ended May 2018 however on AGM held on 23rd June 2018 approved extension for one year to allow the Board to finalize the capital expansion through public offering.

Board Meetings
The Board of Directors and the Committees are each required to meet at least four times a year, i.e. once in every quarter, one annual General Meeting for Shareholders and Extra Ordinary Meetings when an urgent matter arises.
During the period ended 31 December 2018 the Board held eight meetings which deliberated on the Bank's policies, Bank's performance as well as the Bank's 2019 budget.

Committees of the Board
As at 31 December 2018 the Board had two Committees namely the Audit and Risk Committee and the Credit Committee. The activities of the Committees are governed by the Committee's charters approved by the Board.

Audit and Risk Committee
The committee had eight meetings during the year. The external auditors were invited and attended two meetings, to present their audit plan and audited financial statements for the year ended 31 December 2018. The Managing Director and all senior members of staff attended all the meetings as invitees.

The Audit and Risk Committee has the following members:

Name	Position	Age	Qualifications
Naftal M. Nsemwa	Chairperson	72	Bachelor of Arts (Economics), PGD in Project Analysis
Felix H. Mlaki	Director	44	Bachelor of Arts (Economics), MBA (Finance
Anna T. Mzinga	Director	42	Advanced Diploma in Accountancy, CPA (T), MBA (Finance))
Ibraham A.Mwangalaba	Secretary	50	Bachelor of Commerce (Marketing), MBA (Finance), Associate Diploma in Banking

11. CORPORATE GOVERNANCE (Continued)

Audit and Risk Committee (Continued)

The Board Audit and Risk Committee reviewed significant accounting policies and financial reporting systems to ensure that they are adequate and are complied with at all times. It reviewed adequacy of internal control systems and monitored implementation of actions to address issues raised by internal auditors, BoT examination and external auditors. The secretary of the Audit and Risk Committee is Ibrahim Mwangalaba who is an Executive Director.

The Head of Internal Audit functionally reports directly to the Committee. On annual basis, the Committee reviews and approves the internal auditors work plan and budget for the year while ensuring that it covers all high risk areas in the Bank's operations. The Committee also receives reports of findings observed by internal auditors on quarterly basis for review and recommendation to the Board.

Credit Committee

The committee had eight meetings during the year. The Managing Director and Head of Credit participated in all of the meetings as invitees.

The Credit Committee has the following members:

Name	Position	Age	Qualifications
Ambassador Richard Mariki	Chairperson	75	Bachelor of Arts, MSc Management
Naftal M. Nsemwa	Director	72	Bachelor of Arts (Economics), PGD in Project Analysis
Dosca K. Mutabuzi	Director	61	Bachelor of Law, High Court Advocate, MBA
Ibrahim A. Mwangalaba	Secretary	50	Bachelor of Commerce (Marketing), MBA (Finance), Associate Diploma in Banking

The Credit Committee monitors performance and quality of the credit portfolio, appraises and approves loans within its credit approval limit and recommends to the Board for approval facilities beyond its limit. The Committee reviews the Credit Policy and ensures that it contains sound fundamental principles that facilitate the identification, measurement, monitoring and control of credit risk as well as having appropriate plans and strategies for credit risk management.

Attendance of Board and Committees meetings

The Board of Directors had eight Board meetings during the period. The Audit and Risk Committee met five times and the Credit Committee met nine times during the year under review.

12. MANAGEMENT

The Management of the Bank is under the Managing Director and is organized in the following departments:

- Finance Department
- Credit Department
- Human Resources Department
- Information Communication Technology and Operations Department, and
- Internal Audit Department

13. RISK MANAGEMENT AND INTERNAL CONTROL

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

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

The efficiency of any internal control system is dependent on the strict observance of prescribed procedures. There is always a risk of non-compliance of such procedures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2018. The Board believes that the internal control system met accepted criteria.

14. PRINCIPAL RISKS AND UNCERTAINTIES

Operational, fraud and financial risks are the principal risks that may significantly affect the Bank's strategies and development. Below we provide a description of the operational, fraud and financial risks facing the Bank and the related management controls in place:

Fraud risk
There is a general increase in fraudulent transactions in the Banking industry in Tanzania.
Management has put in place several controls to mitigate the fraud risk. These controls include:

- The Bank has adequate segregation of duties in each sensitive area of the operations which include cheque handling, Automated Teller Machine (ATM) card and Personal Identification Number (PIN) controls and strong room,
- The Bank has adequate internal reports generated by system on daily basis that helps detection of any misappropriations and irregularities, and
- The Bank has an Internal Auditor and risk & compliance that check and provides assurance on the banks an operation which serves as a protection against any future risk.

Operational risk
This is a risk resulting from the Bank's activities not being conducted in accordance with the formal procedures put in place including non-compliance with Know Your Customer (KYC) and account opening procedures.

Management ensures that the Bank complies with KYC and other internal procedures.

Management has put in place several controls to mitigate the operational risk including

14. PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

Operational risk (Continued)

the following:

- The Bank has operational manual for its daily activities, which provides adequately procedures and rules of attending every activity of the Bank,
- The Bank has several policies, which guide the operations of every department and units in a bank, and
- The Bank has a system of making sure every transaction and event concluded has proper supervision and authorization.

Financial risk

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. More details of the financial risks facing the Bank are provided in Note 5 to the financial statements.

Management has put in place several controls to mitigate the financial risk including the following:

- The Bank has adequate policies that guide each operation relating to financial risk like credit policy, financial policy and Asset and Liability Committee (ALCO) policy,
- Management has internal reports that serve as red flags which puts attention to management in thoroughly reviewing the respective operations like net open position, exchange rates and general asset revaluation, and
- The Bank has in place insurance policies that cover for credit life Insurances for its borrowers.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce profit in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Bank. More details of the interest risks facing the Bank are provided in Note 5 to the financial statements.

Liquidity risk

Liquidity risk is the risk that a Bank is unable to meet its 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. The Bank's liquidity management process, as carried out within the Bank and monitored by the Asset and Liability Committee (ALCO) of the Bank, include:

- 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 maintain an active presence in money

14. PRINCIPAL RISKS AND UNCERTAINTIES (Continued)

Liquidity risk (Continued)

markets to enable this to happen;

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities. More details on liquidity risk management provided in note 4.

14. CAPITAL STRUCTURE

The Bank`s capital structure for the year under review is as follows:

31 December,2018	**2018**
	TZS`000
Authorized share capital	
60,000,000 shares of TZS 500 each	**30,000,000**
Issued and fully paid-up share Capital	
14,590,691 shares of TZS 500 each	7,295,346
8,508,187 public offer issue of TZS 600 each	5,104,912
Premium (5,561,635 rights issue of TZS 10 each)	55,616
	12,455,874

31 December,2017	**2017**
	TZS`000
Authorized share capital	
60,000,000 shares of TZS 500 each	**30,000,000**
Issued and fully paid-up share Capital	
14,590,691 shares of TZS 500 each	7,295,346
4,942,557 public offer issue of TZS 600 each	2,965,534
Premium (5,561,635 rights issue of TZS 10 each)	55,616
	10,316,496

15. REGULATORY CAPITAL

During the period, the Bank has complied with the requirements of Bank of Tanzania.
The details on capital management are provided on Note 4.5.Shares amounting to TZS.5,104,912,000 not yet allotted.

15. REGULATORY CAPITAL (Continued)

Below are the shareholders of the Bank:

Shareholders	Number of Shares	Value of Shares TZS.'000'	% of total shares
United Evangelical Mission	2,808,815	1,418,040	19%
Diocese Institutions	1,797,816	905,672	12%
ELCT-Eastern and Coastal Diocese	1,389,216	700,000	10%
Companies & SACCOS	817,558	414,785	6%
Hans Macha	426,783	215,100	3%
Other Individuals	7,350,503	3,697,365	50%
Public Offer(Waiting allotment)	8,508,187	5,104,912	
Total	**23,098,878**	**12,455,874**	**100%**

16. STOCK EXCHANGE INFORMATION

The shares of the Bank were listed in the Dar es Salaam Stock Exchange (DSE) on 5th November 2013 and became the first and the only bank listed at the point of its establishment. As at the end of the year 31 December 2018 the Bank's shares were traded at TZS 600 each. In September 2016 Maendeleo Bank Plc was nominated and awarded as the best listed bank under Enterprise Growth Market (EGM) in Dar Es Salaam Stock Exchange (DSE).

17. RESULTS AND DIVIDEND

The bank recorded a profit after tax of TZS. 793,342,000 for the year under review (2017: TZS 969,911,000). The profit for the year is mainly attributed to lending activities. The Board of Directors does recommend payment of dividend of TZS.17.15 per share for the year ended 31 December 2018. (2017: TZS 21.47).

18. PERFORMANCE FOR THE YEAR

18.1 Budget vs actual

Details	Budget TZS`000	Actual TZS`000	Achieved (%)
Customer deposit	65,296,353	48,111,068	74%
Loans and advances	54,270,386	41,831,038	77%
Interest earned	8,443,691	9,276,822	110%
Net interest income	6,137,155	6,087,096	99%
Fees, Commission and other income	1,874,353	1,174,280	63%
Operating expenses excluding employee benefit	3,091,769	3,061,707	99%
Employee benefit	2,719,810	2,632,571	97%

18.2 Actual financial position

The financial positions for the period set out on page 24 and are summarized below:
The total assets of the Bank as at 31 December 2018 stood at TZS. 66,520,971,000 (2017:

18. PERFORMANCE FOR THE YEAR (Continued)

18.2 Actual financial position (Continued)

TZS 64,989,203,000). Loans and advances stood at TZS. 41,831,038,000 (2017: TZS 36,097,419,000) and deposits were TZS 48,111,068,000 (2017: TZS 51,715,747,000).

19. PERFORMANCE INDICATORS

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

Bank's ratio

Key performance indicators	Definition and calculation method	2018	2017
Return on equity	Net profit/total equity	5.77%	8.65%
Return on assets	Net profit/total assets	1.19%	1.49%
Cost to income ratio	Total cost/Net income	90.57%	87.26%
Non interest to gross income	Non-interest /total income	10.76%	17%
Loans to deposit ratio	Total loans to customers /total deposits from customers	86.95%	69.80%
Non-performing loans to gross loans	Total non-performing loans/gross loans and advances	4.36%	4.64%
Growth on total assets	Increase in assets for the year/total assets opening balance	2.36%	55.92%
Growth on loan and advances to customers	Increase in loans and advances/opening balances of loans and advances	15.88%	44.89%
Growth of customer deposits	Increase in customer deposits/opening balance of customer deposits	-6.97%	59.37%
Tier 1 capital	Core capital/risk weighted assets including off balance sheet items	21.68%	14.99%
Tier 2 capital	Total capital/risk weighted assets including off balance sheet items.	22.30%	22.30%

20. CASH FLOWS

The Bank had favourable liquidity during the year and the liquidity ratio was above acceptable ratio of 20% of liquid assets throughout the year. To mitigate the effect of decrease in deposits, the bank conducted deposit mobilization campaign and close monitoring of the customer deposits.

21. FUTURE DEVELOPMENTS PLANS

The Bank's future strategy is to expand by establishment of agency banking in order to have a wide presence that can serve its customers better by providing easier access to banking services. During the five years of its strategic plan, the Bank has planned to increase its branch networks to upcountry regions. As at 31 December 2018, the bank had

21.FUTURE DEVELOPMENTS PLANS (Continued)
three branches, i.e. Luther House, Mwenge and Kariakoo branch.

The Bank also plans to purchase a system for human resources management that will include payroll system and interface with core banking activities. This integration will streamline the Bank's internal operations and management reporting.

The introduction of mobile phone banking has enabled customers to access basic banking and utility services such as electricity, water, and DSTV subscription payments, purchase of airtime, balance enquiry, money transfers, bank statements, cheque book requests, and foreign exchange rate requests among others. Similarly, the Bank has introduced Timiza Vikoba product, group loans using mobile phones to serve customers in areas where the Bank does not have a physical branch presence

The Bank intends to continue being profitable through introduction of innovative products, focusing on value added customer services and selective expansion of its branches while carefully managing both costs and risks. The Bank will continue to focus on improving productivity and introducing new products to the market.

23. SOLVENCY

The Bank's liquidity position is considered to be good. The total liquid assets amounted to TZS 16,879,131,000 (2017: TZS 21,993,382,000).

24. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions during the year with related parties were conducted at terms and conditions similar to those offered to other clients and in the normal course of business. Details of transactions and balances with related parties are included in Note 36.

25. EMPLOYEES WELFARE

Management and employees' relationship
There were continued good relations between employees and management for the year 2018. There were no unresolved complaints received by management from the employees during the year.

Management took measures to build strong workplace relations by ensuring that employees lived up to the standards of the institutions culture and values while maintaining effective communication at all levels. Staff meetings were conducted at branch, department and corporate levels whereby staffs were able to participate in helping shape the future of the organization.

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 facilities
During the year, the Bank spent TZS 29.39 million (2017: TZS 41.6 million) on staff training. A total of 34 staff benefited from internal and external courses. They acquired new knowledge and skills led to the enhancement of business performance.

25. EMPLOYEES WELFARE (Continued)

Financial assistance to staff
Salary advances are provided to all employees who have successfully completed probation according to the Bank's policies.

Medical assistance
All members of staff and their spouses up to a maximum number of four beneficiaries (dependants) for each employee were availed with medical services by the Bank through an external service provider.

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

Employees benefit plan
The Bank has a statutory requirement to contribute to the fund preferred by the employee, which is a defined contribution scheme. The Bank contributes 10% of employee's gross emoluments to the scheme.

Compensation benefits
The Bank has a statutory requirement to contribute to the Workers Compensation Fund with effect from 1 July 2015. The main purpose of the Fund is to provide compensation benefits when employees suffer occupational injuries, contract occupational diseases or die as a result of employment related reason(s). The Bank contributes 1% of the employees' earnings.

Gender Parity
The Bank gives gender equal opportunities to all Tanzanians during recruitment and filling of positions provided they have the required qualifications and ability. Out of the total number of employees in the Bank as at 31 December:

Gender	**2018**	**2017**
Male	46	33
Female	29	26
	75	**59**

26. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year (2017: Nil). Donations made to charitable and other organizations during the period amounted to TZS.7,624,500 (2017: TZS 23,719,242).

27. CORPORATE SOCIAL RESPONSIBILITY

The bank has a Corporate Social Responsibility (CSR) policy, which provides guidelines for the identification and management of corporate social responsibility programs.

28. RELATIONSHIP WITH STAKEHOLDERS

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

29. ENVIRONMENTAL CONTROL

The Bank is committed to the prevention of environmental pollution and is in compliance with relevant environmental laws in the area it operates as a minimum standard and seek; to implement best practices wherever possible.

30. ACCOUNTING POLICIES AND CRITICAL JUDGEMENT AND ESTIMATES

Results of the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the financial statements. When preparing the financial statements, it is the Directors' responsibility under the Tanzania Companies Act 2002 to select suitable accounting policies and to make judgments and estimates that are reasonable and prudent. The accounting policies that are deemed critical to the results and financial position, in terms of the materiality of the items to which the policies are applied and the high degree of judgment involved, including the use of assumptions and estimation, are described in Notes 2 and 3 to the financial statements.

31. FIDUCIARY RESPONSIBILITY

Members of the Board of Directors as stewards of public trust always acted for the good of the bank rather than for the benefit of themselves throughout the period. Reasonable care was exercised in all decisions taken by the bank without placing the Bank under unnecessary risks.

32. PREJUDICIAL ISSUES

There are no prejudicial issues that may affect the Bank.

33. INDEPENDENT AUDITORS

M/s Ernst and Young Auditors, Certified Public Accountants, Dar es Salaam, were appointed as the independent auditors of Maendeleo Bank PLC for the year ended 31 December 2018.The auditors have expressed their willingness to continue in office. A resolution proposing the appointment of auditors of the Bank for the year ending 31 December 2019 will be put to the Annual General Meeting.

Approved by Board of Directors for issue in _____ and signed on its behalf by:

Amulike S. K. Ngeliama
Chairperson

Date: 10 / 04 /2019

MAENDELEO BANK PLC

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

The Tanzania Companies Act No.12 of 2002 requires the Directors to prepare financial statements for each financial year, which 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 operating results of the Bank for that year. It also requires the Directors to ensure that the Bank keeps proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

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

The Directors accept responsibility for the annual 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 and the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act,2006 of Tanzania. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of its operating results. The Directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Maendeleo Bank PLC will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by Board of Directors for issue in and signed on its behalf by:

Amulike S. K. Ngeliama
Chairperson

Date: 10 / 04 /2019

MAENDELEO BANK PLC

DECLARATION OF HEAD OF FINANCE
FOR THE YEAR ENDED 31 DECEMBER 2019

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

It is the duty of a Professional Accountant to assist Maendeleo Bank Plc to discharge the responsibility of preparing financial statements showing true and fair view of the entity's financial position and performance in accordance with applicable International Financial Reporting Standards and the requirements of the Companies Act,2002 and Banking and Financial Institutions Act,2006 of Tanzania. Full legal responsibility for the preparation of financial statements rests with the Board of Directors of Maendeleo Bank Plc as indicated under the statement of directors' responsibilities.

I, CPA Peter B. Tarimo, being the Head of Finance of Maendeleo Bank Plc, hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2018 have been prepared in compliance applicable International Financial Reporting Standards and the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act,2006 of Tanzania.

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

Signed by: _____

Position: Head of Finance

NBAA Membership No: ACPA 3270

Date: 10 / 04 /2019

INDEPENDENT AUDITOR'S REPORT
To the shareholders of Maendeleo Bank PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Maendeleo Bank PLC ('the Bank') set out on pages 24 to 92, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Maendeleo Bank PLC as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and Banking and Financial Institutions Act, 2006 of Tanzania.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Tanzania, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

No.	Key audit matter	How our audit addressed the key audit matter
1.	**Credit risk and impairment of loans and advances to customers**	
	As at 31 December 2018, the provision for impairment on Financial Assets at Amortised Cost was TZS 837 million as disclosed in note 5 in the financial statements. This represents the estimation of expected losses at the year end. As of 1 January 2018, the Company adopted the accounting standard "IFRS 9: Financial instruments". The adoption of IFRS 9 resulted in reclassifications of financial assets and the implementation of an Expected Credit Loss (ECL) model. The determination of appropriate provisions for impairment is a key audit matter as it requires management judgement, is subject to estimation uncertainty and relies on available data. Areas which involve judgement and estimates include determination of probability of default (PDs), exposure amount given default (EAD) and ascertaining of future cash flows which the Bank will obtain when realizing the assets pledged as collaterals. There is a risk that the provision for impairment of financial assets does not represent a complete and accurate estimate of expected losses and that the carrying value of these items is misstated. This includes the risk that the ECL model is not in compliance with IFRS 9. The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in Note 2.3 to the financial statements on page 31.	Our audit procedures included: • We undertook an assessment of the company's new provisioning methodology and compared it with the requirements of IFRS 9. • We reviewed the application of the business model to existing portfolios and reviewed the results of the Solely Payments of Principal and Interest test for relevant financial instruments. • We evaluated the design and operating effectiveness of the company's controls and IT controls around credit management, ECL model and provision assessment. • We tested key controls over completeness and accuracy of data inputs to loan loss provisioning. • We assessed management's assumptions in relation 'significant increase in credit risk' and the allocation of loans to various categories basing on levels of risks. The management is required to estimate probability and exposures at defaults. This involves consideration of certain factors including macro-economic variables such as inflation and economic growth. • We tested a sample of loans to ensure that they have been included in the correct stages/buckets depending on the risk profiles of the customers in accordance with the Bank's methodology and IFRS 9. • We reviewed the IFRS 9 and IFRS 7 disclosures for adequacy and compliance with the amendments relating to IFRS 9.

Other Information included in the Company's 2018 Annual Report

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

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

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

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the Company'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 Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

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

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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

- In our opinion, the capital adequacy ratios as presented in Note 20 in the director's report have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 of Tanzania.

The engagement partner on the audit resulting in this independent auditor's report is Deokari Mkenda (ACPA 3438).

Signed by: Deokari Mkenda on behalf of Ernest & Young (ACPA 3438)
Certified Public Accountants
Dar es Salaam.

Date: 11/ 04 /2019

MAENDELEO BANK PLC
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 TZS'000'	2017 TZS'000'
Revenue			
Interest Income	25	9,276,822	8,426,022
Interest expenses	26	(3,189,726)	(2,631,662)
Net Interest income		**6,087,096**	**5,794,360**
Impairment losses	5	(837,503)	(689,029)
Net Interest income after Impairment		**5,249,593**	**5,105,331**
Fees, commission and other income	27(a)	1,174,280	1,194,401
Fees and commission expenses	27(b)	(49,373)	(38,788)
Net fees, commission and other income		**1,124,907**	**1,155,613**
Net operating income		**6,374,500**	**6,260,944**
Foreign exchange gain/(loss)	28	(45,472)	160,113
Employee benefit expenses	29	(2,632,571)	(2,081,173)
General and administration costs	30	(2,515,975)	(2,578,648)
Depreciation and amortization	31	(500,260)	(546,481)
Operating expenses		**(5,694,278)**	**(5,046,189)**
Profit for the year before tax		680,222	1,214,755
Income tax expense	32	113,120	(244,844)
Profit for the year		**793,342**	**969,911**
Other comprehensive income		-	-
Total comprehensive income for the year		**793,342**	**969,911**
Basic and diluted earnings per share	33	**34.3**	**66.4**

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	2018 TZS'000'	2017 TZS'000'
ASSETS			
Cash and balances with Bank of Tanzania	8	7,862,480	4,634,320
Placements and balances with other banks	9	8,531,132	20,007,882
Government securities	10	3,702,618	188,610
Loans and advances to customers	11	41,831,038	36,097,419
Inventories	12	2,423	55,318
Other assets	13	1,731,580	1,665,952
Intangible assets	14	319,087	158,100
Property and equipment	15	533,691	646,481
Leasehold improvements	16	860,777	952,159
Deferred tax	20	1,146,448	582,962
Total assets		**66,521,274**	**64,989,203**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	22	10,260,880	7,295,346
Share premium		55,616	55,616
Advance towards share capital	23	2,139,378	2,965,534
Regulatory reserves	24	228,827	-
General Reserve		301,496	276,312
Retained earnings		756,302	626,471
Total equity		**13,742,499**	**11,219,279**
LIABILITIES			
Deposits	17	48,111,068	51,715,747
Other liabilities	18	406,284	1,771,306
Borrowings	19	4,000,000	-
Income tax payable	21	261,423	282,871
		52,778,775	**53,769,924**
Total Equity and Liabilities		**66,521,274**	**64,989,203**

These financial statements were approved by the Board of Directors for issue on 10/04/2019 and were signed on its behalf by:

Name: Ibrahim Mwangalaba Title: Managing Director Signature: _____

Name: Amulike S. K. Ngeliama Title: Chairman Signature

MAENDELEO BANK PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital	Advance towards share Capital	Share premium	Regulatory Reserve	General reserve	Retained Earnings	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Balance at 1 January 2018	7,295,346	2,965,534	55,616	-	276,312	626,471	11,219,279
Impact of adopting IFRS 9 Note 4	-	-	-	-	-	(102,181)	(102,181)
Restated opening balance	7,295,346	2,965,534	55,616	-	276,312	**524,290**	11,117,098
Transfer to Capital from Retained Earnings	-	307,319	-	-	-	(307,319)	-
Issue of Shares	-	1,832,059	-	-	-	-	1,832,059
Transfer from Retained Earnings to General and Regulatory Reserves	-	-	-	228,827	25,184	(254,011)	-
Transfer from Advance towards Share Capital to Share capital	2,965,534	(2,965,534)	-	-	-	-	-
Profit for the year	-	-	-	-	-	793,342	793,342
At 31 December 2018	**10,260,880**	**2,139,378**	**55,616**	**228,827**	**301,496**	**756,302**	**13,742,499**
At 1 January 2017	7,295,346		55,616	37,031	216,779	(320,938)	7,283,834
Issue of Shares		2,965,534	-	-	-	-	2,965,534
Transfer to Regulatory Reserves from Retained Earnings		-	-	(37,031)	-	37,031	-
Transfer to Retained Earnings from General Reserves	-	-	-	-	59,533	(59,533)	-
Profit for the year	-	-	-	-	-	969,911	969,911
At 31 December 2017	**7,295,346**	**2,965,534**	**55,616**	**-**	**276,312**	626,471	**11,219,279**

MAENDELEO BANK PLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 TZS`000	2017 TZS`000
Cash flows from operating activities			
Profit for the year before tax		680,222	1,214,755
Adjustments for:			
Amortization of intangible assets	14	58,392	53,920
Credit loses		837,503	689,029
Depreciation of property and equipment	15	310,320	359,558
Amortization of leasehold improvements	16	131,548	133,004
		2,017,985	**2,450,266**
Changes in operating assets and liabilities			
Increase in loans and advances		(6,372,812)	(11,573,326)
(Increase)/Decrease in inventories		52,894	(44,834)
(Increase)/Decrease in placements with other banks		5,865,563	(6,786,173)
Increase in other assets		(65,326)	(729,592)
Increase/(Decrease) in customer's deposits		(4,254,666)	19,264,616
Movement in statutory minimum reserve	8	(379,667)	215,171
Decrease in other liabilities		(1,365,022)	(26,361)
Income tax paid		(428,022)	(431,870)
Cash generated from/(used in) operating activities		**(4,929,073)**	**2,337,897**
Cash flows from investing activities			
Purchase of government securities	10	(3,480,568)	(188,610)
Acquisition of intangible assets	14	(219,379)	(40,373)
Acquisition of property and equipment	15	(197,530)	(487,086)
Leasehold improvements costs incurred	16	(40,176)	(318,134)
Net cash used in from investing activities		**(3,937,653)**	**(1,034,203)**
Cash flows from financing activities			
Increase in Borrowings		4,000,000	
Paid up share capital/right Issue		1,832,059	2,965,534
Net cash generated from financing activities		**5,832,059**	**2,965,534**
Net (decrease)/increase in cash and cash equivalents		(3,034,667)	4,269,229
Cash and cash equivalents 1 January		14,238,989	9,969,760
Cash and cash equivalents 31 December	**37**	**11,204,322**	**14,238,989**
Additional information on operational cash flows from interest and dividend			
Interest received		8,570,678	7,642,350
Interest paid		2,925,540	2,506,475
Dividend		-	307,319

MAENDELEO BANK PLC

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. REPORTING ENTITY

Maendeleo Bank PLC is a public limited company established under Companies Act No. 2 of 2002 with Certificate of Incorporation No. 81006 and domiciled in the United Republic of Tanzania. The shareholding structure comprises various church institutions, Individuals, ELCT-Eastern and Coastal Diocese and United Evangelical Mission. The Bank is engaged in the business of banking and provision of related services.

The address of the registered office is as follows:
Luther House Sokoine Drive
P.O. Box 216
Dar es Salaam

The Bank`s shares are listed on the Dar es Salaam Stock Exchange (DSE) under Enterprise Growth Market (EGM).

The Bank`s financial statements for the year ended 31 December 2018 have been approved for issue by the Board of Directors on 10th April 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Statement of compliance

These financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS).

2.2 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 and the Banking and Financial Institution Act, 2006 was included where appropriate. The financial statements comprise statement of profit or loss and other comprehensive income, statement of financial position, 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) and the amounts are rounded to the nearest thousand shillings except where otherwise indicated.

The preparation of financial statements in accordance 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES(Continued)

2.2 Basis of preparation (Continued)

The areas involving a higher degree of judgement, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

2.3 Changes in accounting policy and disclosures

(i) New and amended standards and interpretations

In these financial statements, the Bank has applied IFRS 9 and IFRS 7R, effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments.
IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018.

Changes to classification and measurement
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition.
- Equity instruments at FVOCI, with no recycling of gains or losses o profit or loss on derecognition.
- Financial assets FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in OCI with no subsequent reclassification to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Changes in accounting policy and disclosures (continued)

Changes to classification and measurement (continued)

Under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

IFRS 7R

To reflect the differences between IFRS 9 and IAS 39, IFRS 7 Financial Instruments: Disclosures was updated and the Bank has adopted it, together with IFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in Note 4.

Reconciliations from opening to closing ECL allowances are presented in Notes 4 IFRS 7R also requires additional and more detailed disclosures for hedge accounting even for entities opting to continue to apply the hedge accounting requirements of IAS 39.

IFRS 15, 'Revenue from contracts with customers'

IFRS 15 is effective and has been implemented by the Bank on 1 January 2018. The standard replaces 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 recognised 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 recognised:

- 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.

The new standard provides a more detailed principles-based approach for income recognition compared to IAS 18 Revenue, with revenue being recognised as or when promised services are transferred to customers. The new standard applies to 'fees and commission income' but not to financial instruments or lease contracts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Changes in accounting policy and disclosures (continued)

IFRS 15, 'Revenue from contracts with customers'(Continued)

The Bank's main source of revenue is out of scope of IFRS 15. The Bank has identified and reviewed the contracts with customers that are within the scope of this standard. The outcome of the reviews has not resulted in the identification of additional performance obligations for certain products and as a result thereof a deferral of revenue relating to those products. 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. IFRS 15 did not have a material impact on the Bank's financial statements and therefore no adjustment to retained earnings in respect of adoption was done.

New standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank.

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Bank. The Bank's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16, 'Leases'

IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for 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.

As at the reporting date, the Bank has non-cancellable operating lease commitments of TZS 5.8million, see note 39 (b). Of these commitments, approximately the full amount relates to short-term leases which will be recognised on a straight-line basis as expense in profit or loss.

The Bank's activities as a lessor are not material and hence the Bank does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

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).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Recognition of interest income

2.4.1. The effective interest rate method

Under both IFRS 9 and IAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instruments measured at amortized cost, financial instruments designated at FVPL. Interest income on interest bearing financial assets measured at FVOCI under IFRS 9, similarly to interest bearing financial assets classified as available-for-sale or held to maturity under IAS 39 are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk. The adjustment is booked as a positive or negative adjustment to the carrying amount of the asset in the balance sheet with an increase or reduction in interest income. The adjustment is subsequently amortised through Interest and similar income in the income statement.

2.4.2. Interest and similar income

The Bank calculates interest income by applying the contractual rate to the gross carrying amount of financial assets other than credit-impaired assets.

When a financial asset becomes credit-impaired (as set out in Note 2.9.1) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying contractual rate rate to the net amortised cost of the financial asset. If the financial assets cures (as outlined in Note 6.1.3.1) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income on all trading assets and financial assets mandatorily required to be measured at FVPL is recognised using the contractual interest rate in net trading income and Net gains/(losses) on financial assets at fair value through profit or loss, respectively

2.5. Financial instruments – initial recognition

2.5.1. Date of recognition

Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Bank recognises balances due to customers when funds are transferred to the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Financial instruments – initial recognition (Continued)

2.5.2. Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 2.9.1.1 and 2.9.1.2. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVPL, transaction costs are added to, or subtracted from, this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss, as described below.

2.5.3. Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

2.5.4. Measurement categories of financial assets and liabilities

From 1 January 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 2.6.1
- Fair Value through Other Comprehensive income (FVOC)I, as explained in Notes 2.6.4 and 2.6.5: and
- Fair Value Through Profit or Loss (FVPL).

Before 1 January 2018, the Bank classified its financial assets as loans and receivables (amortised cost), FVPL, available-for-sale or held-to-maturity (amortised cost), as explained in Notes 2.6.1, 2.6.9 and 2.6.10.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVPL when they are held for trading and derivative instruments or the fair value designation is applied, as explained in Note 2.6.7.

2.6. Financial assets and liabilities

2.6.1. Due from banks, Loans and advances to customers, financial investments at amortised cost

Before 1 January 2018, *Due from bank* and *Loans and advances to customers*, included non–derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial assets and liabilities (Continued)

2.6.1. Due from banks, Loans and advances to customers, financial investments at amortised cost (Continued)

From 1 January 2018, the Bank only measures *Due from banks*, *Loans and advances to customers* and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

2.6.1.1. Business model assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.
The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchas financial assets going forward.

2.6.1.2. The SPPI test

As a second step of its classification process the Bank assesses the contractual terms of financial to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6. Financial assets and liabilities (Continued)

2.6.1.2. The SPPI test (Continued)

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.6.2. Debt issued and other borrowed funds

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issue funds, and costs that are an integral part of the EIR. A compound financial instrument which contains both a liability and an equity component is separated at the issue date.

2.6.3. Financial guarantees and undrawn loan commitments

The Bank issues financial guarantees and loan commitments.
Financial guarantees are initially recognized in the financial statements (within *Provisions*) at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and – under IAS 39 – the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or – under IFRS 9 – an ECL provision as set out in Note 39 (a).The premium received is recognized in the income statement in *Net fees and commission income* on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 39(a).
The Bank occasionally issues loan commitments at below market interest rates drawdown. Such commitments are subsequently measured at the higher of the amount of the ECL allowance (as explained in Notes 2.9).

2.7. Reclassification of financial assets and liabilities

From 1 January 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Bank acquires, disposes of, or terminates a business line. The Bank did not reclassify any of its financial assets or liabilities in 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8. Derecognition of financial assets and liabilities

2.8.1. Derecognition due to substantial modification of terms and conditions

The Bank derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Bank considers the following factors:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty

If the modification is such that the instrument would no longer meet the SPPI criterion
If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

2.8.2. Derecognition other than for substantial modification

2.8.2.1. Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.
The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset Or
- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows i n full without material delay to a third party under a ‘pass–through’ arrangement

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients
-
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8. Derecognition of financial assets and liabilities (Continued)

2.8.2. Derecognition other than for substantial modification (Continued)

2.8.2.1. Financial assets (Continued)

-
- the period between the collection date and the date of required remittance to the eventual recipients

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset

Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Bank could be required to pay. If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.8.2.2. Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

2.9. Impairment of financial assets (Policy applicable from 1 January 2018)

2.9.1. Overview of the ECL principles

As described in Note 2.3, the adoption of IFRS 9 has fundamentally changed the Bank's loan loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Bank has been recording the allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. Impairment of financial assets (Policy applicable from 1 January 2018) (Continued)

2.9.1. Overview of the ECL principles (Continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL) as outlined in Note 2.9.2). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 6.1.3.5. The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 6.1.3.6.
The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 6.1.3.5

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

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.

Stage 3: Loans considered credit-impaired (as outlined in Note 6.1.3.1). The bank records an allowance for the LTECLs.

POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

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

2.9.2. The calculation of ECLs

The Bank calculates ECLs based to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. Impairment of financial assets (Policy applicable from 1 January 2018) (Continued)

2.9.2. The calculation of ECLs (continued)

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:
The *Probability of Default (PD)* is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 6.1.3.2.

The *Exposure at Default (EAD)* is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 6.1.3.3.

The *Loss Given Default (LGD)* is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 6.1.3.4.

When estimating the ECLs, the Bank considers four scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs, as set out in Note 2.9.5. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out in Note 2.9.5, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value Provisions for ECLs for undrawn loan commitments are assessed as set out in Note 39 (a) The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained in Note 2.9.5.

The mechanics of the ECL method are summarised below:

Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default event on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. Impairment of financial assets (Policy applicable from 1 January 2018) (Continued)

2.9.2. The calculation of ECLs (continued)

discounted by an approximation to the original EIR. This calculation is made for each of the four scenarios, as explained above.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.

Stage 3: For loans considered credit-impaired (as defined in Note 6.1.3.1), the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

POCI: POCI assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting of the four scenarios, discounted by the credit- adjusted EIR.

Loan Commitments and letters of Credits: LTECLs for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan. For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within *Provisions*.

Financial Guarantee Contracts: The Bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within *Provisions*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. Impairment of financial assets (Policy applicable from 1 January 2018) (Continued)

2.9.3. Credit cards and other revolving facilities

The Bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the Bank has the right to cancel and/or reduce the facilities with one day's notice. The Bank does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities. Based on past experience and the Bank's expectations, the period over which the Bank calculates ECLs for these products, is five years for corporate and seven years for retail products

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 6.1.3.2, but greater emphasis is also given to qualitative factors such as changes in usage. The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained in Note 6.1.3.6, on an individual basis for corporate and on a collective basis for retail products. The collective assessments are made separately for portfolios of facilities with similar credit risk characteristics.

2.9.4. Forward looking information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- GDP growth
- Unemployment rates
- Central Bank base rates
- House price indices

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

2.10. Collateral valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10. Collateral valuation (Continued)

collateral, for example, cash or securities relating to margining requirements, is valued daily to the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, based on housing price indices.

2.11. Collateral repossessed

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Bank's policy.
In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

2.12. Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

2.13. Foreign currency translations

(i) Functional and presentation currency
Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates, Tanzania Shillings ("the functional currency"). The financial statements are presented in Tanzania Shillings (TZS) rounded to the nearest thousand shilling, which is the bank`s functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into Tanzania Shilling, the functional currency, using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are retranslated into the functional currency at the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13. Foreign currency translations (Continued)

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

2.14. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if and only if there is there is a currently enforceable legal right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.15. Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's 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.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired.

2.16. Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly to equity or other comprehensive income.

(i) **Current tax**

Current income tax is the expected amount of income tax payable or receivable on the taxable profit income or loss for the year determined in accordance with the Tanzanian Income Tax Act and any adjustment to the tax payable or receivable in respect of the previous years. It is measured using tax rates enacted or substantially enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) **Deferred tax**

Deferred income tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities used for tax purposes and their carrying values for financial reporting purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Income tax (Continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

• Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
• In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets recognized for the unutilized tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax asset are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized. Unrecognized deferred tax are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profit will be available against which they can be used.
Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Bank expects at the reporting date, to recover or settle the carrying amount of its assets and liabilities.
The Bank only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Bank's intention to settle on a net basis.

2.17. Provisions

Provisions are recognized 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.18. Property and equipment

i. Recognition and measurement
Items of property and equipment are stated at cost less any accumulated depreciation and less any accumulated impairment loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Property and equipment (Continued)

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. Cost includes expenditure that is directly attributable to the acquisition of the items

The cost of self-constructed includes cost of materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the initial estimate of costs of dismantling and removing the items and restoring the site on which they are located (as obligation arises) and capitalized borrowing costs, finance costs that may arise if credit price is greater than cash price.

ii. Subsequent costs

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

iii. Depreciation

Depreciation is recognised on a straight-line basis to write down the cost of property and equipment to their residual values over the estimated useful lives of the assets

The principal rates to be used per annum for the purpose of depreciation shall be as follows:

Assets Particulars	Annual Rate (%)
ATM and Generator	20
Motor vehicles	25
Office machines and equipment	25
Furniture and fittings	25
Computer equipment	33.3
Leasehold improvements	10

Depreciation charge starts when property and equipment is ready for use. Depreciation charge ceases when the property and equipment is disposed off or derecognized.
Depreciation method, the asset's residual values and useful lives are reviewed and adjusted if appropriate, at each statement of financial position date. Changes in the expected useful life are accounted for by changing the amortisation period or methodology, as appropriate, and treated as changes in accounting estimates. In practice, the residual values of assets are insignificant and, therefore, immaterial in the calculation of the depreciable amount.

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

iv. Derecognition

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use. The gain or loss on disposal is determined by comparing proceeds from the disposal with carrying amount of the item of property and equipment. Any gain or loss arising on

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18. Property and equipment (Continued)

derecognition of the asset are recognised net within other income in statement of profit or loss and other comprehensive in the year the asset is derecognised.

2.19 Leasehold improvements

Leasehold improvements are stated at cost, less accumulated amortization and accumulated impairment in value. Leasehold improvements amortizations are calculated on straight line basis at annual rates estimated to write down the carrying values of the assets to their residual value over their expected useful lives.

2.20 Intangible assets - software costs

An intangible asset is recognized only when its cost can be measured reliably and it's probable that the expected future economic benefits that are attributable to it will flow to the bank. Costs associated with maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production or procurement of identifiable and unique software products controlled by the bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

The amortisation period and the amortisation method for an intangible asset are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the expected useful life of three years (at the rate of 33.3% per year).

Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

2.21 Employee benefits

(i) Retirement benefit obligations

The Bank has a statutory requirement to contribute to the pension fund preferred by employees, which is a defined contribution scheme. The Bank contributes 10% of the required 20% of gross emoluments to the scheme and the contributions are recognised as an expense in the period to which they relate.

The remaining 10% is deducted from employees' emoluments. The Bank has no legal or constructive obligation to pay further contributions if pension fund does not hold sufficient assets to pay all employees the benefit relating to the employees service in the current and prior periods.

(ii) Other emoluments

Entitlements to annual leave are recognized when they accrue to employee. Outstanding days at year end are forfeited and therefore no provision is made for leave allowance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

2.23 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease.

The leases entered into by the bank are operating leases. The total payments made under operating leases are charged to other operating expenses in the statement of profit or loss and other comprehensive income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

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

2.23.1 Bank as a lessee

Leases that do not transfer to the Bank substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.23.2 Bank as a lessor

Leases where the Bank does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

2.24 Determination of fair value

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

• Level 1 financial instruments −Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Bank has access to at the measurement date. The Bank considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available on the balance sheet date.

• Level 2 financial instruments−Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Determination of fair value (Continued)

other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Bank will classify the instruments as Level 3.

• Level 3 financial instruments −Those that include one or more unobservable input that is significant to the measurement as whole.

2.25 Contingencies and commitments

Transactions are classified as contingencies where the bank's obligations depend on uncertain future events. Items are classified as commitments where the bank commits itself to future transactions if the items will result in the acquisition of assets.

i. Financial guarantees

Financial guarantees are initially recognized in the financial statements at fair value on the date the financial guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed at arm`s length and the value of premium agreed corresponds to the value of the guarantee obligation.

ii. Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off the balance sheet transactions and disclosed as contingent liabilities.

2.26 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a first in first out basis. Any obsolete items are provided for in full in the year they are detected. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

2.27 Cash and cash equivalents

For the purposes of statement of cash flows, cash and cash equivalents comprise of cash in hand (notes and coins on hand), highly liquid financial assets with original maturity of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair values and are used by the Bank in the management of its short-term commitments, and unrestricted balances held with the Bank of Tanzania. Cash and cash equivalents excludes the cash reserve requirement held with Bank of Tanzania.

2.28 Dividends

The dividend distribution to the Bank's shareholders shall be recognized as a liability in the Bank's financial statements in the period in which the dividends are approved by Bank's shareholders. Proposed dividends are not recognized until ratified at the Annual General Meeting (AGM). Payment of dividend is subject to withholding tax at the enacted rate of 5% (2017: 5%).

2.29 Earnings per share

The Bank presents basic and diluted Earnings Per Share (EPS) in its financial statements. Basic EPS is calculated by dividing the profit or loss attributable to the ordinary shareholders of the Bank by the weighted average number of shares outstanding during the year. Diluted EPS is calculated

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Earnings per share (Continued)

by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding during the year for the effect of all dilutive potential ordinary shares.

2.30 Accounting policies for financial assets used on comparative figures.

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets as appropriate. The Bank determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Bank commits to purchase or sell the asset.

The Bank's financial assets include cash and short-term deposits and trade and other receivables.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

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

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in selling and marketing costs. This category generally applies to trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Cash and cash equivalents are subsequently measured at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Accounting policies for financial assets used on comparative figures (Continued).

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of the Bank's continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The preparation of the Bank's financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.30 Accounting policies for financial assets used on comparative Figures (Continued).

the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

3.1. Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models. It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

3.2. Regulatory provision on financial assets

A loss regulatory provision is established all amounts due for financial assets in consistent with the requirement of Management of Risk Assets Regulations, 2014 issued by the Bank of Tanzania when there is doubt about the Bank's ability to recover. In the event that the provision required under the BOT Regulations exceeds that required by IFRS, the excess provision would be treated as a general banking provision and accounted for in reserves.

3.3 Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3.4 Deferred tax assets

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning and strategies. The deferred tax asset recognized on the Bank's statement of financial

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

3.4 Deferred tax assets (Continued)
position in year 2018 amounted to TZS 1,159,952,000 (2017: TZS 582,962,000). The judgments take 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.

3.5 Property, equipment and intangible assets
Estimates are made by the directors in determining the useful lives of property, equipment and intangible assets as well as their residual values. The Bank reviews the estimated useful lives of property, equipment and useful lives at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within `Other (losses)/gains - net' in profit or loss. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

3.4. Going Concern
The Bank's management has made an assessment of it is ability to continue as a going concern and is satisfied that it has resources to continue in business for foreseeable future. Furthermore management is not aware of any material uncertainties that may cast significant doubt on Bank's ability to continue as a going concern. Therefore financial statements continue to be prepared on going concern basis.

3.5. Provision and contingent liabilities
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.

3.6 SEGMENT REPORTING
The Bank revenue is derived from loans and advices issued to customers and banks (as disclosed in note 25) and the Board of Directors relies primarily on revenue from loans and advances to assess performance. The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the Statement of Comprehensive income. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the financial statements.

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

3.6 SEGMENT REPORTING (Continued)

The entity-wide information (required by IFRS 8 Operating Segments) relating to products and services, geographic areas and significant customers is not available and hence is not reviewed by the CODM.

The cost of obtaining such information is considered to be excessive.

4. TRANSITION DISCLOSURES

The following pages set out the impact of adopting IFRS 9 on the statement of financial position, and retained earnings including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's ECLs

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is, as follows:

	IAS 39 measurement			**Re measurement IFRS 9**	
	Category	**IAS 39 TZS '000'**	**ECL Adjustment TZS '000'**	**IFRS 9 TZS '000'**	**New Classification**
Financial assets					AC
Placements and balances with other banks	L&R	20,007,882	~~(72,66~~9)	19,935,213	AC
Loans and advances to customers	L&R	36,097,419	(73,305)	36,024,113	AC
Government securities	L&R	188,610		188,610	AC
Total Financial Assets		**60,928,231**	**(145,974)**	**60,782,256**	

L&R: Loans and Receivables
AC: Amortized Cost

4. TRANSITION DISCLOSURES (continued)

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

		Reserves and retained earnings TZS '000'
Closing balance under IAS 39 (31 December 2017)		626,471
Reclassification adjustments in relation to adopting IFRS 9		-
Recognition of IFRS 9 ECLs including those measured at FVOCI (see above)		145,974
Deferred tax in relation to the above		(43,793)
Opening balance under IFRS 9 (1 January 2018)		524,290
Total change in equity due to adopting IFRS 9		102,181

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 *Provisions Contingent Liabilities and Contingent Assets* to the ECL allowances under IFRS 9. Further details are disclosed in Notes 6.1.3.12,

	Loan loss provision under IAS at 31 TZS '000'			**Re-measurem TZS '000'**		**ECLs under IFRS 9 at 1 TZS '000'**
Impairment allowance for Loans and receivables and held to maturity securities perIAS 39/financial assets at amortised cost under IFRS 9	1,322,492			145,974		1,468,466
	1,322,492			145,974		1,468,466
Financial guarantees	-			-		-
Other commitments	–			-		-
	1,322,492			**145,974**		**1,468,466**

5. IMPAIRMENT LOSS

The table below shows ECL charges on the financial instruments for the year recorded in the income statement

	2018 TZS '000'		2017 TZS '000'
Due from banks	270,359		299,780
Loans and advances to customers	565,888		389,249
Government securities	-		-
Financial Guarantees	1,256		-
Total impairment loss	**837,503**		**689,029**

6. FINANCIAL RISK MANAGEMENT

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

The Bank`s risk management policies are designed to identify and analyse these risks, set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Bank regularly reviews its risk management policies and systems to reflect the changes in markets, products and emerging best practices.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. As part of its governance structure, the Board of Directors has embedded a comprehensive risk management framework for identifying, measuring, controlling (setting risk mitigations) and monitoring of the Bank's risks. The policies are integrated in the overall management information systems of the Bank and supplemented by a management reporting structure. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered, and emerging best practice.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees / stakeholders understand their roles and obligations. The Board's Credit Committee and Audit Committee are responsible for monitoring compliance with the Bank's risk management policies and procedures, and review of the adequacy of risk management framework in relation to the risks faced by the bank. These committees are assisted in these functions by various management committees which undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

The most important type of risks are:

- Credit risk
- Liquidity risk
- Market risk

The notes below provide detailed information on each of the above risks and the Bank's objectives, policies and processes for measuring and managing risk, and the Bank`s management of capital.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk is monitored by the credit risk department of the Bank's independent Risk Controlling Unit. It is their responsibility to review and manage credit risk, including environmental and social risk for all types of counterparties. Credit risk consists of line credit risk managers who are responsible for their business lines and manage specific portfolios and experts who support both the line credit risk manager, as well as the business with tools like credit risk systems, policies, models and reporting.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective actions.

6.1.1 Credit–related commitments risks

The Bank makes available to its customers guarantees that may require that the Bank makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Bank to similar risks to loans and are mitigated by the same control processes and policies.

6.1.2 Impairment assessment (Policy applicable from 1 January 2018)

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the *Summary of significant accounting policies*.

6.1.2.1 Definition of default and cure

The Bank considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments. The Bank considers treasury and interbank balances defaulted and takes immediate action when the required intraday payments are not settled by the close of business as outlined in the individual agreements.

As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- Internal rating of the borrower indicating default or near-default
- The borrower requesting emergency funding from the Bank

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk (continued)

6.1.1 Credit–related commitments risks (Continued)

- The borrower having past due liabilities to public creditors or employees
- The borrower is deceased
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decrease in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least six consecutive months. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.
The Bank's criterion for 'cure' for ECL purposes is less stringent than the 24 months requirement for forbearance which is explained in Note 2.13.

6.1.2.2 The Bank's internal rating and PD estimation process

The Bank's independent Credit Risk Department operates its internal rating models sorely based on the type of the credit product. The models incorporate both qualitative and quantitative information. These information sources are first used to determine the PDs within the Bank's Basel III framework. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS Stage classification of the exposure. This is repeated for each economic scenarios as appropriate.

6.1.2.2.1 Treasury, trading and interbank relationships

The Bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Bank's credit risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Good Rating Agency, and assigns the internal rating, as shown in the table below.

6.1.2.2.2 Corporate and small business lending

For corporate and investment banking loans, the borrowers are assessed by specialized credit risk employees of the Bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realized and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk (continued)

6.1.1 Credit–related commitments risks (Continued)

- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles.
- Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the Bank's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Bank and the complexity and size of the customer. Some of the less complex small business loans are rated within the Bank's models for retail products.

6.1.3.2.3 Consumer lending and retail mortgages
Consumer lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated by an automated scorecard tool primarily driven by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing
- Retail mortgages: GDP growth, unemployment rates, changes in personal income/salary levels based on records of current accounts, personal indebtedness and expected interest repricing

6.1.3.3 Exposure at default

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. EAD for credit cards and other revolving facilities is set out in Note 2.9.5.

To calculate the EAD for a Stage 1 loan, the Bank assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Bank's models.

6.1.3.4 Loss given default
For corporate and investment banking financial instruments, LGD values are assessed at least every three months by account managers and reviewed and approved by the Bank's specialised credit risk department. The credit risk assessment is based on a standardized LGD assessment framework that results in a certain LGD rate. These LGD rates take into account

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk (continued)

6.1.1 Credit–related commitments risks (Continued)

the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The Bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics (e.g., product type, wider range of collateral types) as well as borrower characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. The Bank estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

6.1.3.5 Significant increase in credit risk

The Bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition. The Bank considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

The Bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Bank may also consider that events explained in Note 5.3.3.1 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets (as set out in Note 5.1.3.6), the Bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

6.1.3.6 Grouping financial assets measured on a collective basis

As explained in Note 2.9.1 dependant on the factors below, the Bank calculates ECLs either on a collective or an individual basis.
Asset classes where the Bank calculates ECL on an individual basis include:

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

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk (continued)

6.1.1 Credit–related commitments risks (Continued)

- The treasury, trading and interbank relationships (such as Due from Banks, Cash collateral on securities borrowed and reverse repurchase agreements and debt instruments at amortised cost/FVOCI.
- Exposures that have been classified as POCI when the original loan was derecognised and a new loan was recognised as a result of a credit driven debt restructuring

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

- The smaller and more generic balances of the Bank's Small business lending
- Stage 1 and 2 Retail mortgages and Consumer lending
- Purchased POCI exposures managed on a collective basis

The Bank groups these exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans, as described below:

For retail mortgages these are:
- Product type (buy to let/owner occupied)
- Property type (prime, standard grade, low grade)
- Geographic location
- Loan-to-value ratios
- Internal grade
- Exposure value

For consumer lending these are:
- Product type (overdraft, unsecured personal loan, credit card, etc.)
- Internal grade
- Geographic location/residence of the borrower
- Utilisation
- In the case of credit cards, whether or not borrowers repay their balances in full every month
- Exposure value

For consumer lending these are:
- Borrower's industry
- Internal credit grade
- Geographic location
- Exposure value
- Collateral type

6.1.3.7 Regulatory Credit risk measurement
For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all customers are segmented into five rating classes as shown below:

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk (continued)

6.1.1 Credit–related commitments risks (Continued)

Traditional loans (loans other than microfinance loans)

Traditional Classification	Past due (Days)	Provisioning rate
Current	0-30	1%
Especially mentioned	31-90	3%
Substandard	91-180	20%
Doubtful	181-360	50%
Loss	361-	100%

Microfinance Classification	Past due (Days)	Provisioning rate
Current	0-5	1%
Especially mentioned	6-30	5%
Substandard	31-60	25%
Doubtful	61-90	50%
Loss	91-	100%

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

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

Bank's internal ratings scale

The Bank has its internal credit rating tools tailored in accordance with the Bank of Tanzania (BoT) guidelines. Customers of the Bank are segmented into five rating classes. The Bank's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

Bank's rating	Description of the grade	Number of days outstanding	IFRS 9
1	Current	0-30	Stage 1
2	Especially Mentioned	31-90	Stage 1
3	Sub-standard	91-180	Stage 2
4	Doubtful	181-360	Stage 2
5	Loss	361-Above	Stage 3

6.1.3.8 Risk limit control and mitigation policies
The Bank manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries. The Bank structures the levels

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk (continued)

6.1.1 Credit–related commitments risks (Continued)

of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

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

i. 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 risks as loans. Documentary and commercial letters of credit - which are written Undertakings by the Bank up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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

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

ii. Collateral
The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:
- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

Corporate, small and medium enterprise and micro enterprise loans are generally secured while salaried workers loans are unsecured. In order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

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

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk (continued)

6.1.1 Credit–related commitments risks (Continued)

	2018		2017	
Credit exposure on balance sheet items				
	TZS'000	**%**	**TZS'000**	**%**
Cash and bank with bank of Tanzania	7,862,480	12.6%	3,406,529	5.6%
Placements and balance with other banks	8,531,132	13.6%	20,307,663	33.3%
Government securities	3,702,618	5.9%	188,610	0.3%
Loans and advances to customers	41,831,038	66.9%	36,097,418	59.2%
Other assets	592,722	0.9%	951,803	1.6%
	62,519,990	**100.00**	**60,952,023**	**100.00**
Off balance sheet items				
Guarantees and performance bond	463,302	100	608,196	100
Undrawn credit lines and commitments	582,037	100	1,308,125	100

*Other assets (excludes prepayments, stock as they are not financial assets)
The total maximum exposure for the Bank is derived from loan and advances to customers at 66.9% (2017: 59.2%).
The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from the loan and advances portfolio as corporate loans which represents the greatest group in the portfolio are backed by collaterals.

6.1.3.10 Loans and advances
Loans and advances are summarized as follows:

	2018	**2017**
	TZS'000'	**TZS'000'**
Corporate lending	18,871,924	14,951,666
Small business lending	12,562,455	11,100,038
Consumer lending	12,358,344	11,368,208
Gross loan and advances	**43,792,723**	**37,419,911**
Less: Allowance for ECL/impairment losses	(1,961,685)	(1,322,492)
	41,831,038	**36,097,419**

The total impairment provision for loans and advances is TZS. 1,961,685,225. (2017: TZS 1,322,492,000). This amount represents individually impaired loans. Further information of the impairment allowance for loans and advances to customers is provided in Note 11.

During the year ended 31 December 2018, the Bank's total loans and advances increased by 16% (2017: 45%) as a result of the expansion of the lending business.

When entering into new markets or new industries, the Bank focused more on the business with small and medium corporate enterprises with good performance records or retail customers providing sufficient collateral in order to contain the level of delinquency.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk (continued)

6.1.1 Credit–related commitments risks (Continued)

a) Reconciliation of ECL gross amounts

An analysis of changes in the total gross carrying amount and the corresponding ECL allowances in relation are, as follows

Gross amounts

In TZS`000	**Stage1**	**Stage 2**	**Stage 3**	**Total**
1 Jan 2018	28,390,181	2,481,986	6,547,744	37,419,911
New assets originated	22,276,840	2,751,216	1,567,569	26,595,625
Assets paid off	(18,324,045)	(1,898,768)	-	(20,222,813)
Transfer to Stage 1	(910,528)	910,528	-	
Transfer to Stage 2		11,407	(11,407)	-
Transfer to Stage 3	(1,599,428)	-	1,599,428	-
w/off	-	-	-	-
31 Dec 2018	**29,833,020**	**4,256,369**	**9,703,334**	**43,792,723**

ECL allowances

In TZS`000	**Stage1**	**Stage 2**	**Stage 3**	**Total**
1 Jan 2018	705,262	116,997	574,538	1,396,797
New assets originated	184,356	69,311	711,660	965,327
Assets paid off	(311,628)	(88,811)		(400,439)
Transfer to Stage 1	(8,948)	8,948	-	-
Transfer to Stage 2	-	(68,348)	68,348	-
Transfer to Stage 3	(476,349)	-	476,349	-
w/off				
31 Dec 2018	**92,693**	**38,097**	**1,830,895**	**1,961,685**

b) Small business lending

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2018 TZS`000	**2017 TZS`000**
Stage 1	12,080,942	9,891,919
Stage 2	2,788	-
Stage 3	478,725	1,208,119
	12,562,455	**11,100,038**

ECL allowances in relation to small business lending is, as follows:

	2018 TZS`000	**2017 TZS`000**
Stage 1	67,758	95,023
Stage 2	6	-
Stage 3	79,225	-
	146,989	**95,023**

6. FINANCIAL RISK MANAGEMENT (Continued)

6.1 Credit risk (continued)

6.1.1 Credit–related commitments risks (Continued)

c) Corporate business lending

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2018 TZS`000	2017 TZS`000
Stage 1	8,408,190	8,575,641
Stage 2	2,347,000	1,590,885
Stage 3	8,116,734	4,785,139
	18,871,924	**14,951,665**

ECL allowances in relation to corporate lending is, as follows:

	2018 TZS`000	2017 TZS`000
Stage 1	1,279	565
Stage 2	844	25
Stage 3	607,062	201,694
	609,185	**201,284**

d) Consumer lending

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year end stage classification. The amounts presented are gross of impairment allowances.

	2018 TZS`000	2017 TZS`000
Stage 1	9,343,888	9,922,621
Stage 2	1,906,581	891,101
Stage 3	1,107,875	554,486
	12,358,344	**11,368,208**

ECL allowances in relation to Consumer lending is, as follows:

	2018 TZS`000	2017 TZS`000
Stage 1	631,343	609,674
Stage 2	154,219	116,972
Stage 3	577,452	372,844
	1,363,014	**1,099,490**

6.1.3.11 Amounts due from banks

The total gross amount of impaired amounts from banks as at 31 December 2018 was 8,558,941,000 (2017: 20,307,663,000).

No collateral is held by the Bank, the table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances.

	2018 TZS`000	2017 TZS`000
Stage 1	3,994,941	20,307,663
Stage 2	4,564,000	-
Stage 3	-	-
	8,558,941	**20,307,663**

The corresponding ECL allowances is, as follows:

	2018 TZS`000	2017 TZS`000
Stage 1	7,652	72,669
Stage 2	12,474	-
Stage 3	-	-
	20,127	**72,669**

6.1.3.12 Debt securities

The only investment securities held by the Bank is the Treasury Bills issued by the Government. At the end of the reporting period, these investments its impairment was negligible. All investment in government securities are in stage one.

6.1.3.13 Concentration of loans and advances

Industry sectors

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as

Sector	**Target**	**Actual 2018**	**Target**	**Actual 2017**
Agriculture, fishing, forestry and Animal Keeping	6%	5%	6%	5%
Finance, Insurance and Business Services	1%	1%	1%	1%
Financial Services, Cooperatives and Associations (SACCOS, Women Groups)	0%	0%	0%	0%
Manufacturing	0%	0%	0%	0%
Real Estate and Construction	12%	12%	12%	13%
Transport and communication	1%	2%	1%	1%
Trade and commerce	42%	42%	42%	38%
Tourism, hotel and restaurants	2%	2%	2%	3%
Personal including employee loans	18%	16%	18%	18%
Education	8%	7%	8%	10%
Others	10%	13%	10%	11%
Total	**100%**	**100%**	**100%**	**100%**

6.1.3.14 Repossessed collateral

During the year, the bank did not obtain any asset 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.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.2 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. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and corporate banking assets and liabilities.

a. 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 Bank Finance department is responsible for the development of detailed risk management policies while Treasury is responsible for day-to-day implementation of those policies. The Bank applies stress testing analysis in measuring exposure to market risk for the purpose of managing and controlling market risk exposures within acceptable limits while optimizing the return on investment.

b. Stress tests
Stress tests provide an indication of the potential size of losses that could arise in extreme or worst case conditions. The Bank applies risk factor stress testing, where stress movements are applied to each risk category. The Bank carries out stress testing quarterly to determine whether it has enough capital to withstand adverse developments. This is for the purpose of alerting the Bank's Management to unfavourable unexpected outcomes related to various risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur. The results are meant to indicate weak spots in the risks tested at an early stage and to guide preventative actions by the Bank. Stress testing is done to supplement the Bank's other risk management approaches and measures.

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

The table below summarizes that Bank`s exposure to foreign currency exchange rate risk at 31 December 2018. Included in the table are the Bank`s financial instruments at carrying amounts, categorized by currency (all amounts expressed in thousands of Tanzanian Shillings). The following table shows the concentration of currency risk on and off the balance sheet financial instruments:

6. FINANCIAL RISK MANAGEMENT (Continued)

6.2 Market risk (Continued)

6.2.1 Foreign exchange risk (Continued)

31 December, 2018	USD TZS' 000	EUR TZS'000	Others TZS'000	Total TZS '000
Assets				
Cash and balances with Bank of Tanzania	764,705	18,877	22,603	806,186
Balances with other banks	2,345,803	-	-	2,345,803
Other assets	31,202	-	-	31,202
Total financial assets	**3,110,508**	**18,877**	**22,603**	**3,151,989**
Liabilities				
Deposits from customers	3,386,198	3,006	27,589	3,416.793
Other liabilities	1,389	-	-	1,389
Total financial liabilities	**3,387,587**	**3,006**	**27,589**	**3,418,182**
Net on-balance sheet position	**(277,079)**	**15,871**	**(4,986)**	**(266,193)**

31 December, 2017	USD TZS' 000	EUR TZS'000	Others TZS'000	Total TZS '000
Assets				
Cash and balances with Bank of Tanzania	418,350	73,703	13,991	506,044
Balances with other banks	13,582,250	-	-	13,582,250
Other assets	113	-	-	113
Total financial assets	**14,000,713**	**73,703**	**13,991**	**14,088,407**
Liabilities				
Deposits from customers	2,408,326	16,392	11,492	2,436,210
Deposits from banks	4,490,000	-	-	4,490,000
Other liabilities	898	-	-	898
Total financial liabilities	**6,899,224**	**16,392**	**11,492**	**6,927,108**
Net on-balance sheet position	7,101,489	57,311	57,818	7,216,618

Foreign exchange sensitivity analysis
At December 2018, if the Tanzania Shilling (TZS) had weakened /strengthened by 10% (2017:10%) against US dollar, with all other variables held constant, Bank`s post tax profit/(Loss) and Total Equity for the year would have been reduced/increased by (TZS 277,079,000**)** (2017: TZS.710,148,900). Higher/lower mainly as a result of foreign exchange losses on transaction of US Dollar denominated cash and balances with the Bank of Tanzania, placements and balances with other banks and customers and deposits from customers and other banks.

6.2.2 Price risk
The Bank is not exposed to equity securities price risk as it currently has no investment in listed shares.

6. FINANCIAL RISK MANAGEMENT (Continued)

6.2 Market risk (Continued)

6.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The Bank take on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may produce losses in the event that unexpected movements arise. The Bank's Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is regularly monitored by an independent Risk and Compliance department and reported regularly to ALCO and the Board. The interest rate gap is within internal limits.

With all other variables held constant, if the interest rates prevailing during the year shifted by 100 basis points on Bank's interest bearing assets and liabilities, profit before tax would be lower or higher by TZS.19,197,533 (2017: TZS 36,812,415) and equity will be impacted by TZS 13,438,273 (2017: TZS 25.768,690)

6. FINANCIAL RISK MANAGEMENT (Continued)

6.2 Market risk (Continued)

6.2.3 Interest rate risk (Continued)

INTEREST RATE SENSITIVITY GAP

The table below summarizes the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

At 31 December 2018	1 - 3 Months TZS`000	4 - 6 Months TZS`000	7 - 12 Months TZS`000	Above 1 Year TZS`000	Non-interest Bearing TZS`000	Total TZS`000
ASSETS						
Cash and balances with Bank of Tanzania	-	-	-	-	7,862,480	7,862,480
Balances with other Banks	987,959	2,000,000	4,564,000	-	1,006,982	8,558,941
Government securities	97,430	1,559,468	1,663,340	382,380	-	3,702,618
Loans and advances to customers	7,780,607	4,849,969	5,352,001	25,810,146	-	43,792,723
Other assets					1,731,580	1,731,580
Total financial assets*	**8,865,996**	**8,409,437**	**11,579,341**	**26,192,526**	**10,601,042**	**65,648,342**
LIABILITIES						
Deposits from customers	15,993,708	8,590,343	9,742,975	709,410	13,784,042	48,111,068
Borrowings			0	4,000,000	-	4,000,000
Other liabilities	-	-	-	-	406,284	406,284
Total financial liabilities	**15,993,708**	**8,590,343**	**9,742,975**	**4,709,410**	**14,190,326**	**52,517,352**
Interest rate sensitivity gap as at 31 Dec 2018	**-5,461,760**	**-2,142,591**	**1,836,366**	**21,483,116**	**-5,320,863**	**13,065,362**

6 FINANCIAL RISK MANAGEMENT (Continued)

6.2 Market risk (Continued)

6.2.3 Interest rate risk (Continued)

At 31 December 2017	1-3 Months TZS`000	4-6 Months TZS`000	7-12 Months TZS`000	Above 1 Year TZS`000	Non-interest Bearing TZS`000	Total TZS`000
ASSETS						
Cash and balances with Bank of Tanzania	-	-	-	-	4,634,319	4,634,319
Balances with other Banks	12,442,099	1,300,000	6,565,564	-	-	20,307,663
Government securities		188,610	-	-	-	188,610
Loans and advances to customers	1,510,879	2,812,498	4,009,678	27,764,364	-	37,419,910
Total financial assets *	**13,952,978**	**4,301,108**	**10,575,242**	**27,764,364**	**6,300,271**	**61,379,025**
LIABILITIES						
Deposits from customers	12,105,709	13,337,238	7,398,491	-	9,284,309	42,125,747
Deposits from bank	6,690,000	2,400,000	500,0000	-	-	9,590,000
Other liabilities	-	-	-	-	1,771,306	1,771,306
Total financial liabilities	**18,795,709**	**15,737,238**	**7,898,491**	**-**	**11,055,615**	**53,487,053**
Interest rate sensitivity gap as at 31 Dec 2017	**(4,842,731)**	**(11,436,130)**	**2,676,751**	**27,764,364**	**4,791,279**	**7,891,972**

6 FINANCIAL RISK MANAGEMENT (Continued)

6.3 Fair value of financial assets and liabilities

6.3.1 Financial instruments not measured at fair value

The fair value of financial assets and liabilities not measured at fair value approximate carrying amounts.

Loans and advances to customers

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

Investment securities

The fair value for held-to-maturity investment is based on market prices. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Deposits due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount is a reasonable approximation of fair value.

Off-balance sheet financial instruments

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

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6 FINANCIAL RISK MANAGEMENT (Continued)

6.3 Fair value of financial assets and liabilities

6.3.1 Financial instruments not measured at fair value (Continued)

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments

31 December,2018	**On demand TZS'000'**	**1 - 3 months TZS'000'**	**4 - 12 months TZS'000'**	**1 - 5 years TZS'000'**	**Over 5 years TZS'000'**	**Total TZS'000'**
Guarantee and performance bonds	75,000	100,000	288,302	-	-	463,302
Undrawn credit lines and other commitments	291,019	291,019	-	-	-	582,037
Total Commitments and Guarantee	**366,019**	**391,019**	**288,302**	**-**	**-**	**1,045,339**

31 December,2017	On demand TZS'000'	1 - 3 months TZS'000'	4 - 12 months TZS'000'	1 - 5 Years TZS'000'	Over 5 years TZS'000'	Total TZS'000'
Guarantee and performance bonds		411,995	196,201	-	-	608,196
Undrawn credit lines and other commitments	654,063	654,063	-	-	-	1,308,125
Total Commitments and Guarantee	654,063	1,066,057	196,201	-	-	1,916,321

6 FINANCIAL RISK MANAGEMENT (Continued)

6.3 Fair value of financial assets and liabilities

6.3.1 Financial instruments not measured at fair value (Continued)

The following table summarizes the carrying amounts and fair values of those off statement of financial position financial assets and liabilities as at 31 December 2018 (2017: 1,916,321,000).

At 31 December 2018	**Carrying amount**	**Fair Value**
	TZS`000	**TZS`000**
Guarantee and performance bonds	463,302	463,302
Undrawn credit lines and other commitments to lend	582,037	582,037
	1,045,339	**1,045,339**

At 31 December 2017	**Carrying Amount**	**Fair Value**
	TZS`000	**TZS`000**
Guarantee and performance bonds	608,196	608,196
Undrawn credit lines and other commitments to lend	1,308,125	1,308,125
	1,916,321	**1,916,321**

6 FINANCIAL RISK MANAGEMENT (Continued)

6.3 Fair value of financial assets and liabilities (Continued)

6.3.1 Financial instruments not measured at fair value (Continued)

6.3.2 Fair value hierarchy and measurement

At 31 December 2018	Carrying Amount TZS`000	Fair Value TZS`000
Financial assets		
Cash and balances with Bank of Tanzania	7,862,480	7,862,480
Placements and balances with other banks	8,531,133	8,531,133
Loans and advances to customers	41,831,038	41,831,038
Other assets	1,731,580	1,731,580
	59,956,231	**59,956,231**
Liabilities		
Deposits from customers	48,111,068	48,111,068
Borrowings	4,000,000	4,000,000
Other liabilities	406,284	406,284
	52,517,352	**52,517,352**

At 31 December 2017	Carrying Amount TZS`000	Fair Value TZS`000
Financial assets		
Cash and balances with Bank of Tanzania	4,634,319	4,634,319
Placements and balances with other banks	20,307,663	20,307,663
Loans and advances to customers	36,097,418	36,097,418
Other assets	1,665,952	1,665,952
	62,705,352	**62,705,352**
Liabilities		
Deposits from customers	42,125,747	42,125,747
Deposits from banks	9,590,000	9,590,000
Other liabilities	1,771,306	1,771,306
	53,487,053	**53,487,053**

IFRS 13 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:

6 FINANCIAL RISK MANAGEMENT (Continued)

6.3 Fair value of financial assets and liabilities (Continued)

6.3.2 Fair value hierarchy and measurement (Continued)

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

31 December,18	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets	**TZS`000**	**TZS`000'**	**TZS`000'**	**TZS`000**
Cash and balance with Bank of Tanzania	-	7,862,480	-	7,862,480
Placements and Balances with other banks	-	8,531,132	-	8,531,132
Loans and advances	-	41,831,038	-	41,831,038
		58,224,650		**58,224,650**
Financial liabilities				
Deposits from customers	-	42,499,576	-	42,499,576
Deposits from banks	-	5,611,492	-	5,611,492
Other liabilities	-	406,284	-	406,284
Borrowings		4,000,000		4,000,000
	-	**52,517,352**	**-**	**52,517,352**

31 December,2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets	**TZS`000**	**TZS`000'**	**TZS`000'**	**TZS`000**
Cash and balance with Bank of Tanzania	-	4,634,320	-	4,634,320
Placements and Balances with other banks	-	20,007,882	-	20,007,882
Loans and advances	-	36,097,419	-	36,097,419
Other assets	-	1,665,952	-	1,665,952
		62,405,573		**62,405,573**
Financial liabilities				
Deposits from customers	-	42,125,747	-	42,125,747
Deposits from banks	-	9,590,000	-	9,590,000
Other liabilities	-	1,771,306	-	1,771,306
	-	**53,487,053**	-	**53,487,053**

6. FINANCIAL RISK MANAGEMENT (Continued)

6.3 Fair value of financial assets and liabilities (Continued)

6.3.2 Fair value hierarchy and measurement (Continued)

a. Financial instruments in level 1
The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active 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. The quoted market price used for financial assets held by the bank is the current bid price of debt securities from the most current Bank of Tanzania auction results. Instruments included in Level 1 comprise primarily held for sale Treasury Bonds.

b. Financial instruments in level 2
The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer/Bank of Tanzania quotes for similar instruments;

- Quoted prices for identical or similar assets or liabilities in markets that are not active.

6.4 Liquidity risk
Liquidity risk is the risk that a 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.

6.4.1 Liquidity risk management process
The Bank's liquidity management process, as carried out within the Bank and monitored by the Asset and Liability Committee (ALCO) of the Bank, include:

- 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 maintain an active presence in money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

6. FINANCIAL RISK MANAGEMENT (Continued)

6.4 Liquidity risk (Continued)

6.4.2 Funding approach

The Bank's major source of funding is customer deposits. To this end, the Bank maintain a diversified and stable funding base comprising current/demand, savings and time deposits. The Bank places considerable importance on the stability of these deposits, which is achieved through the Bank`s retail banking activities and by maintaining depositor confidence in the Bank's business strategies and financial strength.

The Bank borrows from the interbank market through transactions with other Banks for short term liquidity requirements. As part of the contingency funding plan, the Bank has funding lines with both local banks for short term funding requirements.

6.4.3 Non derivatives cash flows

The table below presents cash flow payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of financial reporting period. The amounts disclosed in the table below are the contractual undiscounted cash flows, as the Bank manage the inherent liquidity risk based on expected undiscounted cash flows.

6 FINANCIAL RISK MANAGEMENT (Continued)

6.4 Liquidity risk (Continued)

6.4.3 Non derivatives cash flows (Continued)

Liquidity risk analysis 31 December, 2018	1 - 3 Months TZS`000	4 - 6 Months TZS`000	7 - 12 Months TZS`000	Above 1 Years TZS`000	Total TZS`000
Financial assets					
Cash and balances with Bank of Tanzania	7,862,480	-	-	-	7,862,480
Placements and balances with other banks	6,531,132	2,000,000	-		8,558,941
Government Securities	1,690,339	1,663,340		348,939	3,702,618
Loans and advances to customers	7,780,607	4,849,969	5,352,001	25,810,146	43,792,723
Other assets	1,731,580	-	-	-	1,731,580
Total	**25,596,138**	**8,513,309**	**5,352,001**	**26,159,085**	**65,648,342**
Financial liabilities					
Deposits from customers	26,419,390	9,399,718	11,557,789	734,171	48,111,068
Borrowings	-	-	-	4,000,000	4,000,000
Other liabilities	406,284	-	-	-	406,284
Total	**26,825,674**	**9,399,718**	**11,557,789**	**4,734,171**	**52,517,352**
Maturity gap as at 31 December, 2018	**(1,229,838)**	**(886,409)**	**-6,205,788**	**21,424,914**	**13,130,688**

6 FINANCIAL RISK MANAGEMENT (Continued)

6.4 Liquidity risk (Continued)

6.4.3 Non derivatives cash flows (Continued)

Liquidity risk analysis 31 December 2017	1-3 Months TZS`000	4-6 Months TZS`000	7-12 Months TZS`000	1-3 Years TZS`000	Total TZS`000
Financial assets					
Cash and balances with Bank of Tanzania	1,796,890	-	-	-	1,796,890
Placements and balances with other banks	12,442,099	1,300,000	6,565,564	-	20,307,663
Loans and advances to customers	1,510,879	2,812,498	4,009,678	27,764,364	37,419,910
Other assets	1,665,952	-	-	-	1,665,952
Total	**17,415,820**	**4,112,498**	**10,575,242**	**27,764,364**	**61,190,415**
Financial liabilities					
Deposits from customers	21,390,018	13,337,238	7,398,491	-	42,125,747
Deposits from banks	6,690,000	2,400,000	500,0000	-	9,590,000
Other liabilities	1,771,306	-	-	-	1,771,306
Total	**20,556,877**	**15,737,238**	**7,898,491**	**-**	**53,487,053**
Maturity gap as at 31 December, 2017	**3,141,057**	**(11,624,740)**	**2,676,751**	**27,764,364**	**7,703,362**

6 FINANCIAL RISK MANAGEMENT (Continued)

6.4 Liquidity risk (Continued)

6.4.3 Non derivatives cash flows (Continued)

The table below shows the liquidity position of the bank as at the end of the year 31 December 2018.

	2018 TZS`000	2017 TZS`000
Total Liability	53,769,924	53,769,924
Total liquid assets held	16,879,131	21,993,382
Liquidity ratio	31%	41%
Regulatory requirement	20%	20%

6.4.4 Assets held for managing liquidity risk

The Bank assets held for managing liquidity risk are as follows:

- Cash and balances held with Bank of Tanzania (excluding SMR)
- Treasury bills
- Placements with other banks.
- In normal course of business, a proportion of customers' loans contractually repayable within one year will be extended. The Bank will also be able to meet unexpected net cash flows by selling securities and accessing additional funding sources such as asset backed market.

Liquid Assets held	**2018 TZS'000'**	**2017 TZS'000'**
Cash and Balance with BOT(excl.SMR) Note 8	4,645,381	1,796,890
Placements with other banks	8,531,132	20,007,882
Government securities	3,702,618	188,610
	16,879,131	**21,993,382**

7. CAPITAL MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the regulator, Bank of Tanzania
- 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
- to maintain a strong capital base to support the development of its business.

The Bank`s management monitors the adequacy of its capital and use of regulatory capital are monitored on a quarterly basis by management using the ratios established by the Bank of Tanzania (BOT) which rates are broadly in line with those for Basel Committee. The ratio measures capital adequacy by comparing the Bank`s eligible capital with its statements of financial position assets, off balance sheet component and market and other risk position at weighted amounts to reflect their relative risk. The required information is filed with Bank of Tanzania on a quarterly basis.

The Bank manages its capital to meet Bank of Tanzania requirements listed below:

- Hold the minimum level of the regulatory capital of TZS 2 billion;
- Maintain regulatory reserve of not less than 8% of total deposit liabilities; and
- Maintain a ratio of total regulatory capital of not less than the internationally agreed 12% of risk-weighted assets (Basel ratio) plus risk-weighted off-balance sheet items.

7. CAPITAL MANAGEMENT (continued)

The Bank regulatory capital as established by the Bank of Tanzania is divided into two tiers:

- Tier 1 capital which includes ordinary share capital, retained earnings and reserves created by appropriations of retained earnings deduct prepaid expenses and deferred charges
- Tier 2 capital (supplementary capital) which includes the general provisions.

The risk weighted assets are measured by means of a hierarchy, classified according to the nature and reflecting an estimate, of the credit risk associated with each assets and counter party. A similar treatment is adopted for off balance sheet exposure, with some adjustment to reflect the more contingent nature of the potential losses.

During the year, the Bank has complied with all the imposed capital requirements of Bank of Tanzania to which the Bank is subject.

REGULATORY CAPITAL	**2018 TZS '000'**	**2017 TZS '000'**
Tier 1 Capital		
Share capital	12,455,874	7,350,962
Retained earnings	756,302	626,470
Prepaid expenses	(1,138,858)	(714,149)
Deferred tax asset	(1,146,449)	(582,962)
Intangible assets	(319,657)	(158,100)
Total qualifying Tier 1 Capital	**10,607,212**	**6,522,222**
Tier 2 Capital		
Regulatory reserve	-	-
General provision reserve	301,795	276,313
Total qualifying Tier 2 Capital	**301,795**	**276,313**
Total regulatory capital	**10,909,007**	**6,798,535**
Risk - weighted assets		
On balance sheet position	**48,452,498**	**42,891,864**
Off balance sheet position	463,302	608,196
Total risk - weighted assets	**48,915,800**	**43,500,060**

	Required ratios		**Bank's ratio**	**Bank's Ratio**
	2018	**2017**	**2018**	**2017**
Tier 1 Capital	12.5%	12.5%	21.68%	14.99%
Tier 1 + Tier 2 Capital	14.5%	14.5%	22.30%	15.63%

7. CAPITAL MANAGEMENT (Continued)

31 December 2018

Statement of Financial Position	Nominal statement of financial position	Risk	Weighted Risk
Assets (Net)	TZS`000	%	TZS`000
Cash and balances with Bank of Tanzania	7,862,480	-	-
Balances with other banks	8,243,788	20	1,648,757
Cheques and items for clearing	287,344	50	143,672
Government securities	3,702,618	100	3,702,618
Loans, advances and overdrafts	41,831,038	100	41,831,038
Other assets	592,722	100	592,722
Property and equipment	533,691	100	533,691
Leasehold improvements	860,777	-	
Prepaid expenses (Deduction from core	1,138,858	-	
Intangible assets (Deduction from core capital)	319,087	-	-
TOTAL	**65,372,403**		**48,452,498**

31 December 2017

Statement of Financial Position	Nominal statement of financial position	Risk	Weighted Risk
Assets (Net)	TZS`000	%	TZS`000
Cash and balances with Bank of Tanzania	4,634,319	-	-
Balances with other banks	20,307,663	20	4,061,533
Cheques and items for clearing	3,181	50	1,590
Government securities	-	100	-
Loans, advances and overdrafts	37,419,910	100	37,419,910
Other assets	308,355	100	308,355
Property and equipment	646,481	100	562,688
Leasehold improvements	952,150	-	-
Sundry receivables (Staff adv.& imp rests)	537,788	100	537,788
Prepaid expenses (Deduction from core capital)	714,149	-	-
Intangible assets (Deduction from core capital)	158,861	-	-
TOTAL	**65,682,857**		**42,891,864**

8 CASH AND BALANCES WITH BOT	**2018 TZS'000'**	**2017 TZS'000'**
Cash in hand	1,838,802	1,227,790
Current account	2,806,579	569,100
Statutory minimum reserve*	3,217,097	2,837,430
	7,862,480	**4,634,320**

*Section 44 of the Bank of Tanzania Act of 2006 and Sections 4 and 71 of the Banking and Financial Institution Act of 2006 requires the Bank to maintain a statutory minimum reserve (SMR) on its total deposits and liabilities and funds borrowed from general public. Minimum

8. CASH AND BALANCES WITH BOT (Continued)

reserve requirement was 8% (2017:8%) of the average deposits. The Statutory Minimum Reserve (SMR) deposit is not available to finance the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the cash flow statement (See Note 33). The cash on hand and balances with Bank of Tanzania are non-interest bearing

9 PLACEMENTS AND BALANCES WITH OTHER BANKS

	2018 TZS'000'	2017 TZS'000'
Placements with local banks	8,558,941	20,307,663
Less: Provision for expected credit losses	(27,809)	(299,781)
	8,531,132	**20,007,882**
Maturity analysis		
Redeemable on demand		
-Balances with local banks	747,597	479,419
-Cheques and items for clearing with other banks	287,344	3,181
-Maturity within 3 months from acquisition	5,524,000	11,959,500
-Maturity within 6 months from date of acquisition	2,000,000	1,300,000
-Maturity after 6 months from date of acquisition	-	6,565,563
	8,558,941	**20,307,663**

10 GOVERNMENT SECURITIES

Treasury bills & bonds	3,669,178	188,610
Interest Receivable	33,440	
	3,702,618	**188,610**

Treasury bills are debts securities issued by the Government of the United Republic of Tanzania. As at 31 December 2018 the bank had Treasury bills of TZS 3,702,618,293.45 (2017: Treasury bills were TZS.188, 610,000.00).
Maturity analysis of Government securities is as follows:

	-	
Maturity after 3 months from date of acquisitions		-
Maturity before 3 months	-	-
Maturity after 6 months from date of acquisition	3,702,618	188,610
	3,702,618	**188,610**

11 LOAN AND ADVANCES TO CUSTOMERSs	2018	2017
	TZS'000'	TZS'000'
Term loans	31,136,913	26,377,349
Overdrafts	6,984,086	6,036,788
Staff loans and advances	1,256,997	1,087,863
Insurance Premium Financing	74,017	-
Micro Housing Loans	234,454	-
Interest receivable	4,106,256	3,917,911
Gross loan and advances	**43,792,723**	**37,419,911**
Less: Provision for probable losses	(1,961,685)	
Gross loan and advances	**41,831,038**	**36,097,419**

Maturity analysis

The maturity analysis is based on the remaining period to contractual maturity from 31 December.

Maturing within 1 year	19,784,284	9,655,547
Maturing after 1 year but within 3 years	24,008,439	27,764,364
Gross loans and advances	**43,792,723**	**37,419,911**

12 INVENTORY	TZS'000'	TZS'000'
ATM cards	2,423	24,122
Stationery	-	31,196
	2,423	**55,318**

13 OTHER ASSETS	TZS'000'	TZS'000'
Prepayments	1,138,858	714,149
Staff salary advances	203,615	537,788
Withholding tax receivable	229,553	105,670
Others	160,810	308,345
	1,732,534	**1,665,952**
Less: Provision other receivables	(1,256)	-
	1,731,580	**1,665,952**

All other assets are current and provision of TZS.1,255,677 for impairment was made (2017: TZS Nil).

		2018	2017
		TZS'000'	TZS'000'
14	**INTANGIBLE ASSET**		
	At 1 January 2018	398,406	358,033
	Additions	219,379	40,373
	At 31 December 2018	**617,785**	**398,406**
	Accumulated amortization		
	At 1 January 2018	(240,306)	(186,386)
	Charge for the year	(58,392)	(53,920)
	At 31 December 2018	**(298,698)**	**(240,306)**
	Net carrying amount	**319,087**	**158,100**

The intangible assets represent the computer software acquired by the Bank. No intangible assets have been pledged as security for liabilities (2017: Nil). There are no restrictions on the software other than those outlined in the software license.

As at 31 December 2018, there were no significant intangible assets controlled by the entity which have not been recognized as assets.

15 Property and Equipment

	Motor Vehicle	Furniture and fittings	Office Machines and equip.	Computers	ATM &Generators	Total
31 December,2018	**TZS'000'**	**TZS'000'**	**TZS'000'**	**TZS'000'**	**TZS'000'**	**TZS'000'**
Cost						
At 01 January 2018	275,207	211,754	532,956	236,989	226,526	1,483,432
Additions	15,968	30,207	108,320	43,035	0	197,530
At 31 December 2018	**291,174**	**241,961**	**641,276**	**280,025**	**226,526**	**1,680,961**
Accumulated Depreciation						
At 01 January 2018	125,295	114,397	301,817	154,824	140,618	836,951
Charge for the year	73,615	46,966	115,567	38,692	35,479	310,320
At 31 December 2018	**198,910**	**161,363**	**417,384**	**193,517**	**176,097**	**1,147,271**
Net carrying amount	**92,264**	**80,598**	**223,892**	**86,508**	**50,429**	**533,691**
31 December,2017						
Cost						
At 1 January	182,396	149,465	336,332	178,491	149,662	996,346
Additions	92,811	62,289	196,624	58,498	76,864	487,086
At 31 December	**275,207**	**211,754**	**532,956**	**236,989**	**226,526**	**1,483,432**
Accumulated depreciation						
At 1 January	84,014	64,205	165,773	82,750	80,651	477,393
Charge for the period	41,281	50,192	136,044	72,074	59,967	359,558
At 31 December	125,295	114,397	301,817	154,824	140,618	836,951
Net carrying amount	149,912	97,357	231,139	82,165	85,908	646,481

16 LEASEHOLD IMPROVEMENT	2018 TZS'000'	2017 TZS'000'
At 1 January	1,280,409	962,275
Additions	40,176	318,144
At 31 December	**1,320,585**	**1,280,419**
Amortization		
At 1 January	(328,260)	(195,256)
Charge for the year	(131,548)	(133,004)
At December	**(459,808)**	**(328,260)**
Net carrying amount	**860,777**	**952,159**

17 DEPOSITS FROM CUSTOMERS	2018 TZS'000'	2017 TZS'000'
Current accounts	11,255,820	9,284,309
Savings accounts	7,833,520	6,569,445
Time deposit accounts	22,517,750	25,968,002
Short term deposit from bank's	5,550,000	9,590,000
Interest Payable	953,978	303,991
	48,111,068	**51,715,747**

Savings and time deposits are interest bearing accounts. The interest bearing customer deposits accounts carry variable interest rates.

Maturity analysis	2018 TZS'000'	2017 TZS'000'
Repayable on demand	15,001,862	15,853,754
Maturing within three months	16,630,781	6,690,000
After 3 months but within one year	15,769,015	29,171,994
Maturing after one year	709,410	-
	48,111,068	**51,715,747**

18 OTHER LIABILITIES		
Accrued expenses	95,073	113,030
Insurance payables	143,588	126,494
Others	167,623	1,531,782
	406,284	**1,771,306**
Maturity analysis		
Maturity within 3 months	406,284	1,771,306

19 BORROWINGS		
Borrowing from Bank of Tanzania	3,000,000	-
Borrowing from other financial Institutions	1,000,000	-
	4,000,000	**-**

	2018	2017
20 DEFERRED INCOME TAX	**TZS'000'**	**TZS'000'**
At 1 January	(582,962)	(260,134)
Credit to statement of profit and loss and other comprehensive income (Note 32)	(519,694)	(322,828)
Credited statement of changes in equity	(43,973)	-
At 31 December	**(1,146,448)**	**(582,962)**

Deferred income tax asset and deferred income tax credit to the statement of profit or loss and other comprehensive income are attributed to the following items

Deferred income tax		
Accelerated capital allowance	(474,013)	(74,126)
Accumulated expected credit losses	(612,934)	(486,682)
Unrealized exchange gains/(loss)	(15,709)	22,155
IFRS 9 Day 1 impact	(43,973)	-
	(1,146,449	**(582,963)**

21 INCOME TAX PAYABLE/(RECEIVABLE)		
At January	282,871	147,069
Tax charge to income statement (Note 32)	406,574	567,672
Tax paid during the year	(428,022)	(431,870)
	261,423	**282,871**

22 CAPITAL AND RESERVES

Share capital		
Authorized		
60,000,000 shares of TZS 500 each	30,000,000	30,000,000
Called up and fully paid up		
14,590,691 shares of TZS 500 each and 12,456,121 shares of TZS600 each	7,350,962	7,350,962

23 ADVANCE TOWARDS SHARE CAPITAL

The shareholders approved Public offer issue at the Annual General Meeting. The Public offer exercise commenced on 18 September 2017 and was closed on 31 December 2018.As at 31 December 2018, a total of TZS 5,104,911,524.48 had been paid by shareholders for purpose of acquiring additional shares.

24 REGULATORY RESERVE

Regulatory reserves represent an amount set aside to cover additional provision for losses over and above the impairment of loans advances required in order to comply with the requirements of the Bank of Tanzania. This reserve is not available for distribution.

Provision for non-performing assets is computed using both IFRS 9/IAS 39 approach and BOT regulatory approach. IFRS 9/IAS 39 provision is charged to the statement of profit or loss and other comprehensive income. Where the IFRS 9/IAS 39 provision is less than BOT provision, then the excess over IFRS9/IAS 39 provision is taken to a non-distributable reserve known as Regulatory Risk Reserve. During the year under review the provisions using both approaches were as follows

24 REGULATORY RESERVE (Continued)	2018 TZS'000'	2017 TZS'000'
Provision per Bank of Tanzania approach	2,219,576	1,071,215
Provision per IFRS 9/IAS 39 (see below)	(1,990,749)	(1,322,492)
Excess over IFRS provision taken to regulatory risk reserve	**228,827**	**-**

The regulatory reserve is not part of the bank`s core capital.

Provision per IFRS 9 includes ECL for loans and advances amounting TZS 1,961,685,000, ECL for placements for money markets amounting TZS 27,809,000 and ECL for guarantee amounting TZS.1,255,750

25 INTEREST INCOME		
Loans and advances to customers	8,130,294	7,370,334
Placements and balances with other banks	1,089,487	1,055,688
Interest on Government securities	57,041	-
	9,276,822	**8,426,022**

26 INTEREST EXPENSES		
Deposits from customers:		
-Time deposits	2,632,364	2,250,870
-Borrowing from banks	478,495	325,163
-Savings deposits	78,867	55,629
	3,189,726	**2,631,662**

27 (a) NET FEES, COMMISSION AND OTHER INCOME		
Commission received from insurance services	122,792	114,447
Commission received from other services	475,454	249,008
Application fee	-	224,199
Management fee	456,666	356,891
Payroll processing fee	21,956	19,753
Other fee-Current Account charges	97,412	147,007
Penalties	-	83,096
	1,174,280	**1,194,401**

(b) Fees and commission expense		
Financial charges	49,373	38,788

28 FOREIGN EXCHANGE GAIN		
Exchange gain on trading	6,892	34,373
Exchange gain/(loss) on revaluation	(52,364)	125,739
	(45,472)	**160,113**

		2018	2017
29	**EMPLOYEE BENEFITS COST**	**TZS'000'**	**TZS'000'**
	Salaries and allowances	2,173,919	1,722,059
	Pension costs- defined contribution plan	202,010	168,362
	Skills and Development Levy	91,214	90,153
	Leave allowance	143,775	83,469
	Workman's compensation	21,653	17,132
		2,632,571	**2,081,173**
30	**GENERAL AND ADMINISTRATIVE EXPENSES**		
	Office expenses	1,597,505	1,553,552
	Annual general meeting	31,265	62,499
	Legal fees	36,958	183,647
	Directors remuneration	107,286	11,843
	Board expenses	27,498	79,091
	Auditors` remuneration	69,440	55,788
	Accounting fees	12,398	58,598
	Rent expense	344,526	345,756
	Property and equipment maintenance cost	116,599	102,803
	Fuel cost	89,235	73,046
	Staff welfare	39,506	28,467
	Other expenses	43,759	23,558
		2,515,975	**2,578,648**
31	**DEPRECIATION AND AMORTIZATION**		
	Depreciation of property and equipment (Note 15)	310,320	359,557
	Amortization of intangible (Note 14)	58,392	53,920
	Amortization of leasehold assets (Note 16)	131,548	133,004
		500,260	**546,481**
32	**INCOME TAX EXPENSE**		
	Current income tax (Note 21)	406,574	567,672
	Deferred tax (Note 20)	(519,694)	(322,828)
		(113,120)	**244,844**

The tax on the Bank's profit differs from the theoretical amount that would arise using the statutory income tax rate as follows:

Profit for the year before tax	680,222	1,214,755
Tax expense (calculated at the statutory income tax rate of 30% (2017: 30%)	204,067	364,426
Tax effect of:		
Expenses not deductible for tax purposes	9,080	9,755
Non-taxable income	-	(10,312)
Over provision of taxes in previous year	(326,267)	(119,025)
Income tax expense	**(113,120)**	**244,844**

33. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of the basic earnings per share was based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding at the close of the year, calculated as follows:

	2018 TZS`000	2017 TZS`000
Profit attributable to shareholders	793,342	969,911
Weighted average number of share in issue	23,099	14,591
Basic and diluted earnings per share	34.3	66.4

There being no dilutive or potentially dilutive ordinary share outstanding as at 31 December 2018 (2017: Nil), the basic and diluted earnings per share are the same.

34 DIVIDEND PER SHARE

Dividends are not recognized as a liability until they have been ratified at the Annual General Meeting. The Bank made a profit after tax of TZS. 793 million (2017: TZS 969 million) during the year ended 31 December 2018, however the Board of Directors does recommend payment of dividends to shareholders.

35. EFFECTIVE INTEREST RATES OF FINANCIAL ASSETS AND LIABILITIES

The effective interest rates for the principal financial assets and liabilities at 31December 2018 and 2017 were as follows:

	2018	2017
Placements with other banks	18%	11%
Government securities	6%	-
Loans and advances to customers	17%	20%
Deposits from customers (savings accounts)	5%	5%
Fixed deposit	10%	9%

36. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the normal course of business, a number of banking transactions are entered into with related parties i.e. key management personnel and directors. These include loans and deposits.

The volume of related party transactions for the year and the outstanding amounts at the year-end were as follows:

		2018 TZS`000	2017 TZS`000
(a)	Loans and advances to related parties		
(i)	Directors		
	At 1 January	204,939	150,833
	Advanced during the year	80,000	77,556
	Repayment during the year	(129,991)	(23,450)
	At 31 December	**154,948**	**204,939**

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(a) Loans and advances to related parties (Continued)

(i) Directors (Continued)

	2018 TZS`000	2017 TZS`000
Interest earned	28,073	8,605

There were no deposits from companies controlled by Directors or their families (2017: Nil)

(ii) Key management		
At 1 January	423,962	124,871
Advanced during the year	86,422	436,589
Repayment during the year	(202,157)	(137,498)
At 31 December	**308,227**	**423,962**
Interest earned	**38,520**	**31,142**

(iii) Shareholders		
At 1 January	3,577,561	599,657
Advanced during the year	608,531	5,224,450
Repayment during the year	(2,024,677)	(2,246,546)
At 31 December	**2,161,415**	**3,577,561**
Interest earned	**844,104**	**936,603**

No provision has been made in respect of loans given to related parties (2017: Nil).

Loans to key management personnel were issued at off market interest rate of 7% per annum as per company policy.
Loans to directors were issued on commercial terms. These loans are payable on demand

As at 31 December 2018 there were no loans issued to companies controlled by Directors or their families (2017: Nil).

(d) Directors compensation

Allowances	78,430	59,150
Annual fees	9,775	8,500
	88,205	**67,650**

Sitting allowances paid to directors of the Bank during the year amounted to TZS 78.4million (2017: TZS 59.1million). The fees were approved by the Annual General Meeting

36. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(d) Directors compensation (Continued)

Directors` attendance and remuneration list for the year 2018 is shown in the table below:

Directors	Board Meeting	Board Audit & Risk Committee Attendance	Board Credit Committee	Directors Sitting Allowance (TZS`000)
Amulike S.K Ngeliama	8	-	-	5,980
Dosca K. Mutabuzi	6	-	8	9,660
Anna T. Mzinga	4	7	-	7,590
Felix Mlaki	7	8	-	10,350
Reverend Ernest. Kadiva	6	-	-	4,140
Naftal M. Nsemwa	6	8	7	14,490
Amb. Richard Mariki	6	-	8	9,660
Ibrahim A. Mwangalaba	8	8	8	16,560
Total				**78,430**

37. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flow cash and cash equivalents comprise the following balances

	2018 TZS`000	2017 TZS`000
Cash in hand (Note 8)	1,838,804	1,227,790
Current account with Bank of Tanzania (Note 8)	2,806,579	569,100
Placements and balances with other banks (Note 9)	6,558,941	12,442,099
	11,204,322	**14,238,989**

Cash and cash equivalents exclude TZS. 3,217,097,367 (2017: TZS 2,837,429,866) cash reserve requirement held with the Bank of Tanzania.

38. OFF SHORE BALANCE SHEET ITEMS

There were no off - shore balance sheet items as at the reporting date.

39. COMMITMENTS AND CONTINGENT LIABLITIES

(a) Contingent liabilities and commitment

There was a contingent liability amounting to TZS 1,045,339,000 (2017: TZS 1,916,321,000) on guarantees and performance bonds and on account of undrawn overdraft balances as shown below.

39. COMMITMENTS AND CONTINGENT LIABLITIES (Continued)

(a) Contingent liabilities and commitment (Continued)

	2018 TZS`000	2017 TZS`000
Guarantee and performance bonds	463,302	608,196
Undrawn credit lines and other commitments to lend	582,037	1,308,125
	1,045,339	**1,916,321**

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year end stage classification. The amounts presented are gross of impairment allowances.

	2018 TZS`000	2017 TZS`000
Stage 1	1,045,339	1,916,321
Stage 2	-	-
Stage 3	-	-
	1,045,339	**1,916,321**

ECL allowances in relation to Contingent liabilities and commitment is, as follows:

	2018 TZS`000	2017 TZS`000
Stage 1	1,256	1,648
Stage 2	-	-
Stage 3	-	-
	1,256	**1,648**

Guarantees are generally written by a Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default. Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed facilities by giving reasonable notice to the customer.

(b) Operating lease commitments

The Bank has several operating lease agreements for various office spaces the Bank occupies. The lease agreements may be renewed after consent of both parties for a similar or other period. The future minimum lease payments under non-cancellable operating leases are as follows:

	2018 TZS`000	2017 TZS`000
Not later than 1 year	5,829	11,657
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
	5,829	**11,657**

The Directors are of the view that these commitments will be sufficiently covered by future net revenues and funding.

39. COMMITMENTS AND CONTINGENT LIABLITIES (Continued)

(c) Legal claims

There are no pending legal claims against the Bank (2017: None). The Board of Directors are not aware of any potential legal claims against the Bank (2017: Nil).

(d) Capital commitments

The Management certifies that there was no capital commitment authorized as at 31 December 2018. (2017: Nil) The 2017 funds were used for financing the opening of two new branches in Dar es Salaam and purchasing software for insurance agency management.

40. EVENTS AFTER REPORTING DATE

Management is not aware of any subsequent event that will require adjustment in the financial statements.