MWALIMU COMMERCIAL BANK PLC

ANNUAL REPORT
AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

MWALIMU COMMERCIAL BANK PLC

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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MWALIMU COMMERCIAL BANK PLC

CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019

REGISTERED OFFICE

Mezzanine Floor, Mlimani Tower
Sam Nujoma Road
Ubungo Municipality
P.O. Box 61002
Dar es Salaam, Tanzania.

BOARD OF DIRECTORS	NATIONALITY	
Mr. Herman Mark Kessy	Tanzanian	Chairperson
Mr. Ambrose Ntangeki Nshala	Tanzanian	Vice Chairperson
Mr. Said Kambi Shaaban	Tanzanian	Director
Mr. Yahya Majid Ally	Tanzanian	Director
Mr. Celestine Leonard Muganga	Tanzanian	Director
Prof. Tadeo Andrew Satta	Tanzanian	Director: Retired on 22 Aug 2019
Mwl. Mohamed Mussa Utaly	Tanzanian	Director: Retired on 22 Aug 2019
Dr. Fidea Luhwano Mgina	Tanzanian	Director: Retired on 22 Aug 2019
Mr. Francis Cecil Ramadhani	Tanzanian	Director: Appointed on 22 Aug 2019
Mwl. Deus Gracewell Seif	Tanzanian	Director: Appointed on 22 Aug 2019

COMPANY SECRETARY AND LEGAL ADVISORS

KKB Attorneys
House No. 23, Kenyatta Grounds
Mkwawa Road, Oysterbay
P.O. Box 3496
Dar es Salaam, Tanzania.

INDEPENDENT AUDITOR

Ernst & Young
4th Floor, Tanhouse Tower
34/1 Ursino South
New Bagamoyo Road
P.O. Box 2475
Dar es Salaam, Tanzania.

MWALIMU COMMERCIAL BANK PLC

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

1 INTRODUCTION

The directors present their report together with the audited annual financial statements for the year ended 31 December 2019, which disclose the state of affairs of Mwalimu Commercial Bank Plc (the "Bank"). The annual report and audited financial statements can be amended by the owners and regulatory bodies if they are found misleading after they have been issued to the public.

2 INCORPORATION

Mwalimu Commercial Bank Plc was incorporated on 26 March 2012 in Tanzania under the Companies Act Cap 212, Act No. 12 of 2002 as a limited liability company. It was initially incorporated as a private company bearing a name Mwalimu Commercial Bank Limited that was later changed to Mwalimu Commercial Bank Plc on 26 January 2015 when it was listed on the Dar es Salaam Stock Exchange under the Enterprise Growth Market (EGM) segment. The Bank obtained a full banking license on 13 July 2016 to operate as a commercial bank under the Banking and Financial Institutions Act, 2006.

3 MISSION AND VISION

Mission
To alleviate economic problems through providing cost effective, friendly and innovative financial solutions for teachers, government employees and general public, so as to create economic emancipation.

Vision
To be the preferred financial solution provider in Tanzania.

4 PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of banking services.

5 COMPOSITION OF THE BOARD OF DIRECTORS

The directors of the Bank at the date of this report, who have held office since 1st January 2019, except where otherwise stated are:

Name	Position	Age	Nationality	Qualifications
Herman Mark Kessy	Chairperson	70	Tanzanian	MA (Economics), BA Hons (Economics), PGD (Economics)
Ambrose Ntangeki Nshala	Vice Chairperson	44	Tanzanian	CPA-T, MBA (Finance & Banking)
Prof. Tadeo Andrew Satta retired on 22 Aug 2019	Director	58	Tanzanian	PhD (Development Finance), MBA (Financial Management)
Dr. Fidea Luhwano Mgina retired on 22 Aug 2019	Director	61	Tanzanian	PhD, MSc. (Agriculture)
Said Kambi Shaaban	Director	51	Tanzanian	MBA Finance, BA (Public Administration)
Mwl. Mohamed Mussa Utaly retired on 22 Aug 2019	Director	50	Tanzanian	MSc. (Accounting & Finance), ADA
Yahya Majid Ally	Director	51	Tanzanian	CPA-T, CPSP, MBA (Finance)
Francis Cecil Ramadhani Appointed on 22 Aug 2019	Director	43	Tanzanian	LLM and LLB (International Law & International Business Law)

5 COMPOSITION OF THE BOARD OF DIRECTORS (Continued)

Name	Position	Age	Nationality	Qualifications
Celestine Leonard Muganga	Director	52	Tanzanian	MBA. (Finance), BA (Economics)
Mwl. Deus Gracewell Seif Appointed on 22 Aug 2019	Director	44	Tanzanian	Master of Arts & Bachelor of Education

The Company secretary as at the date of this report is KKB Attorneys.

6 DIRECTORS' INTEREST IN THE SHARES OF THE BANK

The Directors, Mr. Herman Mark Kessy, Dr. Fidea Luhwano Mgina, Mwl. Mohamed Mussa Utaly and Mwl. Deus Gracewell Seif own 1,390, 1,000, 10,000 and 1,000 shares respectively in the share capital of the Bank. Other Directors of the Bank have no interest in the issued share capital of the Bank.

7 CORPORATE GOVERNANCE

The Bank continues to advocate an integrated approach to corporate governance as evidenced by the governance framework. An effective and independent Board provides strategic direction and has ultimate responsibility for the establishment and functioning of the Bank.

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

The Board is required to meet at least four (4) times a year as a best practice. During the year it met four times in ordinary meetings. The Bank is committed to the principles of effective corporate governance. The directors also recognize the importance of integrity, transparency and accountability. Board delegated authorities are reviewed regularly, and directors have full access to board documentation.

Board Audit Committee

Name	Position
Mr. Ambrose Ntangeki Nshala	Chairperson
Prof. Tadeo Andrew Satta	Member
Mwl. Mohamed Mussa Utaly	Member

Board Risk & Compliance Committee

Name	Position
Mr. Yahya Majid Ally	Chairperson
Mr. Celestine Leonard Muganga	Member
Mr. Said Kambi Shaaban	Member

Board Credit Committee

Name	Position
Mr. Said Kambi Shaaban	Chairperson
Mr. Yahya Majid Ally	Member
Dr. Fidea Luhwano Mgina	Member

7 CORPORATE GOVERNANCE (Continued)

Board Nomination & Remuneration Committee

Name	Position
Mr. Said Kambi Shaaban	Chairperson
Mr. Celestine Leonard Muganga	Member
Dr. Fidea Luhwano Mgina	Member
Mr. Francis Cecil Ramadhani	Member
Mwl. Deus Gracewell Seif	Member

8 MANAGEMENT

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

- Business Development and Marketing
- Treasury
- Finance
- Risk Management and Compliance
- Human Resources and Administration
- ICT and Operations
- Internal Audit; and
- Credit Administration

9 CAPITAL STRUCTURE

The capital structure of the Bank for the year under review is as shown below:

Authorized -
The authorized share capital comprises 200,000,000 ordinary shares of par value of TZS 500 each.

Issued and fully paid
The Bank's issued and fully paid capital is 61,824,920 ordinary shares of TZS 500 each.

10 SHAREHOLDERS OF THE BANK

The Bank has institutional as well as individual shareholders. The number of issued shares are held as follows:

	2019		2018	
Name of the Shareholder	Number of Shares	Percentage Share holding	Number of Shares	Percentage Share holding
Founder Teachers	21,813,000	35.28%	21,813,000	35.28%
National Health Insurance Fund	10,000,000	16.17%	10,000,000	16.17%
Public Service Pensions Fund	10,000,000	16.17%	10,000,000	16.17%
General Public	10,011,920	16.19%	10,011,920	16.19%
Tanzania Teachers' Union	8,000,000	12.94%	8,000,000	12.94%
Teachers' Development Company Ltd	2,000,000	3.23%	2,000,000	3.23%
	61,824,920	**100.0%**	**61,824,920**	**100.0%**

11 FUTURE DEVELOPMENT PLANS

The Bank plans to grow business on retail loans to teachers, government employees and general public; introduction of highly innovative and customer centric products especially the alternative channels space (mobile and agency banking) while managing associated costs and risks so as to increase shareholders' value. To facilitate the foregoing the Bank is expecting to raise long-term funding to beef up deposit mobilization strategies in year 2020.

12 RESULTS AND DIVIDEND

The Bank recorded after tax loss of TZS 4,826 million during the year (2018: after tax loss of TZS 5,503 million).

The Bank's financial results for the year are set out on page 19 of the annual financial statements.

The directors do not recommend payment of a dividend.

13 PERFORMANCE FOR THE YEAR

Statement of financial position

Total loans and advances to banks decreased by 54% (TZS 1,263 million) from TZS 2,346 million in 2018 to TZS 1,083 million in 2019. Investment in government securities (Bills and Bonds) declined by 100% during the year. This resulted from sale of the securities to beef up cashflow liquidity of the bank.

Total loans and advances to customers were TZS 16,109 million (2018: TZS 17,886 million).

Deposits from customers as at year end were TZS 11,073 million (2018: TZS 7,948 million) while deposits from banks were NIL (2018: NIL). Loan to deposit ratio (LDR) stood at 145.48% as at 31 December 2019 (2018: 225.00%).

Total assets decreased by 3% from TZS 30,695 million in 2018 to TZS 29,848 million as at 31 December 2019.

Statement of profit or loss and other comprehensive income

Net Interest income expressed as a percentage of operating income was 82% (2018: 92%). Notably there was an increase in non-interest income generating activities as compared to last year. This was due to increase in foreign exchange. Fees and commission income increased by 89.4% mainly attributed by release of deferred fee income on loans early liquidated from purchased loans by other banks and bancassurance fees which is a new product introduced during the year.

Total non-interest income from transactional accounts was TZS 450.0 million in 2019 (2018: TZS 218.7 million).

Total operating expenses decreased by 11% from TZS 8,302 million in 2018 to TZS 7,360 million in 2019. The decrease is attributed to ongoing cost control measures implemented during the year. The cost to income ratio has decreased to 289% in 2019 (2018: 295%).

14 ACCOUNTING POLICIES

The accounting policies of the Bank disclosed in Note 3 have been approved by the Board. The accounting policies for financial instruments form a significant part of the policies. The bank has adopted changes as per the new on IFRS 16 on Leases effective from 1 January 2018 and 2019.

15 PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks that may significantly affect the Bank's strategies and development are mainly operational, fraud and financial risks. Below we provide a description of the fraud, operational, and financial risks facing the Bank

Fraud risk

There is a general increase in fraudulent transactions in the Banking industry in Tanzania. The bank has implemented a number of measures to contain the probability and impact of this risk.

Operational risk

This is a risk resulting from the Bank's activities not being conducted in accordance with formally recognized procedures including non-compliance with Know Your Customer (KYC) and account opening procedures. Management ensures that the Bank complies with KYC and other internal procedures.

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 32 to the annual financial statements.

16 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 on-going 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 measures. There is always a risk of non-compliance of such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

17 SOLVENCY AND GOING CONCERN

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

18 CASH FLOWS

The Bank continued to implement different strategies to mobilize deposits as cash inflow while investing in securities, loans and receivables as cash outflow.

19 CAPITAL MANAGEMENT

Capital Adequacy is monitored on a monthly basis by comparing the minimum required capital as per the Bank of Tanzania Regulations, 2014 and the Banking and Financial Institutions Act, 2006 to the available capital to ensure there is sufficient capital to meet regulatory and future growth requirements.

As at 31 December 2019, the capital position of the Bank is adequate to meet both Tier 1 and 2 regulatory and internal minimum capital requirements. The share capital structure of the Bank is disclosed in clause 9 above.

The regulatory capital computation is disclosed on Note 32 to the annual financial statements.

20 KEY PERFORMANCE INDICATORS FOR THE BANK

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

Performance indicator	Definition and calculation method	2019	2018
Return on equity	Net(loss) profit/Total equity	-29.31%	-25.96%
Return on assets	Net profit/Total assets	-16.17%	-18.01%
Cost to income ratio	Total costs/Net income	289%	295%
Interest margin on earning assets	Net interest income (interest in government securities +balances with other financial institutions + interbank loan receivables + investments in other securities + net loans, advances and overdraft less cost of funds) /Interest earning assets (government securities +balances with other financial institutions + interbank loan receivables + investments in other securities + net loans, advances and overdraft)	12%	13%
Non - interest income to Gross income	Non - interest income/Total income	17.83%	7.77%
Gross loans to deposits	Total loans to customers/Total deposits	145.48%	225%
Non - performing loans to gross loans	Non - performing loans/Gross loans and advances	1.8%	2.0%
Earning assets to total assets	Sum of treasury bills, loans and investments securities/Total assets	58%	74%

20 KEY PERFORMANCE INDICATORS FOR THE BANK (Continued)

Performance indicator	Definition and calculation method	2019	2018
Growth in total assets	Trend (2019 total assets – 2018 total assets/2018 total assets) %	-2.76%	-18.79%
Growth in loans and advances to customers	Trend (2019 loans and advances – 2018 loans and advances)/2018 loans and advances) %	-10%	60%
Growth in customer deposits	Trend (2019 customer deposits – 2018 customer deposits)/ (2018 customer deposits) %	39%	45%
Capital adequacy			
Tier 1 Capital	Core capital /Risk weighted assets including Off statement of financial position items	74%	64%
Tier 1+Tier 2 Capital	Total capital /Risk Weighted assets including off- statement of financial position items	74%	65%

21 EMPLOYEES' WELFARE

Management and employees' relationship

There were no unresolved complaints received from employees during the year. A healthy relationship continues to exist between management and staff.

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, ethnicity, religion and disability which does not impair ability to discharge duties.

Training

During the year, the Bank incurred TZS 13 million as training expenses. There are plans for year 2020 as per bank's training needs assessment to take employees to different professional trainings to ensure they are adequately trained at all levels to upgrade skills and enhance productivity.

Medical Assistance

All members of staff with their spouses and a maximum number of four beneficiaries for each employee were availed medical insurance. Currently these services are provided by The Jubilee Insurance Company of Tanzania Limited.

21 EMPLOYEES' WELFARE (Continued)

Health and Safety

The Bank has a strong health and safety team which ensures that a strong culture of safety prevails at all times. A safe working environment is ensured for all employees by providing adequate and proper personal protective equipment, training and supervision as necessary. In 2019, all staff of the Bank underwent and passed full medical examination.

Persons with Disabilities

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

Employees' benefit plan

The Bank pays contributions to publicly administered defined benefit plan namely National Social Security Fund-NSSF on a mandatory basis. The total number of contractual employees as at the year-end was 59 out of which 25 were female and 34 were male (2018: total staff 62, 25 female and 37 male).

22 RELATED PARTIES

All related party transactions and balances are disclosed in Note 30 to these annual financial statements.

23 SERIOUS PREJUDICIAL MATTERS

In the opinion of the directors, there are no serious unfavourable matters that can affect the Bank.

24 DONATIONS TO POLITICAL PARTIES

No donations were made to any political institutions during the financial year ending 31 December 2019.

25 RELATIONSHIP WITH STAKEHOLDERS

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

26 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Donations made during the financial year ending 31 December 2019 on CSR amounted to TZS 46 million (2018: 1 million).

27 RESOURCES

Employees with appropriate skills and experience in running the business are a key resource available to the bank and they assist in pursuing the bank's business objectives.

28 INDEPENDENT AUDITORS

The auditors, Ernst & Young (EY) were the auditors of the bank for the year ended 31 December 2019 and have expressed their willingness to continue in office and are eligible for re-appointment.

29 STATEMENT OF COMPLIANCE

The director's report has been prepared in full compliance with Tanzania Financial Reporting Standard No. 1 (Directors Report) and constitutes an integral part of the financial statements.

BY ORDER OF THE BOARD

Approved by the board of directors and authorized for issue on 31-03 **, 2020 and signed on its behalf by:**

Herman Mark Kessy

Board Chairman

Richard Louis Makungwa

Chief Executive Officer

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF DIRECTORS RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2019

The Companies Act, Cap 212 Act No.12 of 2002 requires the directors to prepare annual financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

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 (IFRS) and the requirements of the Companies Act, CAP 212 Act No.12 of 2002 and Banking and Financial Institutions Act, of 2006. The directors are of the opinion that the annual financial statements give a true and fair view of the state of the financial affairs of the Bank and of its loss in accordance with International Financial Reporting Standards (IFRS).

The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of annual financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement whether due to fraud or error.

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

Approved by the board of directors and authorized for issue on 31.03.2020 **and signed on its behalf by:**

Herman Mark Kessy

Board Chairman

Richard Louis Makungwa

Chief Executive Officer

MWALIMU COMMERCIAL BANK PLC

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

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

It is the duty of a Professional Accountant to assist the Board of Directors/Governing Body/Management to discharge the responsibility of preparing annual financial statements of an entity showing true and fair view of the entity financial position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of annual financial statements rests with the Board of Directors/Governing Body as under Directors Responsibility statement on an earlier page.

I **Selemani Kijori** being the Head of Finance of Mwalimu Commercial Bank PLC hereby acknowledge my responsibility of ensuring that annual financial statements for the year ended 31 December 2019 have been prepared in compliance with applicable accounting standards and statutory requirements.

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

Signed by: Selemani Kijori

Head of Finance

NBAA Membership No. ACPA 2484

Date: 31.03., **2020**

Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Opinion

We have audited the annual financial statements of Mwalimu Commercial Bank Plc (the Bank) set out on pages 19 to 77 which comprise the statement of financial position as at 31 December 2019, 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 annual financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual financial statements present fairly, in all material respects, the financial position of Mwalimu Commercial Bank Plc as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

Basis for Opinion

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

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

Key Audit Matters

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

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

A member firm of Ernst & Young Global Limited

INDEPENDENT AUDITOR'S REPORT (Continued)
To the shareholders of
MWALIMU COMMERCIAL BANK PLC

Key Audit Matters *(Continued)*

No.	Key audit matter	How our audit addressed the key audit matter
1.	**Credit risk and impairment of loans and advances to customers**	
	IFRS 9: Financial Instruments was effective 1 January 2018. Bank has applied IFRS 9 using a modified retrospective approach, with an adjustment to retained earnings and other reserves on 1 January 2018. Comparative periods have not been restated. The IFRS 9 Expected credit losses (ECL) approach is applicable to all financial assets at amortized cost and debt financial assets at fair value through other comprehensive income, lease receivables, contract assets, loan and advances to customers. . This presents a change from the scope of the IAS 39 impairment model, which excluded loan commitments and financial guarantee contracts. ECL represents Management's best estimate of the losses expected to be incurred at reporting date. The ECL allowances are significant in the context of the financial statements due to their magnitude as well as the estimation uncertainty and significant level of judgement inherent in determining the value of the allowances.	**Accounting policies:** We have evaluated the IFRS 9 accounting policies and assessed the ECL methodologies applied and compared these to the requirements of IFRS 9: Financial Instruments. **Audit procedures** We have performed our audit procedures to assess the amount of the 1 January 2019 adjustment to retained earnings and other reserves on the application of IFRS 9, the 31 December 2019 closing provision and the movement in ECL over the period. We have obtained an understanding of Management's process over credit origination, credit monitoring and credit remediation and tested the relevant key controls identified within these processes. **Collective ECL recognition** Where expected credit losses are calculated on a collective modelled basis we have performed the following audit procedures, amongst others, with the assistance of our credit risk quantitative specialists: • Evaluated the control environment supporting the models as well as the governance processes over impairments as a whole. • We considered Internal Audit reports and the findings raised. Assessed the design and implementation of the ECL models, including assessing the significant assumptions applied and the data used to derive model parameters with reference to the requirements of IFRS 9.
	The models used to determine the ECL estimate are complex and include inputs from multiple sources. Management applies adjustments to the model outputs to cater for factors not included in	• Evaluated the ECL modelling methodology applied by Management to determine the PD, LGD, and EAD used to compute portfolio ECL allowances against the requirements of IFRS 9 and the Bank's internal policies.

INDEPENDENT AUDITOR'S REPORT (Continued)
To the shareholders of
MWALIMU COMMERCIAL BANK PLC

Key Audit Matters *(Continued)*

No.	Key audit matter	How our audit addressed the key audit matter
	the model assessment, which can be highly subjective. **Collective ECL recognition** A significant portion of ECL is calculated on a collective basis, utilizing statistical models. The development and execution of these models requires significant Management judgement, including the estimation of key inputs such as the probability of default (PD); exposure at default (EAD) and loss given default (LGD). Further judgement is required in incorporating forward looking information into the ECL models and in determining the ECL stage allocation.	• Assessed Management's ECL models for mathematical accuracy and alignment to internally approved modelling methodology by re-performing the ECL models. • We have considered the macro-economic forecasts used in the models including benchmarking these against external evidence and economic data. • Performed sensitivity analyses on the forecasts and the assessed impacts on ECL against Management's **ECL estimate.** • Assessed Managements' post-model adjustments by evaluating the reasonability of the assumptions and judgements applied when making their assessment of the qualitative and quantitative impact of economic, legal and operational events. • We have recalculated post model-adjustments.
	Individual ECL recognition A significant portion of loans and advances are assessed for recoverability on an individual basis, primarily in the Mwalimu, Personal, Business and Staff portfolios. Significant judgements, estimates and assumptions are applied by Management to: • Determine if the financial asset is impaired; • Evaluate the valuation and recoverability of collateral; • Determine the expected future cash flows to be collected; • Estimate the timing of the future cash flows	**Individual ECL recognition** We have tested Management's processes and judgments used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments against Bank's internal policy and the requirements of IFRS 9.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

Other Information included in the Bank's 2019 Director's Report

Other information consists of the information included in the Directors' Report, Statement of Directors' Responsibilities and the Declaration of the Head of Finance's Responsibilities, other than the annual financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual 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 annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania, and for such internal control as the directors determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual 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 annual financial statements.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

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

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

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

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

Building a better working world

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of

MWALIMU COMMERCIAL BANK PLC

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

- In our opinion, the capital adequacy ratios as presented in Note 34 to the annual financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2014 of Tanzania.

The engagement partner on the audit resulting in this independent auditor's report is Deokari Mkenda

Signed by: Deokari S. Mkenda (ACPA 3438)

For and on behalf of Ernst & Young
Certified Public Accountants
Dar es Salaam

Date: 31/03/ **2020**

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
		TZS '000	TZS '000
Effective interest income	5	2,936,631	3,252,797
Effective interest expense	6	(547,277)	(572,125)
Other interest and similar expense	20	(375,437)	-
Net interest income		**2,013,917**	**2,680,672**
Expected credit losses	16&17	-	(86,601)
Expected Credit Losses write backs	16&17	79,536	-
Net interest income after credit losses		**2,093,453**	**2,594,071**
Net fee and commission income	7	403,385	212,983
Net trading income	8	26,563	4,355
Other income	9	24,238	1,343
Net operating income		**2,547,639**	**2,812,751**
Staff costs	10	(3,337,225)	(3,522,952)
Infrastructure costs	11	(1,120,540)	(1,305,030)
Administration and general expenses	12	(985,822)	(1,399,775)
Depreciation of right of use of assets	20	(134,314)	-
Depreciation of property and equipment	21	(700,568)	(1,012,964)
Amortisation of intangible assets	22	(1,081,544)	(1,060,876)
Operating expenses		**(7,360,013)**	**(8,301,597)**
Loss before tax		**(4,812,374)**	**(5,488,846)**
Income tax expense	13	(14,615)	(14,497)
Loss for the year		**(4,826,989)**	**(5,503,343)**
Movement in Fair Value of Debt Instruments designated at FVOCI			
Fair value losses arising during the reporting period (Net of tax)		-	(25,080)
Total comprehensive loss for the year		**(4,826,989)**	**(5,528,423)**
Basic and diluted earnings per share (TZS)	14	(78.08)	(89.42)

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
		TZS '000	TZS '000
Assets			
Cash and balances with Bank of Tanzania	15	4,881,447	1,904,196
Loans and advances to banks	16	1,082,542	2,346,183
Loans and advances to customers	17	16,109,038	17,885,548
Investment securities	18	-	1,124,831
Income tax recoverable	13	429,502	444,117
Right of Use Asset	20	1,110,638	-
Other assets	19	1,180,080	207,148
Property and equipment	21	1,213,753	1,873,512
Intangible assets	22	3,841,185	4,908,967
Total assets		**29,848,185**	**30,694,501**
Liabilities			
Deposits from customers	23	11,073,189	7,948,974
Lease Liability	20	1,110,638	-
Other liabilities	24	1,197,390	1,451,570
Total liabilities		**13,381,217**	**9,400,544**
Shareholders' equity			
Share capital	25	30,912,460	30,912,460
Accumulated losses	26	(14,445,492)	(9,976,733)
Bond Revaluation Reserve	27	-	178,971
Provision General Reserve	26	-	179,260
		16,466,968	**21,293,958**
Total shareholders' equity and liabilities		**29,848,185**	**30,694,501**

The annual financial statements were approved by the board of directors and authorized for issue on 31.03., 2020 and signed on its behalf by:

Herman Mark Kessy

Board Chairman

Richard Louis Makungwa

Chief Executive Officer

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital	Accumulated Losses	Regulatory general credit risk reserve	Bond Fair Value reserve	Provision General reserve	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Year ended 31 December 2019						
At 1 January 2019	30,912,460	(9,976,733)	-	178,971	179,260	21,293,958
Loss for the year	-	(4,826,989)	-	-	-	(4,826,989)
Realization of Treasury Bonds	-	178,971	-	(178,971)	-	-
Transfer from provision general reserve	-	179,260	-	-	(179,260)	-
At end of year	**30,912,460**	**(14,445,492)**	**-**	**-**	**-**	**16,466,968**
Year ended 31 December 2018						
At 1 January 2018	30,912,460	(4,120,723)	114,387	204,051	-	27,110,175
Decrease resulting from adopting IFRS 9	-	(287,795)	-	-	-	(287,795)
Loss for the year	-	(5,503,343)	-	-	-	(5,503,343)
(Loss) on fair valuation of AFS Treasury Bonds	-	-	-	(25,080)	-	(25,080)
Transfer from regulatory credit risk reserve	-	114,387	(114,387)	-	-	-
Transfer to provision general reserve	-	(179,260)	-	-	179,260	-
At end of year	**30,912,460**	**(9,976,733)**	**-**	**178,971**	**179,260**	**21,293,958**

Note

The regulatory credit risk reserve represents an amount set aside to cover additional specific provisions for loan losses required to comply with the requirements of the Bank of Tanzania prudential guidelines.

The provision general reserve is determined as one (1%) percent of the current credit accommodations. The minimum amount required to form the non-distributable and general reserves are not available for distributions. However, this was abolished by the Bank of Tanzania in July 2019.

MWALIMU COMMERCIAL BANK PLC

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019	2018
		TZS '000	TZS '000
Cash flows from operating activities			
Loss before income tax		(4,812,374)	(5,488,846)
Adjusted for:			
Depreciation and amortization	21&22	1,710,110	2,073,841
Net foreign exchange differences	8	4,268	(1,365)
Trading activities gains	8	(34,327)	(2,990)
Loan credit losses charges		(79,536)	86,601
Interest income		(2,389,354)	(2,680,672)
		(5,601,213)	**(6,013,431)**
Changes in operating assets and liabilities:			
Statutory Minimum Reserve		(275,064)	24,862
Loans and advances to banks		1,251,266	12,413,372
Loans and advances to customers		1,852,668	(6,901,145)
Other assets		(972,933)	120,530
Deposits from banks		-	(4,478,000)
Deposits from customers		3,284,498	2,366,773
Other liabilities		(763,932)	721,147
Interest received		3,046,226	3,202,059
Interest paid		(573,246)	(467,751)
Net cash inflow from operating activities		**1,248,270**	**988,416**
Cash flows from investing activities			
Proceeds from sale of treasury bills		-	624,901
Proceeds from sale of investment securities - at FVOCI		1,120,603	-
Acquisition of property and equipment	21	(40,808)	(520,044)
Acquisition of intangible assets	22	(13,762)	(152,151)
Net cash inflow/(outflow) from investing activities		**1,066,033**	**(47,294)**
Cash flows from financing activities			
Payment of principal portion of the lease liability		375,437	-
Net cash inflow from financing activities		**375,437**	**-**
Net increase in cash and cash equivalents		**2,689,740**	**941,122**
Movement in cash and cash equivalents			
Net increase in cash and cash equivalents		2,689,740	941,122
Net foreign exchange difference		3,496	-
Cash and cash equivalents at 1 January		1,584,746	643,624
At the end of the year	28	**4,277,982**	**1,584,746**

1 STATEMENT OF COMPLIANCE

These annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The annual financial statements comply with IFRS as issued by the International Accounting Standards Board (IASB) and the requirements of the Companies Act, CAP 212 Act No. 12 of 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Adoption of new and revised accounting standards

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2019. The adoption of these new and revised standards and interpretations has resulted in material changes to the Bank's accounting policies. For details of the new and revised accounting policies refer to Note 34.

(b) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The statements have been prepared under the historical cost basis except for fair value through other comprehensive income financial assets, which have been measured at fair value.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 32.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The directors believe that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

(c) Functional and presentation currency

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

Transactions in foreign currencies during the year are converted into the Tanzania Shillings using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss account.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Revenue recognition

The Bank applied IFRS 15 for the first time in the previous financial year 2018 using the modified retrospective approach. Consequently, the comparative balances are based on the accounting policies used before adoption of IFRS 15. The accounting policies applied to the comparative balances and current year balances are indicated below.

Effective Interest income and expenses

Effective Interest income and expense for all interest-bearing financial instruments are recognized within 'effective interest income' or 'effective interest expense' in the statement of profit or loss using the effective interest method.

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

Effective Interest income on non-performing loans for which no impairment provision has been recorded is recognized using the effective interest method. Effective interest income for non-performing loans is recognized basing on the carrying value net of the loss allowance.

For credit-impaired financial assets the effective interest income is calculated by applying the EIR to the amortized cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs). For financial assets originated or purchased credit-impaired (POCI) the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Fees and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income is divided into the following two categories:

- Fee income earned from services that are provided over a certain period of time: Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income from MCB mobile banking and ATM card fees, service charge from customer accounts. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

- Fee income from providing transaction services: Fees arising from negotiating or participating in the negotiation of a transaction for a third party such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Classes of financial instruments

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

Category (as defined by IFRS 9)		Class (as determined by the Bank)		Subclass
Financial Assets	Amortized cost	Loans and Advances to Banks		
		Loans and advances to customers	Loans to individuals	Personal Loans
				Mortgage Loans
			Loans to corporate entities	Corporate Loans
			Loans to SMEs	SME Loans
		Investment in Debt securities	Government securities	Treasury Bills and Bonds (SPPI)
	Fair value through profit or loss (FVPL)	Equity Investment (Which are not under scope of IAS 28 and IFRS 10)		
	Fair value through other comprehensive income (FVOCI)	Other treasury bonds held to collect contractual cash flows and sale		
Financial liabilities	Financial liabilities at amortised cost	Deposits from Banks		
		Borrowings and other liabilities		
		Deposits from customers	Retail customers	
			Corporate customers	

(f) Financial assets

Accounting policies applicable in current period under IFRS 9

The Bank classifies its financial assets in the following categories: At amortized cost, Fair value through profit or loss (FVPL) and Fair value through other comprehensive income (FVOCI).

Classification and subsequent measurement of financial assets depends on;

(a) The Bank's business model for managing the asset; and
(b) The cash flow characteristics of the asset.

Based on these factors, the Bank classifies its financial assets into one of the following three measurement categories.

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'effective Interest income' using the effective interest rate method.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

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

- **Fair value through profit or loss (FVPL):** Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the profit or loss statement within 'Other income' in the period in which it arises.

- **Fair value through other comprehensive income (FVOCI):** Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest and are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Other Income'.

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

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

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

Recognition of financial assets

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

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:

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

Determination of fair value (Continued)

- 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 statement of financial position 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 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.

The Bank periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Bank's financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, the Bank applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments.

The Bank evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassifies instruments when necessary, based on the facts at the end of the reporting period.

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

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the statement of financial position date. In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at FVOCI. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

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

Impairment of financial assets

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVPL:

- Loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- corporate bonds;
- loan commitments issued; and
- financial guarantee contracts issued.

With the exception of POCI financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Lifetime ECL, i.e. ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

For the purposes of determining ECL quantitative and qualitive factors are considered, all facilities whose contractual payments are more than 30 days due but less than or equal to 90 days due are grouped in stage 2 as they are taken to have experienced a significant increase in credit risk, changes in business environment is also considered as qualitative factor.

As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeness 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;
- The borrower having past due liabilities to public creditors or employees;
- The borrower is deceased;
- A material decreases in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decreases 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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

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

- application/protection; and
- Debtor's listed debt or equity suspended at the primary exchange because of rumors or facts about financial difficulties.

More details on the determination of a significant increase in credit risk are provided in Note 32.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the loan and the cash flows that the Bank expects to receive if the loan is drawn down; and

- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Bank expects to receive from the holder, the debtor or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate, regardless of whether it is measured on an individual basis or a collective basis.

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

PD – the probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

EAD – the expected statement of financial position exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

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

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

- For amortized products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by the borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

- For revolving facilities; for Retail portfolios, asset duration is based on behavioral life and this is normally greater than contractual life. For Wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

LGD – The loss that is expected to arise on default which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type. Refer to note 4 for an explanation of forward- looking information and its inclusion in ECL calculations.

The assumptions underlying the ECL calculation – such as how the maturity profile of the PDs and how collateral values change etc. – are monitored and reviewed on an annual basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Definition of default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due.

Under IFRS 9, the Bank will consider a financial asset as 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (Continued)

Definition of default (Continued)

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

The Bank's write-off policy under IFRS 9 remains the same as it was under IAS 39. 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 profit or loss.

The Bank writes off non-performing financial assets that have been past due for more than four (4) consecutive quarters. The Bank may write-off financial assets in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The assessment is done to specific borrower.

(i) Assets carried at amortised cost

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

Significant financial difficulty of the issuer or obligor;

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

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

(i) Assets carried at amortised cost (Continued)

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Bank of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

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

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

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

(ii) Assets carried at fair value through other comprehensive income

The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or a Bank of financial assets is impaired. In the case of equity investments carried at fair value through other comprehensive income, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for Assets carried at fair value through other comprehensive income, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

An impairment assessment is performed in a similar manner for loans whose terms are renegotiated as a result of financial difficulty of the borrower in the year the terms were renegotiated even if the loan is classified as performing.

Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default.

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. A loan will remain at its original stage until it meets the criterias of cure.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

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

Modification of financial assets (Continued)

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the modified terms at initial recognition. The Bank monitors the subsequent performance of modified assets until they are completely and ultimately derecognised. The Bank may determine that the credit risk has significantly improved after modification, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms. Differences in the carrying amount are recognised in profit or loss as a gain or loss on derecognition.

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

There was no financial assets which were modified during the period and hence no modification loss suffered by the Bank.

Cure of non-performing financial assets including restructured loans

An instrument is considered to no longer be SICR or in default (i.e. to have cured) when it has been established that the obligor is able to meet the requirements of the agreed terms and conditions.

IFRS 9 allows credit exposures to migrate from higher credit risk categories to lower credit risk categories, that is, from stage 3 to stage 2 and from stage 2 to stage 1.

Under migration from stage 3 to stage 2, the Bank shall consider criteria for upgrade of credit accommodations as follows:

(a) in the case of overdraft facilities, the account has satisfactorily performed for a minimum period of two consecutive quarters; and
(b) in the case of term loans, the obligor has timely paid four consecutive installments.

These periods have been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different possible cure definitions. The Bank has not used the low credit risk exemption for any financial instruments in the year ended 31 December 2018.

On the other hand, credit exposures may migrate from stage 2 to stage 1 when there is a significant improvement of the credit exposure. In determining whether an exposure should shift backward from stage 2 to stage 1, The Bank shall consider the following;

(a) All outstanding payments on the credit facility are made on time and there are no payments in arrears.

(b) There is improvement of the quantitative and qualitative factors that caused significant increase of the credit risk.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

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

Cure of non-performing financial assets including restructured loans (Continued)

Upgrade from stage 2 to stage 1 shall be subject to a monitoring period of 90 days for conventional loans and 30 days for Microfinance loans to confirm if the risk of default has decreased sufficiently before upgrading such exposure.

For credit exposures that have cured i.e shifted from stage 2 to stage 1, effective interest income is calculated on gross carrying amount of the asset at the beginning of the period before allowance for ECLs using effective interest rate. The carrying amount of the exposure shall be the amortised cost at the end of the period.

For credit exposures that have shifted from stage 3 to stage 2, objective evidence of impairment still exists and accordingly effective interest income is computed on gross carrying amount of the asset at the beginning of the period using effective interest rate. The gross carrying amount of the exposure shall be the amortised cost at the end of the period.

Financial liabilities

Financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when extinguished. Such financial liabilities include deposits from banks or customers, other liabilities, subordinate debts and borrowings.

Derecognition of financial assets and liabilities

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Bank transfers substantially all the risks and rewards of ownership, or (ii) the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control. The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

(a) has no obligation to make payments unless it collects equivalent amounts from the assets;
(b) is prohibited from selling or pledging the assets; and
(c) has an obligation to remit any cash it collects from the assets without material delay.

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

Offsetting financial instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial assets (Continued)

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

Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal 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 of disposal or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Income Tax

Income tax charge

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax asset and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary and all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit shall be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit shall be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit shall allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Income Tax (Continued)

Deferred income tax (Continued)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(h) Property and equipment

Property and equipment are initially recorded at historical cost and subsequently stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised 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 the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to write down the cost of each asset to its residual value over its estimated useful life as follows:

Leasehold improvements	10 years (10%)
Computer equipment	3 years (33%)
Furniture and fittings	5 years (20%)
Office equipment	5 years (20%)
Motor vehicles	4 years (25%)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Intangible assets

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognized in operating expenses in profit or loss.

Amortisation is calculated using the straight–line method to write down the cost of intangible assets to their residual values over their estimated useful lives (seven years for core banking software and five years for other software).

(j) Accounting for leases

Leases (Policy applicable as of 1 January 2019)

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

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 20 right-of-use assets and are subject to impairment in line with the Bank's policy.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable).

Bank as a lessor

The Bank has no activities as a lessor and hence the Bank does not expect any impact on the financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Employee benefits

Retirement benefit obligations

All bank employees are members of National Social Security Fund-NSSF which is a defined pension contribution plan. A defined contribution plan is a pension plan under which the bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The bank and employees each contribute 10% of the employees' gross salaries to the defined contribution plans. The bank's contributions are recognised as employee benefits expense when they are due.

Short-term benefits

Short-term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period during which employee services are rendered, but do not include termination benefits. These benefits consist of salaries and any non-monetary benefits such as medical reimbursements and insurance.

The undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in an accounting period is recognised in that period. The expected cost of short-term compensated absences is recognised as the employees render service that increases their entitlement or, in the case of non-accumulating absences, when the absences occur, and includes any additional amounts an entity expects to pay as a result of unused entitlements at the end of the period.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including cash and balances with Bank of Tanzania, loans and advances to banks, net of deposits from banks.

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less.

(m) Other assets

Other assets consist of prepayments, sundry debtors and other receivables. Other assets are initially recognised at fair value and subsequently measured at amortised cost. Prepayments are recognised at the fair value of the amount paid and amortised over the coverage period.

(n) Other liabilities

Other liabilities consist of payables to third parties. Other liabilities are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Other liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Share capital

Ordinary shares are classified as 'share capital' in equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as deduction from the proceeds.

(p) Provisions

Provisions are recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. There were no provisions at year end recorded in the statement of financial position.

(q) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker has been identified as operating board that makes strategic decisions.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Bank's financial statements requires management to make judgments, 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.

(a) Impairment losses on loans and advances

Impairment under IFRS 9

Fair value of financial instruments
The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the Bank estimate the fair values of financial instruments from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. Changes in valuation assumptions could affect the reported fair value of the financial instruments.

Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a Bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future credit risk losses should depend not just on the health of the economy today but should also take account of changes to the economic environment in the future.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Incorporation of forward-looking information (Continued)

To capture the effect of changes to the economic environment in the future, the computation of probability of default (PD), loss given default (LGD) and so expected credit loss incorporates forward-looking information; assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Bank's clients. Such variables include Inflation, GDP Growth, oil prices fluctuation, average electricity generation, natural gas, population, total household spending, total food sales, total public debt, Government spending in priority sector, unemployment rate, exchange rate movement.

Cure rate

Cure rate is a percentage of credit exposure accounts which were in default category, but as at assessment date have moved to a better category. Cure rate shall be factored in at the LGD level when assessing recovery rate. The rate reduces the percentage of loss given default and is computed at the overall credit portfolio level. Consideration of movement of accounts is done annually. Qualitative criteria applied when checking whether the account has cured or not are those in line with Bank of Tanzania guideline on IFRS 9 Implementation. Defaulted accounts which are assessed whether they have cured shall exclude accounts which have restructured, or which have been charged off during the period.

Significant increase in credit risk

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors (as per note 4), the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. Financial assets that are 30 or less days past due are considered to be have low credit risk.

Taxes

Significant judgment is required in determining the Bank's overall income tax provision or estimated future recovery of income tax losses. There are many transactions and calculations, for which the ultimate tax determination is uncertain. The Bank recognises liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the outcome of tax matters is different from the amounts that were initially recorded, such differences will have an impact on the current and any deferred income tax provisions (note 13) in the periods in which the determination is made.

Going concern

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

4 BUSINESS SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision maker has been identified as operating board that makes strategic decisions. As at the date of these annual financial statements, there were no separate financial results maintained and reviewed by the chief operating decision maker. The bank operates as one segment and the information that chief operating decision maker is reviewing is the same as what is presented in the annual financial statements.

		2019 TZS '000	2018 TZS '000
5	**EFFECTIVE INTEREST INCOME**		
	Treasury bills	-	203,675
	Investment securities	96,660	140,398
	Loans and advances to banks	132,175	446,424
	Loans and advances to customers	2,707,796	2,462,299
		2,936,631	**3,252,797**
6	**EFFECTIVE INTEREST EXPENSE**		
	Deposits from banks	3,071	101,599
	Deposits from customers	544,207	470,526
		547,277	**572,125**
7	**FEES AND COMMISSION INCOME**		
	Loan fees	288,568	89,313
	Service charge on customer accounts	33,727	50,564
	Bancassurance fees	28,721	-
	MCB Mobile banking commissions	19,077	23,635
	ATM Card fees and commissions	8,185	15,324
	Other fees and commissions	25,107	34,147
		403,385	**212,983**
8	**NET TRADING INCOME**		
	Foreign currency translation (losses)/ gains	(7,764)	1,365
	Trading activities gains	34,327	2,990
		26,563	**4,355**
9	**OTHER INCOME**		
	Sundry income	24,238	1,343
		24,238	**1,343**
10	**STAFF COSTS**		
	Wages and salaries	2,352,476	2,462,418
	Social security costs (Defined contribution plan)	226,870	248,326
	Other staff costs	757,879	812,208
		3,337,225	**3,522,952**

*Other staff costs include; travel allowance, SDL, WCF, Medical, Recruitment, Staff training expenses, responsibility allowance and overtime

		2019	2018
		TZS '000	TZS '000
11	**INFRASTRUCTURE COSTS**		
	Printer hiring charges	22,840	98,677
	Office repair and maintenance costs	158,888	190,976
	Information Technology*	938,812	1,015,377
		1,120,540	**1,305,030**

*Information technology includes; core banking system implementation expenses, software licenses, data lines hire and all other ICT software maintenance expenses

12	**ADMINISTRATION AND GENERAL EXPENSES**		
	Rent	-	411,192
	Marketing costs	202,033	270,852
	Subscriptions	46,480	42,156
	Professional fees	12,697	21,137
	Telephone, postage & Communication costs	50,229	50,074
	Printing and stationery expenses	29,277	36,340
	Insurance	75,040	71,714
	Service charges & levies	5,734	4,330
	Bank charges	15,725	14,188
	Office security	79,954	66,956
	Auditor's remuneration	71,390	71,390
	Legal expenses	93,796	101,177
	Directors fees	24,719	19,750
	Directors sitting allowances	55,520	49,058
	Other administrative expenses	223,228	169,460
		985,822	**1,399,775**

13	**INCOME TAX**		
	Tax charge		
	Current tax:		
	Current tax on profits for the year	14,615	14,497
	Total current tax expense	**14,615**	**14,497**
	Deferred income tax:		
	Decrease/(decrease) in deferred tax assets	**(1,203,094)**	**(1,372,211)**
	Total deferred tax expense	(1,203,094)	(1,372,211)
	Deferred tax movement not recognised	1,203,094	1,372,211
	Income tax expense	**14,615**	**14,497**

	2019	2018
	TZS '000	TZS '000

13 **INCOME TAX (Continued)**

	2019 TZS '000	2018 TZS '000
13 INCOME TAX (Continued)		
Reconciliation of income tax expense		
(Loss) before income tax	**(4,812,374)**	**(5,488,845)**
Tax calculated at 25%	(1,203,094)	(1,372,211)
Alternative Minimum Tax	14,615	14,497
Deferred tax movement not recognized	1,203,094	1,372,211
Income tax expense	**14,615**	**14,497**
Reconciliation of tax recoverable		
Current tax asset per statement of financial position	429,523	444,117
Movement of current tax asset		
Balance at the beginning of the year	(444,117)	(458,614)
Income tax charge	14,594	14,497
Taxes paid	-	-
Balance at the end of year	**(429,523)**	**(444,117)**
Non-current	**(429,523)**	**(444,117)**

Current income tax of TZS 14.594 million (2018: TZS 14,497) has been charged in accordance with the Alternative Minimum Tax provisions that require that entities that are loss making for more than two tax periods should pay tax at the rate of 0.5% of the revenue reported.

Deferred income tax asset
The movement of unrecognized deferred tax assets is as follows:

	2019 TZS '000	2018 TZS '000
Deferred income tax asset		
Property, equipment and intangibles	(233,448)	101,163
Provision on loans	19,884	(21,650)
Tax losses	(990,586)	(1,451,724)
Net deferred income tax asset	**(1,204,151)**	**(1,372,211)**

Deferred income tax asset amounting to TZS 1,204,150,538 (2018: TZS 1,372,211,000) was not recognised during the year due to uncertainty as to whether the Bank will generate taxable profits in the foreseeable future against which tax credits including tax losses will reverse. The tax losses as at year end amounted to TZS 17,020,237,176 (2018: TZS 13,057,892,707). However, this situation will be re assessed at the end of next financial year.

14 EARNINGS PER SHARE

Basic Earnings Per Share (EPS) is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares during the period. The Bank does not have potential ordinary shares with convertible options and therefore there is no dilutive impact on the (loss) attributable to the ordinary shareholders of the bank.

	2019 TZS '000	2018 TZS '000
Net (loss) attributable to shareholders (TZS'000)	(4,826,989)	(5,528,423)
Weighted average number of ordinary shares in issue (Note 25)	61,825	61,825
Basic and diluted earnings per share (TZS)	(78.08)	(89.42)

15 CASH AND BALANCES WITH BANK OF TANZANIA

	2019 TZS '000	2018 TZS '000
Cash in hand*	263,613	213,491
Clearing accounts with Bank of Tanzania	3,970,925	1,318,861
Statutory Minimum Reserves (SMR)	646,909	371,844
	4,881,447	**1,904,196**

*Cash in hand includes; vault cash, ATM cash balances and petty cash.

The SMR is non-interest earning and is based on the value of deposits as adjusted for the Bank of Tanzania requirements. These funds are not available for use by the Bank in its day-to-day operations and are therefore excluded from cash and cash equivalents for the purpose of statement of cash flows. (See Note 28)

16 LOANS AND ADVANCES TO BANKS

Current account balances with banks	39,948	52,394
Placements with other banks	1,045,427	2,300,000
Expected credit losses	(2,833)	(6,212)
	1,082,542	**2,346,182**

Movement in allowance for impairment losses on loans and advances is as follows:

At 1 January	6,212	-
Increase resulting from adopting of IFRS 9	-	77,485
Net impairment release to loss for the year	(3,378)	(71,273)
At 31 December	**2,833**	**6,212**

17 LOANS AND ADVANCES TO CUSTOMERS

	2019 TZS '000	2018 TZS '000
Mwalimu loans	14,591,279	16,178,354
Personal loans	829,555	838,741
Business loans	236,772	41,605
Staff loans	779,490	1,207,033
Gross loans and advances	**16,437,096**	**18,265,733**
Less: allowance for impairment	(291,966)	(368,123)
interest in suspense	(36,092)	(12,062)
	16,109,038	**17,885,548**

Movement in allowance for impairment losses on loans and advances is as follows;

At 1 January	368,123	12,328
Increase/(decrease) resulting from adopting of IFRS 9	-	197,920
Net impairment charge to loss for the year	(76,158)	157,875
At 31 December	**291,966**	**368,123**

Analysis of provision account for losses on loans and advances by class is as follows;

Year ended 31 December 2019	**Retail** **TZS '000**	**Total** **TZS '000**
At 1 January 2019	368,123	368,123
Net credit loss reversal for the year	(76,158)	(76,158)
At 31 December 2019	**291,966**	**291,966**

Year ended 31 December 2018	**Retail** **TZS '000**	**Total** **TZS '000**
At 1 January 2018	12,328	12,328
Net increase resulting from adoption of IFRS9	197,920	197,920
Net impairment charge for the year	157,875	157,875
At 31 December 2018	**368,123**	**368,123**

18 INVESTMENT SECURITIES	2019 TZS '000	2018 TZS '000
Treasury bonds maturing after 90 days	-	1,124,831

The movement in the investment securities may be summarized as follows;

At 1 January	1,124,831	1,149,912
Additions	-	-
Gains/(losses) from changes in fair value	-	(25,081)
Matured/sold during the year	(1,124,831)	-
At 31 December	-	1,124,831
Current	-	-
Non-current	-	1,124,831

During the year there were no Treasury bonds which debt securities are issued by the Government of the United Republic of Tanzania traded as at 31 December 2019, hence no Treasury bonds were pledged by the bank to secure borrowing lines with other banks (2018: TZS Nil)

19 OTHER ASSETS

Prepayments	166,722	194,058
ATM cash receivable from other banks	233,587	9,864
Mobile wallet bank receivables	765,078	2,806
Sundry receivables	2,249	-
Other receivables	12,444	420
	1,180,080	**207,148**

20 RIGHT OF USE ASSET

(i) Amounts recognized in the balance sheet

Cost		
At 1 January 2019	1,244,952	-
At 31 December 2019	**1,244,952**	**-**
Depreciation		
At 1 January 2019	-	-
Depreciation charge for the year	134,314	-
At 31 December 2019	**134,314**	**-**
Net Book Value		
At 31 December 2019	**1,110,638**	**-**

20 RIGHT OF USE ASSET (Continued)

Set out below are the carrying amounts of lease liabilities and the movements during the period:

(ii) Amounts recognized in the statement of profit or loss

	2019	2018
Lease Liability	**TZS '000**	**TZS '000**
At 1 January 2019	1,244,952	-
Accretion of interest	375,437	-
Payments	(509.751)	-
At 31 December 2019	**1,110,638**	**-**

The bank has lease contracts for its branches, head office, regional offices and ATMs connected to a network of banks called UMOJA SWITCH. Upon adoption of IFRS 16, the bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets which includes office printers. The weighted average borrowing rate used at transition is 17% p.a.

Leased premises assets were newly recognized on 1 January 2019 due to the adoption of IFRS 16 Leases (refer to Note 34).

21 PROPERTY & EQUIPMENT

	Leasehold Improvements	Computer Equipment	Office Equipment	Motor Vehicles	Furniture & Fittings	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Year ended 31 December 2019						
Cost						
At 1 January 2019	1,408,494	1,674,946	667,213	212,997	120,569	4,084,219
Additions	(249,532)	249,532	37,347	-	3,461	40,808
At 31 December 2019	**1,158,962**	**1,924,478**	**704,560**	**212,997**	**124,030**	**4,125,027**
Accumulated Depreciation						
At 1 January 2019	(202,361)	(1,532,190)	(287,320)	(137,415)	(51,420)	(2,210,707)
Charge for the year	(115,741)	(371,787)	(135,484)	(53,249)	(24,306)	(700,568)
At 31 December 2019	(318,102)	(1,903,977)	(422,804)	(190,664)	(75,727)	(2,911,274)
Net carrying value	**840,859**	**20,501**	**281,756**	**22,333**	**48,304**	**1,213,753**
Year ended 31 December 2018						
Cost						
At 1 January 2018	1,019,758	1,652,654	579,950	212,997	98,816	3,564,175
Additions	388,736	22,292	87,263	-	21,753	520,044
At 31 December 2018	**1,408,494**	**1,674,946**	**667,213**	**212,997**	**120,569**	**4,084,219**
Accumulated Depreciation						
At 1 January 2018	(110,275)	(812,003)	(161,806)	(84,166)	(29,493)	(1,197,743)
Charge for the year	(92,086)	(720,187)	(125,515)	(53,249)	(21,927)	(1,012,964)
At 31 December 2018	(202,361)	(1,532,190)	(287,321)	(137,415)	(51,420)	(2,210,707)
Net carrying value	**1,206,133**	**142,756**	**379,892**	**75,582**	**69,149**	**1,873,512**

*No property or equipment has been pledged as collateral. All property and equipment items are non-current

		2019	2018
		TZS '000	TZS '000
22	**INTANGIBLE ASSETS**		
	As at 1 January	4,908,967	5,817,692
	Additions	13,762	129,231
	Work in progress	-	22,920
	Amortisation charge for the year	(1,081,544)	(1,060,876)
	As at 31 December	**3,841,185**	**4,908,967**
	As at 31 December		
	Cost	7,323,360	7,309,598
	Accumulated amortisation	(3,482,175)	(2,400,631)
	Net Book Value	**3,841,185**	**4,908,967**

*Work in progress in 2018 relates to payment to core banking system vendor for implementation of salary advance product.

Intangible assets include core banking system and other software in use by the Bank. The remaining amortization period is three and a half years. No intangible asset has been pledged as security against liabilities.

		2019	2018
		TZS '000	TZS '000
23	**DEPOSITS FROM CUSTOMERS**		
	Retail banking:		
	Savings Account	1,075,828	741,909
	Current Account	5,466,032	1,936,056
	Term Deposits	4,531,330	5,271,009
		11,073,189	**7,948,974**
	Maturity Analysis- not more than 3 months		
	Repayable on demand	6,541,860	2,677,965
	Maturing within 3 months	1,796,396	229,300
		8,338,256	**2,907,265**

Deposits due to customers only include financial instruments classified as liabilities at amortised costs. All deposits are at fixed interest rates except current accounts that are non-interest bearing. The effective interest rate for the year was 9.04% (2018 was 6.34%).

		2019	2018
		TZS '000	TZS '000
24	**OTHER LIABILITIES**		
	Accrued taxes payable	127,163	7,925
	Accrued expenses	474,380	721,079
	Sundry creditors	15,624	16,668
	Deferred fee income on loans	211,114	302,194
	Other payables	369,109	403,703
		1,197,390	**1,451,569**

Other liabilities are expected to be settled within no more than 12 months after end of reporting period.
Accrued tax payable is made up of Value Added Tax (VAT), Withholding taxes and Excise duties

25	**SHARE CAPITAL**		
	Authorised share capital 200,000,000 @ TZS 500 each	**100,000,000**	**100,000,000**
	Ordinary shares issued and fully paid 61,824,920 @ TZS 500 each	**30,912,460**	**30,912,460**

26	**RESERVES**	Retained earnings	Regulatory credit risk reserve	Provision general reserve (*)
		TZS '000	TZS '000	TZS '000
	Balance at 1 January 2019	(9,976,733)	-	179,260
	Loss for the year	(4,826,989)	-	-
	Transfer to/(from) retained earnings	358,231	-	(179,260)
	Balance at 31 December 2019	**(14,445,492)**	**-**	**-**
	Balance at 1 January 2018	(4,120,722)	114,387	-
	Decrease resulting from adopting of IFRS9	(287,795)	-	-
	Loss for the year	(5,503,343)	-	-
	Transfer to/(from) retained earnings	(64,873)	(114,387)	179,260
	Balance at 31 December 2018	**(9,976,733)**	**-**	**179,260**

(*) Provision general reserve represents 1% additional provision on performing (current) loans and advances to customers in order to comply with requirement of Bank of Tanzania prudential guidelines. This reserve is not available for distribution.

27 FAIR VALUE RESERVE

The fair value reserve represents the fair value gains net of losses, on Treasury Bonds classified at fair value through OCI. These gains are only recognized in profit or loss when the asset has been sold or impaired.

	2019	2018
	TZS '000	TZS '000
At 1 January	178,971	204,051
Bond revaluation reserve - (loss)/gain	(178,971)	(25,080)
At 31 December	-	178,971

28 ANALYSIS OF CASH & CASH EQUIVALENTS AS SHOWN IN THE STATEMENT OF CASH FLOWS

	2019	2018
	TZS '000	TZS '000
Cash in hand (Note 15)	263,613	213,491
Clearing accounts with Bank of Tanzania (Note 15)	3,970,925	1,318,861
Loans and advances to banks (Note 16)	39,948	52,394
Net foreign exchange difference	3,496	-
	4,277,982	1,584,746

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity: cash and balances with Bank of Tanzania, Government securities and loans and advances to banks. Cash and cash equivalents exclude Statutory Minimum Reserve.

Reserve requirement held with the Central Bank.

Banks are required to maintain a prescribed minimum cash balance with the Bank of Tanzania that is not available to finance the bank's day-to-day activities. The amount is determined as 7% for public deposits and 40% for Government deposits of the average outstanding customer deposits over a cash reserve cycle period of two weeks.

29 CONTINGENT LIABILITIES AND COMMITMENTS

(a) Tax assessments

The normal procedure for agreeing final income tax liability in Tanzania involves the Bank filing its final income tax returns with the Tanzania Revenue Authority (TRA) followed by TRA performing their own review of the Bank's submissions and issuing their notice of final income tax assessments to the Bank.

The final income tax assessment may be determined by TRA after their review and possible site visit may differ from the assessments determined by the Bank and procedures are in place for the Bank to object and appeal against the TRA assessments. It is common that a timeframe from the Bank's own submission of its final tax returns and for TRA performing their reviews and issuing of notice of final tax assessment may take several months or years, the Bank has duly submitted it final tax returns since incorporation.

The Bank has not received from TRA final assessments since incorporation. The directors envisage no material tax contingencies as the Bank is in cumulative tax loss of TZS 17,020,237,176 as at year end (2018: TZS 13,057,892,707).

29 CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(b) Legal proceedings

There were no legal proceedings outstanding against the Bank as at 31 December 2019 hence no provision made on the same (2018: Nil provision)

(c) Capital commitments

There were no capital commitments at the year-end (2018: nil).

30 RELATED PARTY TRANSACTIONS

The Bank is owned and controlled by TTU (Tanzania Teachers' Union), TDCL (Teachers' Development Company Limited), PSPF (Public Service Pensions Fund), NHIF (National Health Insurance Fund), Individual Teachers and General Public through shareholding. After the merger of pension funds in Tanzania shares of PSPF are now under PSSSF (Public Sector Social Security Fund).

Transactions entered into with the shareholders in the normal course of business during the year to 31 December 2019 include loans and fixed deposits. All related party transactions were interred into at an arm's length.

The volumes of related party transactions, outstanding balances at the year-end and related income and expenses for the year are as follows:

(a) Loans and advances to related parties

	2019	2018
	TZS '000	TZS '000
At start of year	287,536	378,252
Loans issued during the year	77,460	54,000
Loan repayment during the year	(224,926)	(144,716)
At end of year	**140,070**	**287,536**
Interest income earned	**17,410**	**29,300**

(b) Deposits from related parties

At start of year	1,784,460	38,448
Deposits during the year	3,482,493	1,746,012
Deposits matured during the year	-	-
At end of year	**5,266,953**	**1,784,460**
Interest expense incurred	**-**	**-**

30 RELATED PARTY TRANSACTIONS (Continued)

(c) Key management compensation

	2019 TZS '000	2018 TZS '000
Salaries and other short-term employment benefits	1,050,177	1,314,147
Social security costs (Defined contribution plan)	76,600	99,656
	1,126,777	**1,413,803**

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

(d) Directors remuneration

Fees and other emoluments paid to directors of the Bank during the year amounted to TZS 80.2 million (2018: 68.8 million). Details of payment to individual directors are be tabled at the annual general meeting and approved every year.

	2019 TZS '000	2018 TZS '000
Directors fees	24,719	19,750
Directors sitting allowances	55,520	49,058
Total	**80,239**	**68,808**

31 FINANCIAL INSTRUMENTS BY CATEGORY

At 31 December 2019	Loans and receivables TZS '000	Total TZS '000
Financial assets		
Cash and balances with Bank of Tanzania	4,881,447	4,881,447
Loans and advances to banks	1,082,542	1,082,542
Loans and advances to customers	16,109,038	16,109,038
Other assets	1,013,358	1,013,358
	23,086,385	**23,086,385**

At 31 December 2019 Financial liabilities	other liabilities at amortised cost TZS '000	Total TZS '000
Deposits from customers	11,073,189	11,073,189
Other liabilities	1,070,225	1,070,225
	12,143,414	**12,143,414**

31 FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

At 31 December 2018	Loans and receivables TZS '000	Available for sale TZS '000	Total TZS '000
Financial assets			
Cash and balances with Bank of Tanzania	1,904,196	-	1,904,196
Loans and advances to banks	2,346,183	-	2,346,183
Loans and advances to customers	17,885,548	-	17,885,548
Investment securities – at FVOCI	-	1,124,831	1,124,831
Other assets	13,090	-	13,090
	22,149,017	**1,124,831**	**23,273,848**

At 31 December 2018 **Financial liabilities**	other liabilities at amortised cost TZS '000	Total TZS '000
Deposits from customers	7,948,974	7,948,974
Other liabilities	1,443,645	1,443,645
	9,392,619	**9,392,619**

32 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 financial risks are inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance. The most important types of financial risks are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that the Bank shall incur a loss because its customers, clients or counterparties failed 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.

The Bank has 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 allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

Credit risk measurement

Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank assesses the financial condition by looking at the trend of key ratios as well as conducting site visits to gauge feasibility of the prospective businesses.

Impairment allowances are computed as required under IFRS 9, which are based on expected losses as at the statement of financial position date (the 'expected credit loss model').

Aging analysis is used to give ex-post information on the extent of exposure assumed by the Bank. The Bank's rating scale shown below, is used in ranking the level of exposure.

Bank's internal ratings scale

Bank rating	Description of the grade	Ageing	% used for Regulatory Provisioning
1	Current	0 – 30 days	0%
2	Especially Mentioned	31 – 90 days	3%
3	Sub-standard	91 – 180 days	20%
4	Doubtful	181 – 360 days	50%
5	Loss	361 days and above	100%

32 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

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 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-statement of financial position 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.

Impairment and provisioning policies

The internal bank rating system focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the annual financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment allowance shown on the statement of financial position at year-end is derived from current grades. The table below shows the percentage of the Bank's on statement of financial position items relating to loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating	31-Dec-2019				31-Dec-2018			
	Loans and advances		Impairment provision		Loans and advances		Impairment provision	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
	TZS '000		TZS '000		TZS '000		TZS '000	
1. Current	15,498,971	96.2	256,906	88	17,563,479	98.20	126,195	34
2. Especially mentioned	251,287	1.6	-	-	200,352	1.12	120,211	33
3. Substandard	71,777	0.4	6,889	2	101,186	0.57	101,186	28
4. Doubtful	145,954	0.9	14,075	5	8,590	0.05	8,590	2
5. Loss	141,049	0.9	14,096	5	11,941	0.07	11,941	3
	16,109,038	**100.0**	**291,966**	**100**	**17,885,548**	**100.00**	**368,123**	**100**

32 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Impairment and provisioning policies (Continued)

The internal rating tool assists management to determine whether objective evidence of impairment exists under IFRS 9, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the expected loss at statement of financial position date on a case-by-case basis and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Maximum exposure to credit risk before collateral held or other credit enhancements

The Bank's maximum exposure to credit risk at 31 December 2019 and 31 December 2018 respectively is represented by the carrying amounts of the financial assets in the Statement of Financial Position. There was no collateral held in respect of the financial assets exposed to credit risk. See below:

	2019 TZS '000	2018 TZS '000
Cash and balances with Bank of Tanzania	4,881,447	1,904,196
Loans and advances to banks	1,082,542	2,346,183
Loans and advances to customers	16,109,038	17,885,548
Investment securities - Available for sale	0	1,124,831
Other assets*	1,013,358	13,090
Total	**23,086,385**	**23,273,848**

*Other assets exclude prepayments as they are not financial assets

The total maximum exposure for the Bank is derived from loans and advances to banks and loans and advances to customers at 6% (2018: 12%) and 94% (2018: 88) respectively.

The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities. 96.2% of the loans and advances portfolio is considered to be current (2018: 98.2%).

32 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Loans and advances

Loans and advances are summarised as follows:

	2019 TZS'000	2018 TZS'000
Loans and advances	16,401,003	18,253,671
Gross loans and advances to customers	**16,401,003**	**18,253,671**
Less: Expected losses		
Stage 3	(2,227)	(717)
Stage 2	(1,104)	(8,085)
Stage 1	(288,635)	(359,321)
Allowance for impairment	**(291,966)**	**(368,123)**
Net loans and advances to customers	**16,109,038**	**17,885,548**

Loans and advances to customers

Impairment provision for loans and advances was TZS 292 million (2018: TZS 368 million). This represent results of loans assessed individually for impairment and also on a portfolio basis.

Loans and advances to banks

There was no amount of individually impaired loans and advances to banks as at 31 December 2019 (2018: nil).

Investment securities

Investment securities held by the Bank are treasury bonds issued by the Government of Tanzania which were considered to be neither past due nor impaired. These investment securities are held with the Government with no history of default.

Other assets

Prepayments are not financial assets and therefore excluded accordingly. There is no history of default on other assets amount and management does not deem other assets balance to be impaired.

32 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Concentration of risks of financial assets with credit risk exposure

a) *Geographical sectors*

As of 31 December 2019, all financial instruments are with counterparties in Tanzania.

Year ended 31 December 2019	Tanzania	Total
	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	4,881,447	4,881,447
Loans and advances to banks	1,082,542	1,082,542
Loans and advances to customers	16,109,038	16,109,038
Other assets	1,013,358	1,013,358
Total	**23,086,385**	**23,086,385**
Year ended 31 December 2018		
Cash and balances with Bank of Tanzania	1,904,196	1,904,196
Loans and advances to banks	2,346,183	2,346,183
Loans and advances to customers	17,885,548	17,885,548
Investment securities - Available for Sale	1,124,831	1,124,831
Other assets	13,090	13,090
Total	**23,273,848**	**23,273,848**

b) *Industry sectors*

The following table breaks down the bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of its counterparties

	Financial Institutions	Individuals	Others	Total
Year ended 31 December 2019	TZS '000	TZS '000	TZS '000	TZS '000
Cash and balances with Bank of Tanzania	4,881,447	-	-	4,881,447
Loans and advances to banks	1,082,542	-	-	1,082,542
Loans and advances to customers	-	16,109,038	-	16,109,038
Other assets	-	-	1,013,358	1,013,358
Total	**5,963,989**	**16,109,038**	**1,013,358**	**23,086,385**

32 FINANCIAL RISK MANAGEMENT (Continued)

Credit risk (Continued)

Concentration of risks of financial assets with credit risk exposure (Continued)

Year ended 31 December 2018	Financial Institutions TZS '000	Individuals TZS '000	Others TZS '000	Total TZS '000
Cash and balances with Bank of Tanzania	1,904,196	-	-	1,904,196
Loans and advances to banks	2,346,183	-	-	2,346,183
Loans and advances to customers	-	17,885,548	-	17,885,548
Investment securities - Available for Sale	1,124,831	-	-	1,124,831
Other assets	-	-	13,090	13,090
Total	**5,375,211**	**17,885,548**	**13,090**	**23,273,848**

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

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 includes:

- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of 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.

Funding approach

Sources of liquidity are regularly reviewed by the Bank's Asset and Liability Committee (ALCO) of the Bank to maintain a wide diversification by currency, provider, product and term.

Non-derivative cash flows

The table below analyses financial assets and financial liabilities into relevant maturity groupings based on their contractual undiscounted amounts as at 31 December 2019.

32 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Non-derivative cash flows (Continued)

As at 31 December 2019	Up to1 month TZS '000	1 to 3 months TZS '000	4 to 12 months TZS '000	1 to 5 years TZS '000	over 5 years TZS '000	Total TZS '000
Liabilities						
Deposits from customers	5,987,458	158,780	4,345,578	581,373	-	11,073,189
Other liabilities *	1,070,225	-	-	-	-	1,070,225
Total liabilities (contractual maturity dates)	**7,057,683**	**158,780**	**4,345,578**	**581,373**	**-**	**12,143,414**
Assets						
Cash and balances with Bank of Tanzania	4,881,447	-	-	-	-	4,881,447
Loans and advances to banks	39,948	-	1,045,427	-	-	1,085,376
Loans and advances to customers	142,567	23,456	18,745	6,452,486	10,526,387	17,163,641
Other assets	-	-	1,013,358	-	-	1,013,358
Total assets (expected maturity dates)	**5,063,962**	**23,456**	**2,077,531**	**6,452,486**	**10,526,387**	**24,143,822**

*Other liabilities exclude statutory obligations

32 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Non-derivative cash flows (Continued)

As at 31 December 2018	Up to1 month TZS '000	1 to 3 months TZS '000	4 to 12 months TZS '000	1 to 5 years TZS '000	over 5 years TZS '000	Total TZS '000
Liabilities						
Deposits from customers	2,934,588	70,000	4,692,386	252,000	-	7,948,974
Other liabilities *	1,443,645	-	-	-	-	1,443,645
Total liabilities (contractual maturity dates)	**4,378,233**	**70,000**	**4,692,386**	**252,000**	**-**	**9,392,619**
Assets						
Cash and balances with Bank of Tanzania	1,904,196	-	-	-	-	1,904,196
Loans and advances to banks	52,394	-	2,293,789	-	-	2,346,183
Loans and advances to customers	94,687	370	22,755	8,897,377	12,857,827	21,873,016
Other assets	-	-	13,090	-	-	13,090
Total assets (expected maturity dates)	**2,051,277**	**370**	**2,329,634**	**8,897,377**	**12,857,827**	**26,136,484**

*Other liabilities exclude statutory obligations

32 FINANCIAL RISK MANAGEMENT (Continued)

Liquidity risk (Continued)

Non-derivative cash flows (Continued)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with central bank, treasury bills; loans and advances to banks; and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The Bank would also be able to meet unexpected net cash outflows by selling securities and accessing additional funding sources such as asset-backed markets.

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 rates and foreign currencies, 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.

Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. With all other variables held constant, a shift in foreign exchange rate by 5% on all foreign denominated assets, liabilities and equity, would lead to foreign currency exposure to the Bank of a lower or higher loss after tax of TZS 3.316 million as at 31 December 2019 (2018: TZS 0.797 million).

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2019. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (amounts are in USD).

As at 31 December 2018	USD	Total
Assets		
Cash and balances with Bank of Tanzania	70,872	70,872
Balances with other banks	31,604	31,604
Total financial assets	**102,476**	**102,476**
Liabilities		
Deposits	36,164	36,164
Total financial liabilities	**36,164**	**36,164**
Net on-statement of financial position	**66,312**	**66,312**
Credit commitments	-	-

32 FINANCIAL RISK MANAGEMENT (Continued)

Foreign exchange risk (Continued)

As at 31 December 2018	USD	Total
Assets		
Cash and balances with Bank of Tanzania	42,909	42,909
Balances with other banks	4,393	4,393
Total financial assets	**47,302**	**47,302**
Liabilities		
Deposits	63,234	63,234
Total financial liabilities	**63,234**	**63,234**
Net on-statement of financial position	**(15,932)**	**(15,932)**
Credit commitments	-	-

Interest rate risk

Interest rate risk represents exposures to instruments whose values vary with the level or volatility of interest rates. These instruments include, but are not limited to loans, debt securities, certain traded assets and liabilities, deposits, borrowings and derivative instruments.

The bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates, as funds are sourced and invested at both fixed and floating rates. The maturities of assets and liabilities, plus the ability to replace interest bearing liabilities at an acceptable cost as they mature, are important factors in assessing the bank's exposure to changes in interest rates.

In addition to maintaining an appropriate mix between fixed and floating rates deposit base, interest rates on advances to customers and other risk assets are mainly pegged to the bank's base lending rate (floating rates). The base lending rate is adjusted from time to time to reflect prevailing market costs of deposits.

Interest rates on customer deposits are negotiated between the bank and its customers, with the bank retaining the discretion to re-negotiate the rates at maturity in line with changes in market trends. The interest rates given or charged to clients therefore fluctuate depending on the movements in the market interest rates. The bank also invests in fixed interest rate instruments issued by the Government of Tanzania through the Bank of Tanzania.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank's interest rate risk. It is unusual for a bank ever to completely be matched due to the nature of business terms and types of products offered.

32 FINANCIAL RISK MANAGEMENT (Continued)

Interest rate risk (Continued)

Bank's exposure to interest rate risks

No exposure in 2019 as the bank does not have the instruments held in 2018

As at 31 December 2018	1 to 5 years	Total
Assets		
Investment securities – Fair value through other comprehensive income	1,124,831	1,124,831
Total financial assets	**1,124,831**	**1,124,831**
Liabilities		
Total financial liabilities	-	-
Total interest rate repricing gap	**1,124,831**	**1,124,831**

Interest rate sensitivity

As at 31 December 2019, if interest rates on interest bearing financial assets held at amortized cost had increased or decreased by 200 basis points with all other variables held constant, the impact on profit or loss before income tax would have been as set out in the table below;

	2019 Increase by 2%	2019 Decrease by 2%
	TZS '000	TZS '000
Change in interest rate on		
Investment securities - Available for Sale	-	-

	2018 Increase by 2%	2018 Decrease by 2%
	TZS '000	TZS '000
Change in interest rate on		
Investment securities - Available for Sale	4,123	(4,123)

32 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities

The table below summarises the carrying amounts and fair values of the financial assets and liabilities presented on the Bank's statement of financial position:

Year ended 31 December 2019	Carrying value TZS '000	Fair value Total
Cash and balances with Bank of Tanzania	4,881,447	4,881,447
Loans and advances to banks	1,082,542	1,082,542
Loans and advances to customers	16,109,038	16,109,038
Other assets	1,013,358	1,013,358
Total financial assets	**23,086,385**	**23,086,385**
Deposits from customers	11,073,189	11,073,189
Other liabilities	1,070,225	1,070,225
Total financial liabilities	**12,143,414**	**12,143,414**

Year ended 31 December 2018	Carrying value TZS '000	Fair value Total
Cash and balances with Bank of Tanzania	1,904,196	1,904,196
Loans and advances to banks	2,346,183	2,346,183
Loans and advances to customers	17,885,548	17,885,548
Investment securities - Available for sale	1,124,831	1,124,831
Other assets	13,090	13,090
Total financial assets	**23,273,848**	**23,273,848**
Deposits from customers	7,948,874	7,948,874
Other liabilities	1,443,645	1,443,645
Total financial liabilities	**9,392,519**	**9,392,519**

32 FINANCIAL RISK MANAGEMENT (Continued)

Fair value of financial assets and liabilities (Continued)

The table below presents the fair value hierarchy of the financial instruments presented above.

Year ended 31 December 2019

	Level 2	Total
	TZS '000	TZS '000
Financial assets		
Cash and balances with Bank of Tanzania	4,881,447	4,881,447
Loans and advances to banks	1,082,542	1,082,542
Loans and advances to customers	16,109,038	16,109,038
Other assets	1,013,358	1,013,358
Total financial assets	**23,086,385**	**23,086,385**
Financial liabilities		
Deposits from customers	11,073,189	11,073,189
Other liabilities	1,070,225	1,070,225
Total financial liabilities	**12,143,414**	**12,143,414**

Year ended 31 December 2018

	Level 2	Total
	TZS '000	TZS '000
Financial assets		
Cash and balances with Bank of Tanzania	1,904,196	1,904,196
Loans and advances to banks	2,346,183	2,346,183
Loans and advances to customers	17,885,548	17,885,548
Investment securities - Available for sale	1,124,831	1,124,831
Other assets	13,090	13,090
Total financial assets	**23,273,848**	**23,273,848**
Financial liabilities		
Deposits from customers	7,948,974	7,948,974
Other liabilities	1,443,645	1,443,645
Total financial liabilities	**9,392,619**	**9,392,619**

32 FINANCIAL RISK MANAGEMENT (Continued)

Fair valuation methods and assumptions

a) *Financial instruments not measured at fair value*

The fair values of the Bank's financial assets such as loans and advances to customers, loans and advances to banks, other assets, deposits from customers and other liabilities approximate their respective carrying amounts due to the generally short periods to maturity dates.

(i) *Cash and bank balances*

Cash and bank balances comprises cash at bank. The carrying amount of cash and balances with banks is a reasonable approximation of fair value.

(ii) *Loans and advances to banks*

Loans and advances to banks include inter-bank placements. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(iii) *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.

(iv) *Other liabilities*

Other liabilities contain accruals and other payables, which are non-interest bearing and therefore carrying value, approximated to the fair value.

b) *Basis for the fair value hierarchy*

The fair value hierarchy of the financial instruments presented above is based on the following:

(i) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

32 FINANCIAL RISK MANAGEMENT (Continued)

Fair valuation methods and assumptions (Continued)

***b) Basis for the fair value hierarchy* (Continued)**

(ii) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. These valuation techniques maximise 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. Specific valuation techniques used to value financial instruments include quoted market prices or dealer quotes for similar instruments and other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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 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; and
- To maintain a strong capital base to support the development of its business.

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

The Bank of Tanzania requires each bank or banking group to:

i. hold the minimum level of Core Capital of TZS 15 billion;
ii. maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-statement of financial position assets (the 'Basel ratio') at or above the required minimum of 10%;
iii. and maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.

The Bank's regulatory capital as managed by its Treasury department is divided into two tiers:

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Intangible assets, leasehold improvements and prepaid expenses are deducted in arriving at Tier 1 capital; and

- Tier 2 capital: collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

32 FINANCIAL RISK MANAGEMENT (Continued)

Capital management (Continued)

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of - and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended 31 December 2019 and year ended 31 December 2018. During the year, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2019	2018
Tier 1 capital	**TZS '000**	**TZS '000**
Share capital	30,912,460	30,912,460
Accumulated losses	(14,445,492)	(9,976,733)
Prepaid expenses	(166,722)	(194,058)
Intangible assets	-	(4,908,967)
Total qualifying tier 1 capital	16,300,246	15,832,702
Tier 2 capital (1% general provision)	-	179,260
Total regulatory capital	**16,300,246**	**16,011,962**
Risk weighted assets		
On-statement of financial position	20,132,129	22,603,802
Capital charge for market risk	99,467	165,804
Capital charge for operational risk	1,914,844	1,959,079
Total risk weighted assets	**22,146,440**	**24,728,685**

	Bank's ratio	Bank's ratio
	%	%
Tier 1 capital	74	64
Tier 1 + Tier 2 capital	74	65

33 EVENTS AFTER REPORTING PERIOD

At the date of signing the annual financial statements, the Directors are aware of the Coronavirus (COVID-19) Outbreak and the expected impact to the Banks business are analysed below:

Impact of Coronavirus (COVID-19) Outbreak

As widely reported COVID-19 pandemic continues to affect countries and businesses globally. Risks to businesses arising from the pandemic could include market, services and supply chain disruptions, unavailability of key people resources, locations being quarantined, among others. Government of the United Republic of Tanzania, business communities and societies in general are taking appropriate preventive and remedial measures to combat the pandemic.

33 EVENTS AFTER REPORTING PERIOD (Continued)

Impact of Coronavirus (COVID-19) Outbreak (Continued)

The COVID-19 will largely impact the loans and advances. The Bank has considered the following on Expected Credit Loss (ECL) as result of possible effects of COVID-19.

Extension of payment terms

Loan payment terms may be extended in light of the current economic circumstances, the terms and conditions of the extension will have to be assessed to determine their impacts on the ECL estimate as well as any other accounting impacts. For example, if the payment terms of a loan are extended from 90 days to 180 days, this would likely not be considered a substantial modification of the loan, However, such extension is expected to result in an increase in PD, which would in turn affect the measurement of ECL. For the bank such extension may result in moving into stage 2, depending on the extent and detailed terms of the payment extension.

Forbearance and other relief measures granted to borrowers

The accounting impact of forbearance and relief measures on ECL depends on the details of the arrangements. Some relief measures (for example, an extension of repayment term for 3 or 6 months) might be available country - wide and automatically applied to all borrowers, regardless of their credit standing. In that case, the deferral of repayment may not necessarily indicate per se a significant increase in credit risk (SICR) as it is offered irrespectively of the condition of each applicant, and an assessment of the borrower's individual circumstances is therefore needed to determine whether there has been a SICR. However, if the measure is offered to everyone, but a borrower must apply to benefit from it, then the fact that an application is made may be an indication of SICR, as it suggests that the borrower needs the relief to comply with its contractual obligations. Additionally, offering a relief measure of such magnitude to all borrowers in an economic environment indicates a significant adverse change in the economic environment of the borrower, which is one of the indicators included in paragraph B5.5.17 of IFRS 9 that should be considered for the assessment of SICR.

In another situation, if the relief measures are available only to those who meet certain criteria, bank need to carefully assess whether such criteria themselves might indicate a significant increase in credit risk for all affected borrowers. For instance, a significant increase in credit risk is likely to have occurred if a borrower applies for a relief measure which is available only to corporates which have suspended operations or individuals who have lost employment. Another example is if the relief, such as a deferral of loan payments, is offered to all participants in certain industries (e.g. entities engaging in the hospitality and travel businesses). This circumstance may indicate that borrowers in that industry are exposed to a higher risk of business failure and thus a higher probability of default as a class. In combination with other reasonable and supportable information, this is likely to result in the classification of the related loans and other exposures in this portfolio, or a portion of them, into stage 2. The assessment should be made irrespective of the fact that a concession is imposed by laws or regulations. Entities are also expected to exercise judgement, in light of all facts and circumstances, to determine if the respective loans are credit impaired and should therefore be classified as stage 3.

The above discussion assumes that the forbearance measures allow a deferral of principal payment(s) but interests would continue to accrue, whereas some other measures might give rise to a loan restructuring, with a loss of principal or interest by the lenders, which would likely result in a classification as stage 3, rather than stage 2. The ECL allowance would reflect the lifetime ECL in both cases, but with a probability of default of 100% for credit-impaired loans.

33 EVENTS AFTER REPORTING PERIOD (Continued)

Impact of Coronavirus (COVID-19) Outbreak (Continued)

These measures may have an impact on risk management policies for monitoring and reporting credit events as well as how banks manage client relationships and late payments.

In any case, they will need to consider that historical information available to estimate ECL (in particular, loss given default) may not be representative of the current circumstances arising from the impacts of a pandemic outbreak.

Bank will monitor whether further guidance will be issued by standard setters for dealing with the accounting and disclosure of relief measures under these exceptional circumstances, as well as any additional disclosure guidance provided by regulators or industry bodies

At the time of issuing these financial statements the directors have assessed that, whereas concerted preventive measures have been instituted to mitigate the possible negative impact of the pandemic to the Bank's operations, it was impracticable to determine, quantify and disclose the extent of the possible future direct or indirect impact of the pandemic to the Bank's operations. It is reasonably possible that certain assumptions, estimates and judgements used in preparation of the financial statements may be affected in the future by the possible negative impact and hence the carrying amounts of assets and liabilities reported in these financial statements.

Management has also considered the impact of the COVID-19 outbreak on going concern of the Bank. At the time of issuing these financial statements, management still believes that the entity will be a going concern in the next reporting period because the Bank has adequate assets to finance all liabilities and has complied to the capital adequacy ratios and the merger by 30 June 2020 will improve efficiency and address the existing performance challenges.

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

34 NEW AND AMENDED STANDARDS ADOPTED BY THE BANK

In these financial statements, the Bank has applied, for the first time, IFRS 16 Leases effective for annual periods beginning on or after 1 January 2019. The nature and effect of the changes as a result of the adoption of these new accounting standards are described below. Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the Bank's financial statements. The Bank has not adopted early any other standard, interpretations or amendments that has been issued but is not yet effective.

IFRS 16, 'Leases'

On 1 January 2019, the Bank adopted IFRS 16 Leases. IFRS 16 replaced IAS 17 Leases.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

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).

The significant judgements in the implementation were determining if a contract contained a lease, and the determination of whether the Bank is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates in the respective economic environments, the weighted average borrowing rate applied is 17% p.a..

The impact of IFRS 16 on the Bank is primarily where the Bank is a lessee in property lease contracts. On 1 January 2019, the Bank recognized a lease liability, being the remaining lease payments, including extensions options where renewal is reasonably certain, discounted using the Bank's incremental borrowing rate at the date of initial application applied is 17% p.a in the economic environment of the lease. The corresponding right-of-use asset recognized is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet gross-up on 1 January 2019 as a result of recognition of the lease liability and right-of-use asset was TZS 1,244 million, with no adjustment to retained earnings. The comparative information is not restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations. Further information on these balances is shown in Note 20.

Transfers of Investment Property-Amendments to IAS 40

The amendments clarify that transfers to, or from, investment property can only be made if there has been a change in use that is supported by evidence. A change in use occurs when the property meets, or ceases to meet, the definition of investment property. A change in intention alone is not sufficient to support a transfer. The list of evidence for a change of use in the standard was re-characterized as a non-exhaustive list of examples to help illustrate the principle.

34 NEW AND AMENDED STANDARDS ADOPTED BY THE BANK (Continued)

Transfers of Investment Property-Amendments to IAS 40 (Continued)

The Board provided two options for transition:

- prospectively, with any impact from the reclassification recognised as adjustment to opening retained earnings as at the date of initial recognition, or
- retrospectively - only permitted without the use of hindsight.

The amendment did not have an impact on the Bank since the Bank has no investment properties.

IFRS 4 - Insurance contracts.

Amendments to IFRS 9 Financial instruments allow an entity that issues insurance contracts the opportunity to utilize two options - where IFRS 9 is applied prior to the forthcoming insurance contracts standard. These are;

- Overlay approach - which permits an insurer to reclassify certain income/expenditure, arising from designated financial instruments, from profit or loss to OCI, and
- Deferral approach - temporary exemption from IFRS 9 for insurers whose predominant activity is issuing insurance contracts.

The Bank does not issue any insurance contracts and therefore the amendment did not have any impact to the Bank.

IFRIC 22 - Foreign Currency Transactions and Advance Consideration

Amendments clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency.

The amendment did not have significant impact to the Bank.

Annual improvements 2014-2016 cycle

The following improvements were finalised in December 2016:

- IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10, which are no longer relevant.
- IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.

The improvements did not have significant impact to the Bank.

35 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Bank.

35 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (Continued)

IFRS 17 - Insurance Contracts

This is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 - Insurance Contracts that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The amendments are effective for annual period beginning on or after 1 January 2022. The Bank does not issue any insurance contracts and therefore the new standards on IFRS 17 is expected not to have any impact to the Bank.

Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:

- how to determine the appropriate unit of account, and that each uncertain tax treatment should be considered separately or together as a Bank, depending on which approach better predicts the resolution of the uncertainty
- that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, ie that detection risk should be ignored
- that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment
- that the impact of the uncertainty should be measured using either the most likely amount or the expected value method, depending on which method better predicts the resolution of the uncertainty, and
- that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

Upon adoption of the new standard the Bank will be required to provide information about judgements and estimates made in determination of liabilities arising from uncertain tax positions. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019. The Bank is still assessing the impact of this interpretation.

Annual improvements to IFRS standards 2015-2017 cycle

The following improvements were finalised in December 2017:

- IFRS 3 - clarified that obtaining control of a business that is a joint operation is a business combination achieved in stages.
- IFRS 11 - clarified that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

35 NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (Continued)

Annual improvements to IFRS standards 2015-2017 cycle (Continued)

- IAS 12 - clarified that the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.
- IAS 23 - clarified that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes part of general borrowings.

The amendments are effective for annual period beginning on or after 1 January 2019. The Bank expects to adopt the standard beginning 1st January 2019. The Bank is still assessing the impact of amendments.

Prepayment Features with Negative Compensation – Amendments to IFRS 9

The narrow-scope amendments made to IFRS 9 Financial Instruments in December 2017 enable entities to measure certain repayable financial assets with negative compensation at amortised cost. These assets, which include some loan and debt securities, would otherwise have to be measured at fair value through profit or loss.

To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model.

The amendments are effective for annual period beginning on or after 1 January 2019. The Bank expects to adopt the standard beginning 1 January 2019. The Bank is still assessing the impact of amendments.

Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28

The amendments clarify the accounting for long-term interests in an associate or joint venture, which in substance form part of the net investment in the associate or joint venture, but to which equity accounting is not applied. Entities must account for such interests under IFRS 9 Financial Instruments before applying the loss allocation and impairment requirements in IAS 28 Investments in Associates and Joint Ventures. The amendments are effective for annual period beginning on or after 1 January 2019. The Bank expects to adopt the standard beginning 1 January 2019. The Bank is still assessing the impact of amendments.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Bank in the current or future reporting periods and on foreseeable future transactions.