AKIBA COMMERCIAL BANK PLC

benki kwa maendeleo yako

Akiba Commercial Bank Plc

Annual Report and Audited Financial Statements

2018

AKIBA COMMERCIAL BANK PLC

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BRANCHES
Main | Temeke | Ubungo Plaza | Kariakoo | Buguruni | Kijitonyama | Tegeta
Kinondoni | Mbagala | Ukonga | Aggrey | Ilala | Tandale
Dodoma | Arusha | Moshi | Mbeya | Mwanza

AKIBA COMMERCIAL BANK PLC
benki kwa maendeleo yako

Akiba LIP

Lengo Investment Plan

Weka mipango na Akaunti maalumu ya uwekezaji kutoka Akiba Commercial Bank

www.acbbank.co.tz

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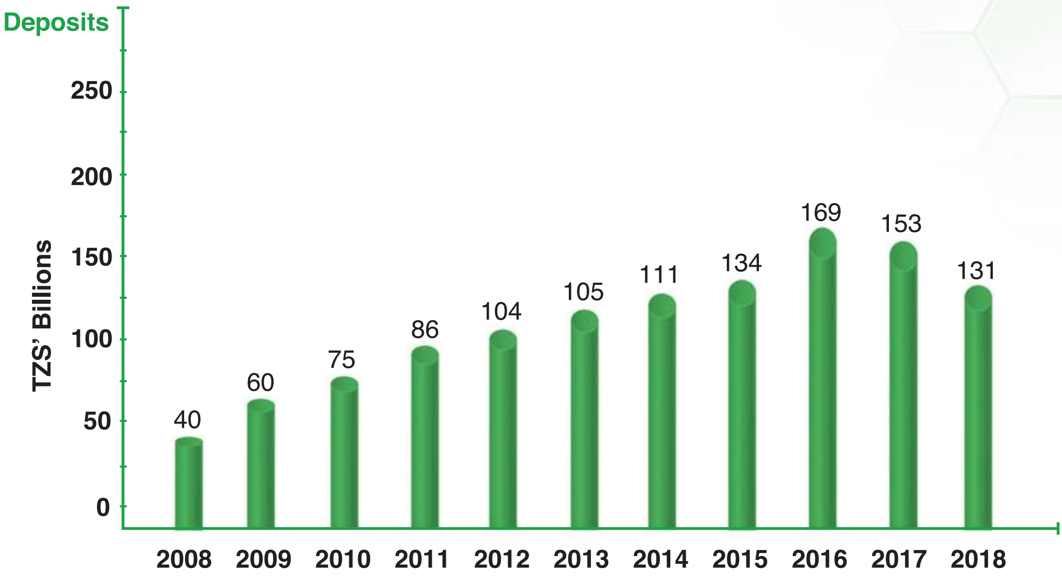
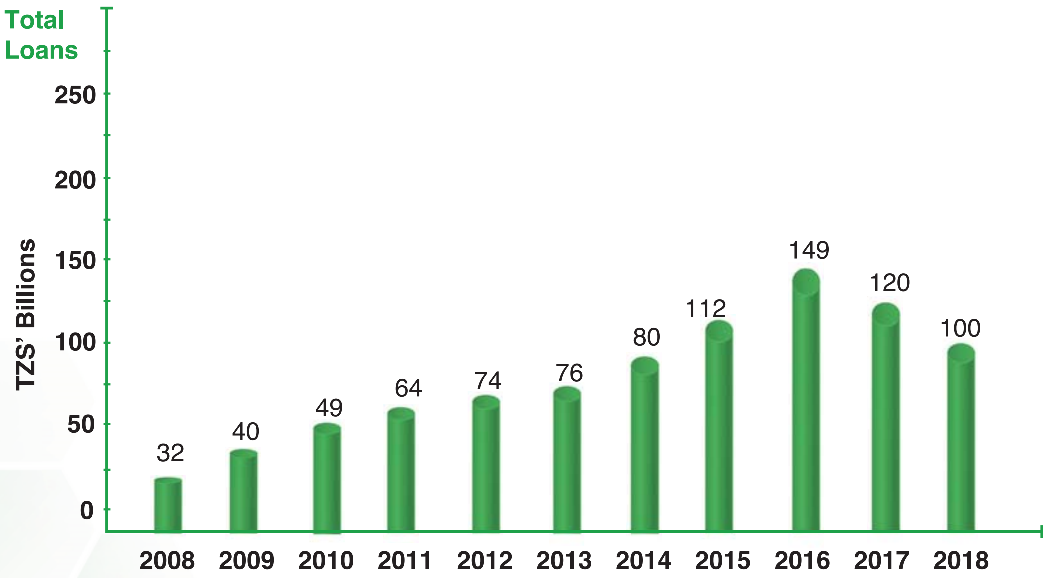
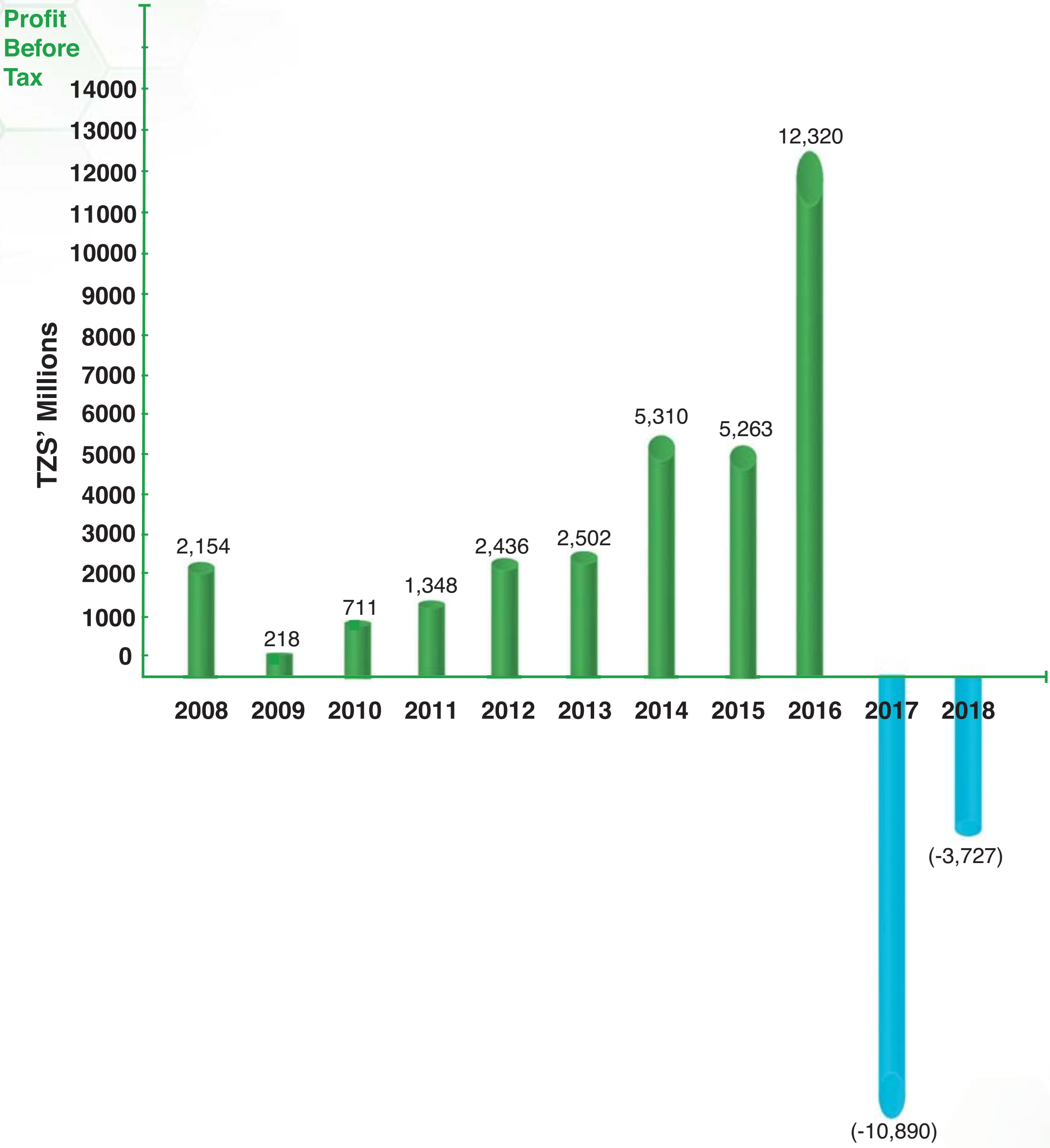
GROWTH IN KEY BUSINESS AREA

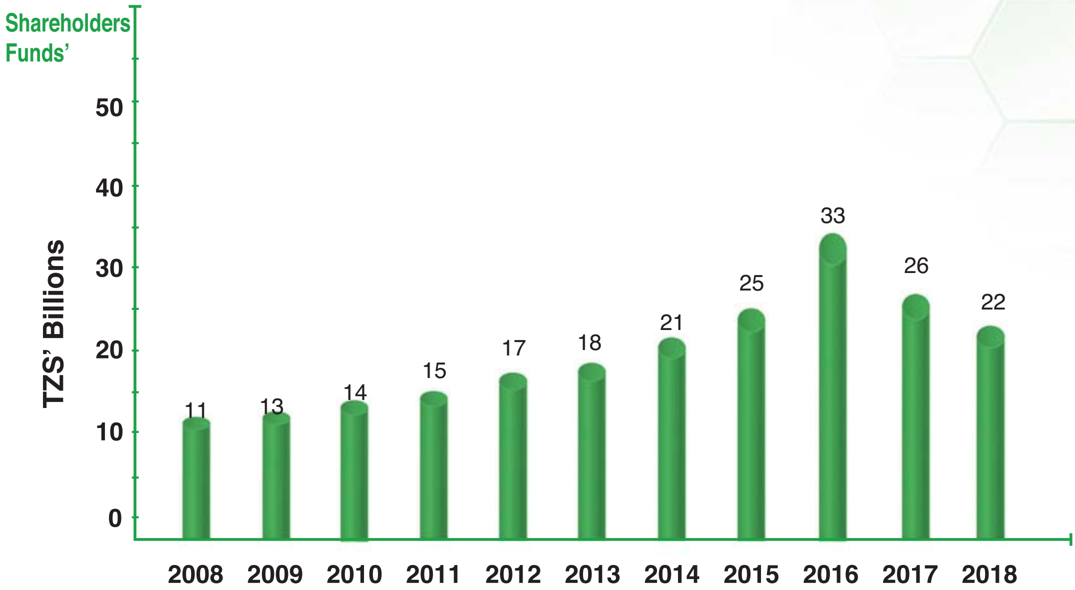


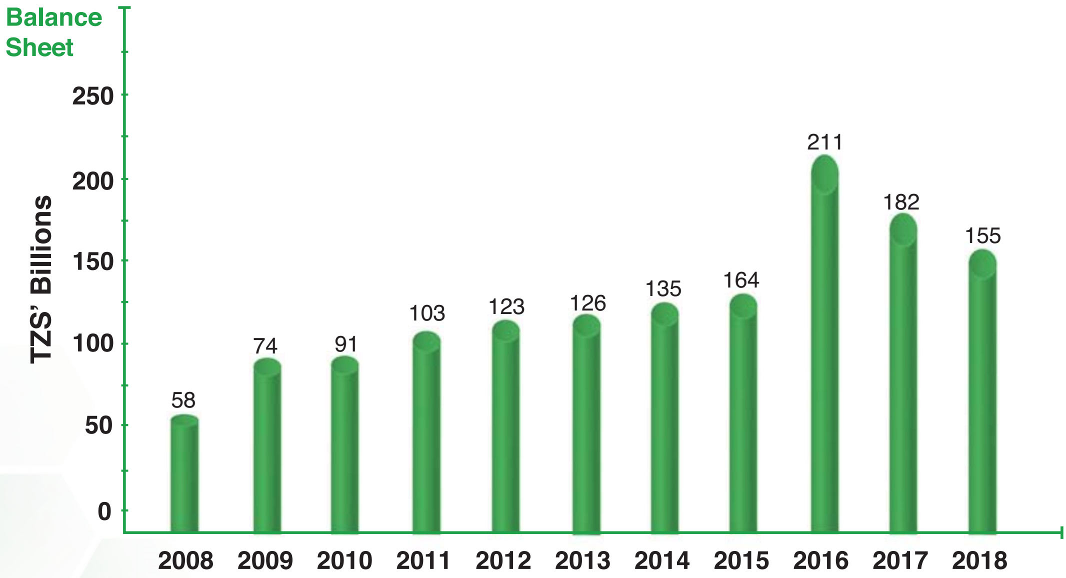


Growth in Key Business Area (Continued)



Growth in Key Business Area (Continued)





Letter of Transmittal

Dear Shareholders,

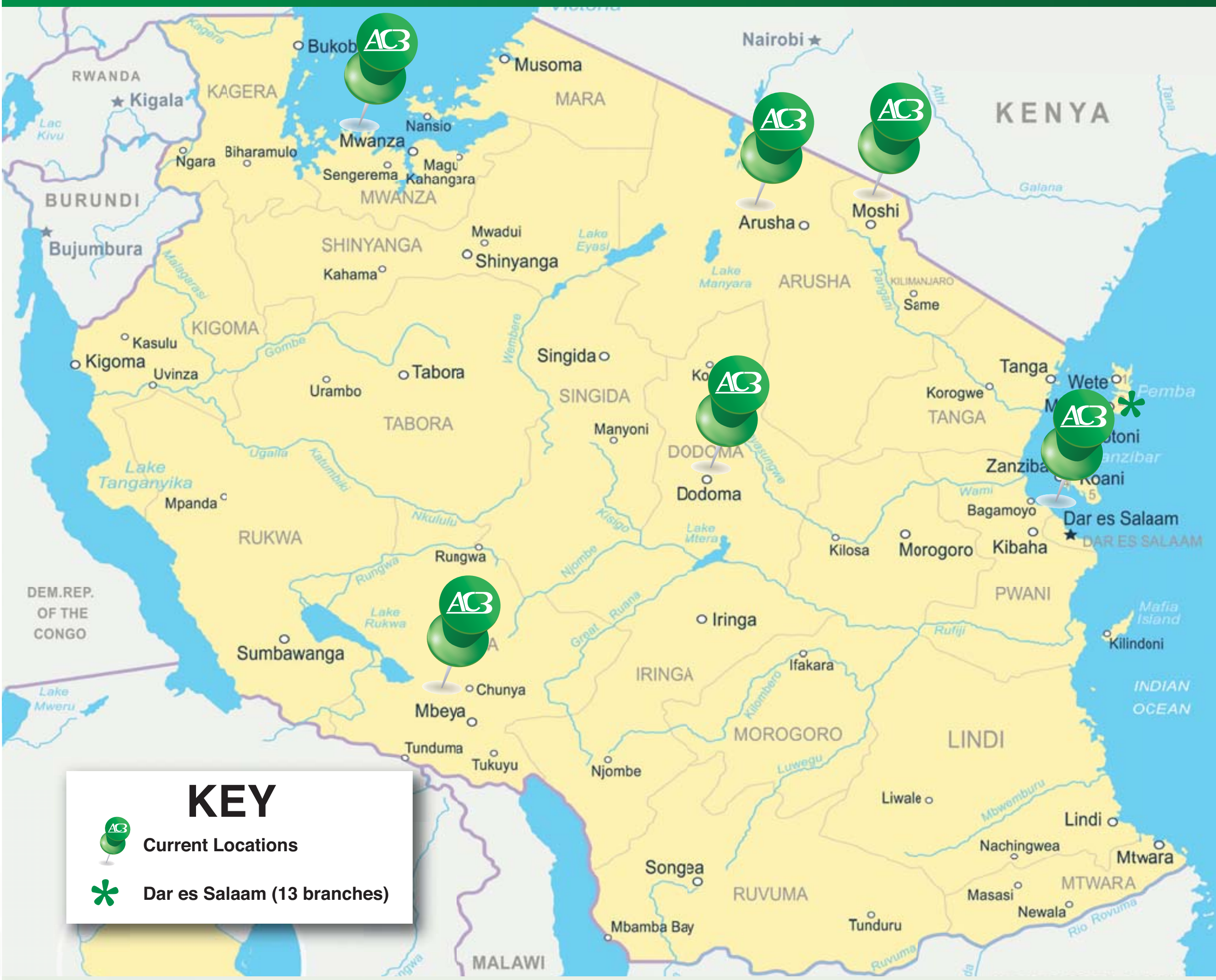
It is my pleasure, on behalf of Board of Directors, to present to you the Bank's Annual Report for the year 2018. The report contains the Audited Financial Statements, major events that happened during the year, achievements and future business prospects for the bank. It is my hope that this report will meet your approval.

Yours faithfully,
Mr. Ernest Massawe
Chairman

Our Vision

To be the preferred banking partner for micro, small and medium enterprises

Akiba Commercial Bank Plc



Our Mission

To provide inclusive, innovative financial solutions in the most efficient and sustainable manner.

COMPANY PROFILE

Akiba Commercial Bank Plc (ACB) commenced banking operations in August 1997 as an initiative of over 300 Tanzanian entrepreneurs who were inspired overall to move into micro-finance, by the moral and economical concern for the plight of Tanzanians. These founder members were bound together by a strong conviction that in Akiba, they would have the vehicle with which they would reach and touch the lives of previously unbanked and commercially undeserved men and women of Tanzania The bank vision and mission was to support the emergence of down to earth Tanzanian businesses through the provision of financial services at all levels, by a Tanzanian owned commercial bank, which understood Tanzanians and was committed to Tanzania. This was the original, very firm and deep rooted vision of founder members of Akiba in Tanzania. In order to strengthen the resource base of the bank, the founder members over time invited like-minded local institutional investors namely, Inter-consult Ltd, PPF, TDFL, and NIC, and foreign institutions such as Triodos Hivos, Triodos Fonds, FMO, Rabo Bank, (all of The Netherlands), SIDI of France, and INCOFIN of Belgium. All these institutions were invited because they share the same vision; and were willing to participate actively without being driven by profits as their main objective; rather they were also committed to uplift the economic status of Tanzanians, irrespective of their socio economic positions

in life, so long as they have entrepreneurial skills that can be nurtured. ACB's target markets are small and medium sized entrepreneurs, companies and community banks

Our Core Values

- Team work
- Integrity
- Commitment
- Respect
- Socially Responsible

As a commited bank, we are guided by the above mentioned Core Values in all activities we undertake.

CHAIRMAN'S STATEMENT

Mr. Ernest Massawe
Chairman

I am pleased to present you the Bank's Annual Report and Financial Statements for 2018. 2018 was a turnaround year for the bank during which we witnessed improvements in our business, due to our focus on improving operational performances, after experiencing almost disastrous results in 2017.

During the start of 2018, Akiba started implementing a turnaround strategy by focusing on internal re-organization and capacity building measures aimed at improving our efficiency in services offering to our customers. The efforts are yet to be completed as we will continue with them in 2019.

Economic Trends

According to Bank of Tanzania Monetary Policy Statement for February 2019, the economy continued to record strong performance, with real GDP growing by 6.7 percent in the first three quarters of 2018 compared with 6.2 percent in the corresponding period of 2017.

Headline inflation remained low and stable in the second half of 2018, hovering below the medium-term target of 5.0 percent. The stability of inflation was a result of adequate food supply, stable exchange rate and sustained prudential monetary and fiscal policies. In particular, headline inflation averaged 3.2 percent in the second half of 2018, compared with 4.8 percent in the corresponding period of 2017.

During 2018, the Central Bank continued to apply measures to address challenges related to asset quality in order to reduce the industry's non-performing loans to around 5%. Some of the policy measures include directing banks to improve management of the risks associated with non-performing loans, capital adequacy and liquidity in the financial sector, as well as a review of policies aimed towards robust corporate governance in the institutions.

2018 Financial Performance

For the year ended 31 December 2018 the bank made a loss before tax of TZS 3.7 billion (2017: Loss before tax of TZS 10.9 billion).
The reduction in loss position was the result of implementation of the turnaround strategy that was manifested by improved quality of loan portfolio, the reduction in impairment provision charges to TZS 3.1 billion in 2018 compared to impairment provision charges of TZS 13.5 billion in 2017.

However, our income sources did not improve as both interest and fee income dropped by 19% and 14% respectively due to diminishing loan portfolio by 18%. (Interest income- 2017: TZS 35.5 billion, 2018: TZS 28.7 billion. Fee income- 2017: TZS 8.2 billion, 2018: TZS 7.1 billion. Loans and advances – 2017: TZS 101.8 billion, 2018: TZS 83 billion). On the other hand, total general and administrative expenditure was TZS 14.4 billion underscoring, a decrease of 3% from expenditure of TZS 14.9 billion in 2017; thanks to cost containment measures during the year. The Bank customer deposits volume as at 31 December 2018 stood at TZS 120 billion from TZS 153.4 billion which is a decrease of 22%.

Chairman's Statement (Continued)
for the Year Ended 31st December 2018

Capital Challenges

We draw attention to the financial statements, which indicates that the Bank's core capital as at 31 December 2018 was TZS 9.6 billion, below the minimum regulatory capital required of TZS 15 billion. In addition, capital adequacy ratios of 7.72% for Tier I and 8.39% for Tier II as at 31 December 2018 were below the minimum required ratios of 12.5% and 14.5% respectively. The board of directors has been exploring several avenues for addressing this challenge and there is a possibility that new strategic investor will join the bank before the end of 2019 to inject fresh capital into the bank.

Directorship

To enhance the bank's corporate governance, two independent directors (Ms. Rakia Juma Adam and Dr. Josephat Daniel Lotto) were recruited in 2018.The two Independent Directors were approved by the shareholders during shareholders meeting on 10th November 2018 and later subsequently vetted and approved by the Bank of Tanzania.

Conclusion & Outlook

The Board will continue its engagements with potential investors to identify the right strategic partner for our bank in order to address both the short-term and long-term capacity of Akiba to enable it to meet BOT capital requirements, as well as continuing with our mission to scale up financial inclusion in Tanzania.

On behalf of the entire Akiba family of management, staff and shareholders, I would like to express our appreciation to the sector regulator- the Central Bank of Tanzania, for its continuing support and valued contribution to the development of a sound banking sector. Secondly, as I welcome all new customers who joined the Bank in 2018, I also salute our existing depositors and borrowers for their unwavering support and confidence throughout the years.

We count on your commitment on continued improvement of the fortunes of our Bank in years to come.

I thank you all for your attention.

Mr. Ernest Massawe,
Chairman

BOARD OF DIRECTORS

Mr. Ernest Massawe
Chairman

Mr. Brian Kuwik
Director

Mr. Selestine J. Some
Director

Ms. Liesbeth Soer
Director

Dr. Richard Kasungu
Director

Mr. Joseph Rugumyamheto
Director

Mr. John Fischer
Director

Mr. Jean - Marie Pre'vost
Director

Dr. Josephat Lotto
Independent Director

Ms. Rukia J. Adam
Independent Director

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MANAGING DIRECTOR'S REPORT

Augustine Akowuah
Managing Director

Introduction

It is my pleasure to present to you an overview of the Bank's performance for the year ending December 2018.

Although 2017 was a challenging year, in 2018 our Bank managed to modestly turn the tide, by reducing losses before income tax to TZS3.7 billion (TZS10.9 billion in 2017).

This was achieved through the commitment and hard work of the entire staff. With the benefit of hindsight, one can appreciate the tireless contribution of everyone making sure that we pulled ourselves through under the kind of circumstances, where others have found it impossible.

Even though pressure remains, and the journey ahead is still littered with some hurdles, I think it is fitting to draw inspiration from the journey so far and look ahead with measured optimism.

Economic and sector highlights

The domestic economy has been steady with anticipated 2018 growth of about 6.9%, a trend which should remain the context going into 2019. Inflation is generally expected to remain below 5% for the year 2018 (September 2018: 3.4%, March 2018: 3.9%). As we internally reform, we are positioning ourselves to able to compete for some of the available business created by steady development in the economy.

From the point of view of the financial sector, the central bank will likely be active in managing what is largely viewed as a stable and sound sector but with concerns that general asset quality remains risky (reported NPLs of 9.7% in September 2018, above the maximum limit of 5%). The operating environment is still challenging for all sector players and our own path is set quite clearly before us – the quality of our business must drastically improve in order to assure our future sustainability. We are already making steady contributions to control our portion of the asset quality through very proactive and direct engagement of our severely impaired loan exposures.

Financial results

We have a pay-off from dedicating time to portfolio management. With current improvements in our portfolio quality, impairment charges have markedly improved (2018: TZS 3.1 billion, 2017: TZS 13.5 billion). This has created a situation where despite having 19% lower interest income (2018: TZS 28.7 billion, 2017: TZS 35.5 billion), our net interest income after impairment charges has improved by 50% (2018: TZS 20.2 billion, 2017: TZS 13.4 billion).

We have been able to restrain our general and administrative expenditure ending this year at 14.4 billion (a 3% decrease from TZS 14.9billion in 2017). We can share a similar story for employee benefit expenses ending at TZS16 billion (a 5% decrease from TZS 16.8 billion in 2017).

The lower interest income recorded was influenced by a comparatively lower loan portfolio of TZS 82.9 billion (2017: 101.7 billion). On customer deposits also we experienced a 22% decrease in volume (2018: TZS120 billion, 2017: 153.4 billion).

This of course, leaves no doubt in our minds about the efforts we need to put into business development come 2019. Lucky enough, we have begun to see that we can achieve more with better training and development on the back of strong performance management structures.

Operational results

A few initiatives have underpinned our performance, the ones highlighted below exemplify the efforts adopted to renew the institution and put it back on track.

1. Institutional reorganisation

We took the step of separating the responsibility of underwriting and credit risk assessment from the Commerce Department. As a result, the Commerce function maintained its drive for business growth while the newly created Credit function became the back-office support for independent assessment and management of all risks associated with the lending business. Credit analysis and review, portfolio quality and arrears management, credit control, and credit administration are units now supervised by General Manager Credit. Within the boundaries of customer negotiations and the external environment so far, our positive NPL development (2017: TZS 30.18 billion, 2018: TZS 21.63 billion) especially of the legacy portfolio is a sign that we are hitting at the right places.

2. Training and Development

Essentially, all operational functions within the bank experienced quite intensive development during the year. The development of credit skills (analysis and appraisal for officers and decision making for managers) have been really amplified for all relevant branch and head office staff. The result is a coherent approach to credit which puts understanding the client at the centre of decision-making. Even though our new processes seemed different and unfamiliar to most customers, most of them soon began to realize that we serve them better when we know more about them. But apart from serving our customers in much better ways, our staff members especially in the credit business have also performed their duties with greater clarity. Through regular performance feedback sessions, our support for delivering results and the estimations of our capacity have remained true to our reality.

3. Efficiency Management

More than ever, cost efficiency has been critical in delivering reasonable results in 2018. A thorough analysis revealed important gains that could be made through renegotiating of payment terms on several agreements that were essential for operations. We have kept a keen eye on cost, making it possible for the bank to start being profitable on a monthly basis starting from July 2018.

Outlook & Conclusion

Not only we can mitigate any coming headwinds in 2019, but also done enough to begin to hold our heads above water. However, we must all necessarily focus and continue to apply our best efforts in the same direction. Our main task will be; first, to build further on the positive developments so far from 2018 - cost containment and efficiency management, improvement in portfolio quality and development of people with close performance management. Next will be to grow a quality loan book, while positioning ourselves again as the go-to bank for micro, small and medium customers.

Augustine Akowuah
Managing Director

SENIOR MANAGEMENT TEAM

Augustine Akowuah
Managing Director

Bertha Simon
General Manager - Finance

Felician Girambo
General Manager - Commerce

Juliana Swai
General Manager - Operations

Mahmoud Suleiman
General Manager, Credit

Hamis Malipula
General Manager - ICT

Robert Masala
Head of Human Resources

Leynnette Machibya
Head of Risk and Compliance

Dora Saria
Head of Marketing & Communications

Chemo Mutami
Chief Internal Auditor

Niwaeli Mziray
Company Secretary

Anza maisha ya mtoto wako nasi

ZAWADI

Junior Account

AKAUNTI YA AKIBA YA WATOTO

AKIBA COMMERCIAL BANK PLC

benki kwa maendeleo yako

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SHAREHOLDER'S PROFILES

LSF

The vision of establishing Akiba Commercial Bank was conceived by a discussion group which established itself in the late 80s comprising of individuals with varied interests and background brought together by a unified vision to see indigenous Tanzanians empowered economically.

The group realized that to achieve genuine economic uplift an institution would need to be established on a sound, reliable foundation to serve this paramount purpose.

In that period, the very idea of an indigenous owned and operated financial institution seemed to many a far-fetched dream, thus galvanizing faith and support in such a venture proved but a mountain to move.

Even the international community represented in the country at the time didn't harbor interest in addressing the challenges that such an institution would ultimately help solve among ordinary citizens.

Nevertheless, the group's determination persevered and from that strand of adamancy Akiba Commercial Bank Plc was born. Following its registration as a company, the group proceeded to seek prospective investors in Dar es Salaam, Mwanza, Arusha, Moshi, Mbeya, and Dodoma. This effort didn't yield much fruit as a consequence of skepticism borne out the belief that local citizens couldn't establish, own, and operate their own bank. It was then decided to pursue local public corporations to own the bank and share its vision with the group. Only three corporations, NIC, PPF, and TDFL responded proactively, however their subscriptions couldn't satisfy the required capital threshold, leaving the entire effort still wanting.

This unique situation eventually compelled the group to invite foreign entities into ownership of the bank but with conditions favourable to the interests of indigenous investors first. A few institutions accepted the arrangement, and these were FMO and Triodos Bankof the Netherlands, and later INCOFIN of Belgium, and SIDI of France. It was this partnership that served as the bedrock for the successful rise of Akiba Commercial Bank, a bank that has since grown from strength to strength and is now focusing on becoming a significant institution in the banking sector in Tanzania.

ACCION

In 2012, the shares held by ACCION International in Akiba Commercial Bank were purchased by ACCION International after receiving appropriate approvals by Akiba's shareholders and the Bank of Tanzania. This purchase by ACCION International, a significant minority investor of Accion International, was completed due to ACCION's strategic desire to increase its commitment to Akiba by taking direct ownership in the bank so as to be more actively involved in the Tanzanian microfinance market.

ACCION International is a private, nonprofit organization with the mission of giving people the financial tools they need - microenterprise loans, business training and other financial services -to help work their way out of poverty. A world pioneer in microfinance, ACCION was founded in 1961 and issued its first microloan in 1973 in Brazil. Over time, ACCION has helped build 62 microfinance institutions in 31 countries on four continents. Those institutions are currently reaching millions of clients. In the United States, the U.S. ACCION Network is the largest microfinance lending network in the country and has served tens of thousands of clients with over $275 million in loans since the inception of its pilot program in 1991.

ACCION is an innovator in financial access, pioneering many of the best practices and emerging standards in the industry. The organization provides a full range of management duct and delivery channel ACCION also provides institutions, helping them to build upon ACCION's other services and linking them commercial banks and capital markets. Through equity and quasiequity investments, as well as loan guarantees, systems, access innovations, attract deposits, become independent of donor funds and establish financial leverage.

For more information visit www.accion.org

Erncon Holdings Limited

Erncon Holdings Limited is a family investment company established by Mr. Ernest S. Massawe and his family. It was established in 1993 for the sole purpose of managing the family's various investment activities as well as holding the family's assets. The initial directors of the company are Mr. Ernest Massawe, Mrs. Consolata Massawe, Ms. Maryanne Massawe, Mr. Andrew Massawe and Mr. Justin Massawe.

To-date the company has experienced strong growth and has diversified a portfolio covering a number of sectors, including: Tourism, Industrial gases, Insurance, Assurance, Banking, Real Estate, Stock Broking, Fund Management, Leasing, Mining, Mining Services and Logistics Solutions, Transportation and Telecoms.

FMO is the Dutch development bank. FMO supports sustainable private sector growth in developing markets by investing in ambitious entrepreneurs and projects. FMO believes a strong private sector leads to economic and social development, empowering people to employ their skills and improve their quality of life. FMO specializes in sectors where its contribution can have the highest long-term impact: Financial institutions, Energy, Housing and Agribusiness, food & water. When financing companies and projects in other sectors such as telecoms and infrastructure, we work with a worldwide network of partners with thorough expertise in that area. With an investment portfolio of EUR 5.9 bn, FMO is one of the largest European bilateral private sector development banks. Inter-consult Ltd 2014 Annual Report and audited financial statements.

Founded in 1970, FMO is a public-private developmen bank. The Dutch government is our major shareholder, holding a 51% stake. Other shareholders include large Dutch banks, employers' associations, trade unions and individual investors. We comply with internationally accepted banking standards and are supervised by the Dutch Central Bank. FMO is rated triple-A by Standard & Poor's. FMO's solid profile and high quality portfolio allows us to invest in higher risk markets, either with our own capital or on behalf of the Dutch government. We principally provide long-term finance, although we also offer shorter-term project financing. We work with clients to understand their specific needs, tailoring the financial package to fit. Our participation often acts as a catalyst – attracting interest from other suitable investors who would otherwise avoid what are still considered higher-risk projects.

inter-consult ltd.

From a humble beginning in 1978 in a small Dar es salaam office offering Civil and Structural Engineering services to an ISO 9001-2008 certified multidisciplinary consultancy firm, Inter Consult Ltd has successfully delivered a full spectrum of services that bring infrastructure projects to life.

For three decades of consistent growth, we have worked with clients in virtually all industries, in both the public and private sectors, to identify, define and deliver innovative solutions to complex problems with exceptional commitment, excellence and results that inspire confidence.

Having been involved with over 400 projects ranging from a few hundred thousand to multi-million US Dollars in value, Inter-Consult has become a leading independent Tanzania based multi-disciplinary consultancy that is fully owned and managed by Tanzanians.

At the core of our mission is a pledge to our clients to provide the highest quality consulting services on time and for fair market value in all aspects of the construction industry including Architecture and Town Planning, Quantity Surveying, Structural, Mechanical and Electrical Engineering. We also offer services in Highway Engineering, Water Supply and Sanitation, Geotechnical and Materials Engineering, ICT and Project Management. By positioning ourselves as a dynamic and growing business with a turnover of TZS 5 billion, focused on meeting the clients changing needs, we have attained good performance standards. We effectively handle all stages of project management - from feasibility studies, planning and design to construction supervision that extends to commissioning. We have also invested in companies like Akiba Commercial Bank Plc, Inter Press Ltd whose vision is towards poverty alleviation.

PPF Pensions Fund was established by the Parastatal Pensions Act, No. 14 of 1978 to provide pensions and other related terminal benefits to all employees from Parastatal and private sectors. The current operations of the Fund are guided by Parastatal Organization Pensions Scheme Act [CAP 372 R. E. 2002]. The PPF Pensions Fund as a social security scheme has the responsibility of registering members, collecting and administering members' contributions, investing members' fund and granting benefits to members depending on different contingencies as specified in the Act.

The vision of the Fund is focused towards freeing members from hardships arising out of loss of income due to old age, disability, death and therelated risks. In order to ensure that our members are provided with the effective and efficient services PPF established a number of zonal offices close to the members. By the year 2010, PPF had established zone offices in the following regions:- Arusha, Mwanza, Morogoro, Mbeya, Mtwara, and Dar es salaam, which also include, Ilala office, Kinondoni office and Temeke office. PPF Pensions

Fund has also established liaison offices in the following regions; Mafinga-Iringa, Tabora, Dodoma, Kahama, Tanga and Moshi. Apart from opening offices close to members' vicinity, PPF had also made it possible for members to access information relating to their contribution, pension and claims by using PPF TAARIFA. Through PPF TAARIFA, PPF members can obtain information regarding their contribution, pension and claims by using their mobile phones. This can simply be done by sending the word(s) 'Michango', 'Pensheni' or 'Dai' to number 15553.

For more information please visit PPF website, www.ppftz.org

Since 1992 IncofinCVSO grew into a specialist in microfinance, enjoying recognition both nationally and internationally. Incofin CVSO currently cooperates with 30 partner institutions in 21 countries, reaching out to 1.8 million micro entrepreneurs.

After 20 years Incofin CVSO strives more than ever to achieve a double (financial and social) return. This balanced vision on investing convinced almost 200 new shareholders to join during 2011.

Incofin invests in MFIs that make a real difference to the quality of life of their stakeholders, their staff and their customers. Through the monitoring of a number of key social parameters, including the level and quality of service and the treatment of the environment and contribution to society, it manages to quantify an MFI's social performance. For its investments, Incofin adopts a set of well-defined criteria, taking into account the impact of the microfinance institution on the local economy, the quality of its management, its financial situation, its track record, and the company's outlook. For each investment dossier a thorough due diligence is executed of the microfinance institution on site. After the investment, the investment file is carefully followed up. Incofincvso is a shareholder in Akiba since 2003 and has, since the beginning, also taken up an active role in the board. MFIs can find in Incofin a partner who actively works together with them to find a solution that suits them best. The fund is managed by Incofin Investment Management, a manager of 6 microfinance investment funds with EUR 300 million assets under management.

Incofin Investment Management is taking care of this job with an international and multilingual team of 37 experts who are at the MFIs' disposal.

More information on Incofin is available on our website: www.incofin.com

Triodos Investment Management

Triodos-Doen Foundation (Triodos-Doen) and Hivos-Triodos Fund Foundation (Hivos-Triodos Fund) are microfinance funds managed by Triodos Investment Management, a 100% subsidiary of Triodos Bank, one of the world's leading sustainable banks. Triodos Investment Management has been a pioneering provider of capital to the microfinance sector since 1994. As an investor it wants to contribute to the development of a sustainable financial sector in developing countries that is based on fair pricing, transparency, access for all and care for the earth.

Triodos Investment Management manages four funds that provide finance for around 95 MFIs in Latin America, Africa, Asia and Eastern Europe and hold equity stakes in 19 leading and innovative microfinance institutions and vehicles worldwide. At year-end 2011 the total assets under management in microfinance amounted to EUR 365 million. Triodos-Doen and Hivos-Triodos Fund both started in 1994. Triodos-Doen is a joint initiative of DOEN Foundation and Triodos Bank; Hivos-Triodos Fund is joint-initiative of Dutch development organisation Hivos and Triodos Bank. In 2011, both funds sharpened their strategy by including the sustainability themes Foods & Agriculture and Energy & Climate within the financial sector in developing countries as an additional focus. Investment Management BV, a 100% subsidiary of Triodos Bank, the leading values-driven bank in Europe.

Triodos Investment Management has been a pioneering provider of capital to the microfinance sector since 1994. As an investor it wants to contribute towards the development of a sustainable financial sector in developing countries, based on the pillars of fair pricing, transparency, poverty alleviation and care for the earth. Triodos Investment Management manages four funds that provide finance for around 80 MFIs in Latin America, Africa, Asia and Eastern Europe. They hold equity stakes in 19 prominent microfinance institutions. At year-end 2009 the total assets under management in microfinance amounted to EUR 236 million.

FEFISOL

FEFISOL fund (Fonds Européen de Financement Solidaire pour l'Afrique) was set up on July 12th, 2011 at the initiative of SIDI/France to leverage additional funds to increase the supply of financial services in developing regions of Africa. It is registered as a Specialised Investment Fund (SIF) in Luxembourg under the legal form of a "Société d'Investissement à Capital Variable" (SICAV).

Apart from SIDI, FEFISOL main shareholders are the European Investment Bank (EIB), FISEA (French Development Agency/PROPARCO), Norwegian Microfinance Initiative (NMI), the BOAD (West African Bank for Development), ALTERFIN / Belgium, ETIMOS /Italy.

SIDI was set up in 1983 as a private company limited by shares, on the initiative of the Catholic Committee against Hunger and for Development (CCFD). SIDI is the Investment Adviser and the Manager of FEFISOL.

FEFISOL is entirely dedicated to the African continent and benefits from the in-depth knowledge of SIDI in this region. At least 75% of FEFISOL portfolio is to be invested in Sub-Saharan Africa and the Indian Ocean. The remaining 25% will be invested in North Africa. FEFISOL investment strategy is to support African organisations with high social and environmental added value and with a strong focus on rural and underserved areas. To do so FEFISOL finance Microfinance institutions but also producers' organisations and rural SMEs those are selling on fair trade and organic markets. FEFISOL positions itself as a knowledgeable investor, with a medium term time frame, giving priority to the institutional strengthening of its partners and the economic development of their beneficiaries. At end of 2015, FEFISOL has invested EUR 24 million in 50 organisations in 21 countries.

Deputy Speaker of the National Assembly of Tanzania (centre) Hon: Dk Tulia Ackson handing over a certficate of partcipation to Akiba representaive during Women SME Bazaar

Corporate Social Responsibility

CORPORATE INFORMATION

FOR THE YEAR ENDED 31st DECEMBER 2018

DIRECTORS	Mr. Ernest S. Massawe Mr. Brian Kuwik (Alternate: Ms. Melissa Baez) Mr. Selestine Some Ms LiesbethSoer (Alternate: Mr. Frank Streppel) Dr. Richard Kasungu Mr. Joseph Rugumyamheto Mr. John Fischer Mr. Jean-Marie Prevost Mrs. Rukia Adama Juma Dr. Josephat Daniel Lotto	Tanzanian American American Tanzanian Dutch Dutch Tanzanian Tanzanian American French Tanzanian Tanzanian	Chairperson Director Director* Director** Director Director Director Director Director*** Director ***
	* Resigned 17th December 2018 ** Resigned 10th November 2018 *** Appointed 7th February 2019		
MANAGING DIRECTOR	Ag. Juliana Swai (January up to August, 2018) Augustine Akowuah (September 2018 to date)		
COMPANY SECRETARY	Niwaeli Mziray 3rd Floor, Amani Place, Ohio Street, P.O Box 669 Dar es Salaam, Tanzania		
REGISTERED OFFICE	3rd Floor, Amani Place, Ohio Street P.O Box 669 Dar es Salaam, Tanzania		
AUDITORS	PricewaterhouseCoopers Ltd Pemba Houses, 369 Toure Drive, Oysterbay PO Box 45, Dar es Salaam, Tanzania		
LEGAL ADVISORS	Nexlaw Advocates PO Box 75578 Dar es Salaam, Tanzania		
	Tan Africa Law Chambers G.A.K Patel Building, 4th Floor, Off Maktaba Street Dar es Salaam		
	LawGuide Attorneys P. O. Box 13021 Arusha, Tanzania		

DIRECTOR'S REPORT
FOR THE YEAR ENDED 31st DECEMBER 2018

1. The Directors are pleased to present their report together with the audited financial statements of Akiba Commercial Bank Plc (the "Bank") for the year ended 31 December 2018 which show the Bank's state of affairs.

2. INCORPORATION

The Bank is incorporated in Tanzania under Companies Act 2002 as a Public Company Limited by shares and is domiciled in Tanzania.

3. PRINCIPAL ACTIVITIES

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

4. BANK'S VISION

To be the preferred banking partner for micro, small and medium enterprises

5. BANK'S MISSION

To provide inclusive, innovative financial solutions in the most efficient and sustainable manner.

6. BOARD OF DIRECTORS

The Directors of the Bank at the date of this report, who held office since 1 January 2018, except where otherwise stated, are as listed on page 1.

7. CAPITAL STRUCTURE AND SHAREHOLDING OF THE BANK

As at 31 December 2018, the Bank had 276 shareholders (2017: 276 shareholders).

Directors' holding shares at the Bank are listed below:

Name	Nationality	Ordinary Shares of TZS 1,000 each	Nominal value TZS 000	Ordinary Shareholding %
Dr. Richard Kasungu	Tanzanian	5,917	5,917	0.069%
Mr. Joseph Rugumyamheto	Tanzanian	6,255	6,255	0.073%
		12,172	12,172	0.142%

7. CAPITAL STRUCTURE AND SHAREHOLDING OF THE BANK (CONTINUED)

The Capital structure and shareholding position of the Bank as at 31 December 2018 is as follows:

	2018		2017	
	Number of ordinary shares	**Percentage (%)**	Number of ordinary shares	Percentage (%)
Shareholder				
Accion International	**1,721,456**	**20**	1,721,456	20
PSSSF*	**963,957**	**11**	963,957	11
StichtingHivos – Triodos Fonds	**683,335**	**8**	683,335	8
INCOFIN CVSO	**617,850**	**7**	617,850	7
FMO	**595,443**	**7**	595,443	7
Inter Consult Limited	**472,229**	**6**	472,229	6
FEFISOL	**434,022**	**5**	434,022	5
Sustainable Finance Foundation	**430,798**	**5**	430,798	5
ErnconHoldings Limited	**802,302**	**9**	802,302	9
Others	**1,885,743**	**22**	1,885,743	22
	8,607,135	**100**	8,607,135	100

*PSSSF – Take over shares of PPF Pensions Fund after merger of public owned pension fund during the year

8. RESULTS AND DIVIDEND

The Bank recorded a loss before tax of TZS 3.7 billion for the year under review (2017: loss before tax of TZS 10.9 billion). The loss for the year is mainly attributed to decrease in incomes as result of slow business growth, quality of portfolio challenges experienced in 2017 and the bank's strategy to internally reorganise and refocus the bank on its core target group which is micro, small and medium enterprises (MSME).

The Directors do not recommend payment dividend.

9. CORPORATE GOVERNANCE

The Bank's Board of Directors is composed of eight (8) Directors (2017: 8). All directors are non-executive. To enhance the bank's corporate governance, two independent directors were recruited in 2018.The two Independent Directors were approved by the shareholders during shareholders meeting on 10th November 2018 and subsequent vetted and approved by the Bank of Tanzania on 07th February 2019. 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.

9. CORPORATE GOVERNANCE (CONTINUED)

The Board is also responsible for ensuring that a comprehensive system of internal control policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet at least four (4) times a year. The Board delegates the day to day management of the business to the Managing Director assisted by Senior Management. Senior Management is invited to attend Board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units.

The Bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year, the Board of Directors of the Bank had the following Board sub-committees to ensure a high standard of corporate governance throughout the Bank.

Board Audit Committee

Name	Position	Nationality
Mr. Selestine Some	Chairperson	Tanzanian
Mr. Jean Marie Prevost	Member	French
Mr. John Fischer	Member	American
Dr. Richard Kasungu	Member	Tanzanian

The Audit Committee reports to the main Board. The committee had 5 meetings during the year.

Board Governance and Human Resources Oversight Committee

Name	Position	Nationality
Mr. Joseph Rugumyamheto	Chairperson	Tanzanian
Mr. Brian Kuwik	Member	American
Dr. Richard Kasungu	Member	Tanzanian
Mr. Jean Marie Prevost	Member	French

The Governance and Human Resources Oversight Committee reports to the main Board. The committee had 5 meetings during the year.

Board Risk and Compliance Committee

Name	Position	Nationality
Ms. Liesbeth Soer	Chairperson	Dutch
Dr. Richard Kasungu	Member	Tanzanian
Mr. John Fischer	Member	American
Mr. Selestine Some	Member	Tanzanian

The Risk and Compliance Committee reports to the main Board. The committee had 5 meetings during the year.

Board Credit Committee

Name	Position	Nationality
Mr. Brian Kuwik	Chairperson	American
Mr. Selestine Some	Member	Tanzanian
Mr. Joseph Rugumyamheto	Member	Tanzanian
Ms. Liesbeth Soer	Member	Dutch

The Credit Committee reports to the main Board. The committee had 5 meetings during the year. The main Board of Directors had 6 meetings during the year.

10. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions during the year with related parties were conducted at terms and conditions similar to those offered to other clients and in the normal course of the business. Details of transactions and balances with related parties are included in note 31 to the financial statements.

11. MANAGEMENT

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

- Finance and Treasury department;
- Operations department;
- Marketing and Communications department;
- Commerce department;
- Human Resources department;
- Information & Communication Technology department;
- Risk & Compliance department;
- Legal department:
- Internal Audit department and
- Credit department.

12. PERFORMANCE FOR THE YEAR

The year ended 31 December 2018 had a loss before tax of TZS 3.7 billion (2017: Loss before tax of TZS 10.9 billion).

Interest income decreased from TZS 35.5 billion during the year 2017 to TZS 28.7 billion in 2018 which is percentage decrease of 19% while total fees and commission income decreased from TZS 8.2 billion in 2017 to TZS 7.1 billion in 2018 which is 14% due to decrease in loans portfolio. With the efforts of the bank to improve the quality of the loan portfolio, the impairment provision charges reduced to TZS 3.1 billion in 2018 which is improvement by 77% of the impairment provision charges of TZS 13.5 billion in 2017. Overall the bank experienced slight improvement in business in the year 2018.

Total general and administrative expenditure was TZS 14.4 billion, a decrease of 3% from expenditure of TZS 14.9 billion in 2017 mainly due to cost containment measures during the year.

Total assets at year-end stood at TZS 155.3 billion, a net decrease of 15% or TZS 27 billion from TZS 183 billion at 31 December 2017. This decrease is mainly due to decrease in loans and advances to TZS 83 billion, a net decrease of 18% or TZS 18.8 billion from TZS 101.8 billion at 31 December 2017. The Bank customer deposits volume as at 31 December 2018 stood at TZS 120 billion from TZS 153.4 billion which is a decrease of 22%.

13. FUTURE DEVELOPMENT PLANS

Akiba is repositioning itself as the "Go-to" bank for micro, small and medium enterprises (MSMEs) in Tanzania. It's understood that to be a "Go-to" bank, there is a need to deliver unmatched customer experience and to deliver products and services that meet the needs of customers, in an affordable and easily accessible manner.

In 2018, Akiba embarked on internal reorganisation with a focus on implementing efficiency measures aimed at improving turnaround time for customers. This will continue in 2019, with enhanced and new products and services to be introduced to ensure our offering is competitive and service delivery is unparalleled in the market.

The future growth of the Bank will be dependent on its ability to efficiently capture new markets and customers. This will require the bank to broaden its footprint to profitably attract new customers outside its core market by leveraging digital finance solutions. The Bank is therefore developing a digital finance strategy to accelerate the accessibility and affordability of banking services to a wider spectrum of customers that have traditionally been underbanked. The Bank needs to combine innovative technology and alternative distribution channels to create products and services in line with the evolving business model of financial services.

The Bank also plans to develop an agency banking model to accelerate branchless banking, enabling it to scale its operations and expand its footprint into new markets, both urban and rural, at a lower cost.

14. RISK MANAGEMENT AND INTERNAL CONTROL

The Board accepts final responsibility for the risk management and internal control system of the Bank.

It is the task of management to ensure that adequate internal, financial and operational control systems are developed and maintained in an on-going basis in order to provide reasonable assurance regarding:

- Effectiveness and efficiency of operations;
- Safeguarding of the Bank's assets;
- Compliance with applicable laws and regulations;
- 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 to such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's systems are designed to provide the Board with a reasonable assurance that procedures in place are operating effectively.

The Board assessed the Bank's internal control systems throughout the financial year ended 31 December 2018 and is of the opinion that they met the generally accepted banking industry criteria. The Board carries out risk management and internal control assessment through Board Audit and Risk and Compliance Committees.

15. EMPLOYEE WELFARE

Management and employee relations

The relationship between employees and management continued to be good during the year 2018. There were no unresolved reported complaints from the employees during the year.

Management took measures to build strong workplace relations by ensuring that employees lived up to the standards of the institution's culture and values while maintaining effective communication at all levels. Staff meetings were conducted at branch, departmental and corporate levels whereby staff were able to participate in helping shape the future of the organization. The Bank worked closely with the Trade union, Finance, Industrial, Banking, Utilities, Commercial and Agro Processing Industries Trade Union (FIBUCA) to ensure good labour relations.

Training Activities

During the year, the Bank spent TZS 139 million for staff training (2017: TZS 244 million). Various members of staff benefited from external and internal courses aimed at increases efficiency operational for portfolio officers, operations and other staff. The acquired new knowledge and skills led to the enhancement of business performance.

Medical Assistance

The Bank, through an insurance scheme, provided medical support to members of staff and their respective dependants, a total of TZS 1,232 million (2017: TZS 1,260 million) was incurred as medical expenses in 2018.

Occupational Safety, Health and Environment

The Bank took reasonable steps to safeguard the health, safety and welfare of its employees. For example, a safe and conducive working environment was availed to all employees by providing adequate working tools, proper personal protective equipment, hygiene, training and supervision. The Bank's workplaces were visited by labour inspectors and were found to comply with appropriate government regulations.

Financial assistance to employees

The Bank provided different types of financial support to improve the welfare of its employees, including staff loans. The Bank's support was in line with industry best practice.

Persons with disabilities

It is the policy of the Bank to recruit new staff regardless of their physical abilities. What matters is the candidate's merit for the job. In the event that members of staff become disabled, every effort is made to ensure that their employment with the Bank continues and appropriate re-training is arranged, if necessary.

Employee benefit scheme

The Bank makes contributions to publicly administered pension schemes on a mandatory basis. These schemes are defined contribution plans. A total of TZS 1,224 million was contributed in 2018 (2017: TZS 1,258 million).

15. EMPLOYEE WELFARE (CONTINUED)

Gender parity

The Bank is gender sensitive. During the year 2018, it ensured that female employees were given due priorities in all aspects of the Bank. As at December 2018, the Bank had 456 employees, out of whom 272 were women and 184 were men (2017: 543 employees, out of whom 318 were women and 225 were men).

16. POLITICAL DONATIONS

The Bank did not make any political donations during the year (2017: Nil).

17 CORPORATE SOCIAL RESPONSIBILITY

The Bank recognizes its role and position in the society by undertaking several Corporate Social Responsibility (CSR) initiatives. These initiatives are geared towards giving back to society as well as looking into people's welfare as a caring companion. In the year 2018, the Bank donated TZS 1 million to woman with disability.

18. SOLVENCY

The state of affairs of the Bank as at 31 December, 2018 is set out on page 35 of the financial statements. The Directors consider the Bank to be solvent within the meaning ascribed by the Companies Act, 2002.

19. ENVIRONMENTAL CONTROL PROGRAMME

The Bank has a Corporate Social Responsibility Policy, part of which addresses environmental control programmes. The Bank acknowledges the seriousness of global environmental issues and therefore acts voluntarily and affirmatively to protect the environment by seeking to minimize any adverse environmental impact in the way the Bank operates. The Bank is committed to the prevention of environmental pollution and is in compliance with relevant environmental laws in the areas we operate as a minimum standard and seeks to implement best practices wherever possible.

20. AUDITORS

The auditors, PricewaterhouseCoopers have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing their re-appointment as the Bank's auditors for the subsequent year will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

Massawe

Mr. Ernest Massawe

Chairperson

Dr. Josephat Lotto

Director

Date: 29 March 2019

STATEMENT OF DIRECTOR'S RESPONSIBILITIES
FOR THE YEAR ENDED 31st DECEMBER 2018

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

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act No.12 of 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank and of 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 financial statements, as well as designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

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.

Signed on behalf of the Board of Directors by:

Mr. Ernest Massawe

Chairperson

Dr. Josephat Lotto

Director

Date: 29 March 2019

DECLARATION OF THE GENERAL MANAGER FINANCE

FOR THE YEAR ENDED 31st DECEMBER 2018

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

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

I, Bertha Simon, being the General Manager Finance of Akiba Commercial Bank Plc hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2018 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002.

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

Signed by: ______________________

Position: General Manager Finance

NBAA Membership no: ACPA 3137

Date: 29 March 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AKIBA COMMERCIAL BANK PLC

Report on the Audit of the Bank Financial Statements

Our opinion

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

What we have audited

The financial statements of Akiba Commercial Bank Plc as set out on pages 35 to 131 comprise:

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

Basic Opinion

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

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

Independence

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

Key audit matter

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

Report on the Audit of the Bank Financial Statements (continued)

Key audit matter (Continued)

Key audit matter	***How our audit addressed the key audit matter***
Impairment of loans and advances to customers Management exercises significant judgement using subjective assumptions over both when and how much to record as loan impairment. The Bank adopted IFRS 9 on its mandatory effective date of 1 January 2018. As permitted by IFRS 9, the requirements have been applied retrospectively without restating comparatives. The key changes arising from adoption of IFRS 9 are that the credit losses are now based on expected loss model rather than an incurred loss model. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provisions in the following areas:- • Quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default; • Determination of the probability of defaults (both 12 months and lifetime); • Determination of the forward looking parameters to be incorporated in the estimation of expected credit losses; and • Estimation of the expected cash flows (including from collateral realization) used the determination of the loss given default. The value of the loans and advance to customers is also significant. Further details on loans and advances to customers have been disclosed in Note 2(a), Note 3(d), Note 4(a), Note 5.1 and Note 17 of the financial statements.	• We tested the reasonableness of the quantitative and qualitative criteria used in the classification of loans and advances. • As the quantitative basis of classification of loans and advances is reliant on information systems, we understood and tested key information technology general and application controls including the accurate calculation of the number of days past due. • We tested management's application of the qualitative criteria in the classification of loans and advances. • We tested the reliability and reasonableness of information used for estimating probability of default and loss given default. • We tested the reasonableness of the forward looking parameters considered by management. • We challenged management's basis for establishing the correlation between forward looking parameters and the bank's non-performing loan trends. • We agreed the collateral values used in the impairment model to valuation reports. • We tested the reasonableness of the expected cash flows and challenged management's assumptions of recovery estimates for unsecured facilities and regarding recovery costs and recovery periods used to estimate the recoverable amount of collateral for secured facilities.

Report on the Audit of the Bank Financial Statements (continued)

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

We draw attention to Note 5.6 of these financial statements, which indicates that the Bank's core capital as at 31 December 2018 was TZS 9.6 billion which is below the minimum regulatory capital required of TZS 15 billion. In addition capital adequacy ratios of 7.72% for Tier I and TZS 8.39% for Tier II as at 31 December 2018 were below the minimum required ratios of 12.5% and 14.5% respectively. The Bank's plans to deal with the capital shortfall have also been disclosed in Note 5.6 Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises Corporate Information, Directors' report, Statement of Directors' responsibilities and Declaration of the General Manager Finance but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and Company profile, Chairman's statement, Management report and Shareholder's profile which is expected to be made available to us after that date.

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

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

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

When we read the Company profile, Chairman's statement, Management report and Shareholder's profile, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Report on the Audit of the Bank Financial Statements (continued)

Responsibilities of the Directors for the Bank's Financial Statements

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

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

The Directors are Responsible for Overseeing Bank's Financial Reporting Process.

Auditor's Responsibilities for the Audit of the Bank's Financial Statements

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

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

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

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

Report on the Audit of the Bank Financial Statements (continued)

Responsibilities of the Directors for the Bank's Financial Statements

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

Cletus Kiyuga ACPA-PP 1981
For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam
Date 29th March 2019

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31st DECEMBER 2018

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2018 TZS '000	2017 TZS '000
Interest and similar income	6	**28,721,142**	35,478,405
Interest and similar expense	7	**(5,384,715)**	(8,555,308)
Net interest income		**23,336,427**	26,923,097
Credit impairment losses	17	**(3,055,637)**	(13,489,015)
Net interest income after loan impairment charges		**20,280,790**	13,434,082
Fee and commission income	8	**7,077,119**	8,187,201
Foreign exchange income	9	**90,216**	145,544
Other operating income	10	**819,316**	594,687
Employee benefits expenses	11	**(16,000,096)**	(16,797,829)
General and administrative expenses	12	**(14,427,519)**	(14,869,069)
Depreciation and amortization	13	**(1,566,876)**	(1,585,459)
Loss before income tax		**(3,727,050)**	(10,890,843)
Income tax credit	14	**1,186,997**	3,484,353
Loss for the year		**(2,540,053)**	(7,406,490)
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**(2,540,053)**	(7,406,490)

Financial Statements for the Year Ended 31st December 2018 (Continued)

STATEMENT OF FINANCIAL POSITION

	Notes	2018 TZS '000	2017 TZS '000
Assets			
Cash and balances with The Bank of Tanzania	15	**23,898,892**	32,199,247
Balances with other Banks	16	**425,202**	6,611,250
Government securities at amortized cost	18	**26,570,192**	19,177,226
Loans and advances to customers	17	**82,995,621**	101,777,524
Unquoted equity investment	19	**20,000**	20,000
Property and equipment	20	**1,964,844**	2,558,077
Intangible assets	21	**712,320**	267,373
Leasehold improvements	22	**1,736,304**	2,301,464
Current Income tax asset		**3,111,881**	3,111,881
Deferred income tax	23	**7,825,685**	6,160,721
Other assets	24	**6,072,205**	8,440,704
TOTAL ASSETS		**155,333,146**	182,625,467
Liabilities			
Deposits from other banks		**10,520,770**	-
Deposits from customers	25	**119,915,796**	153,440,939
Other liabilities	26	**2,994,309**	3,626,950
Total liabilities		**133,430,875**	157,067,889
Shareholders' equity			
Share capital	28	**8,607,135**	8,607,135
Share premium		**2,431,917**	2,431,917
Retained earnings		**7,546,745**	12,981,019
Regulatory reserve		**2,537,257**	694,193
General risk reserve		**779,217**	843,314
Total equity		**21,902,271**	25,557,578
TOTAL LIABILITIES AND EQUITY		**155,333,146**	182,625,467

The financial statements on pages 17 to 101 were approved and authorised for issue by the Board of Directors on 29 March 2019 and signed on its behalf by:

Massawe

Mr. Ernest Massawe
Chairperson

Dr.Josephat Lotto
Director

STATEMENT OF CHANGES IN EQUITY

	Share capital TZS '000	Share premium TZS '000	Retained earnings TZS '000	*Regulatory Reserve TZS '000	**General risk reserve TZS '000	Total TZS '000
Year ended 31 December 2018						
At 1 January 2018	**8,607,135**	**2,431,917**	**12,981,019**	**694,193**	**843,314**	**25,557,578**
IFRS 9 Adjustment (Note 2a)	-	-	**(1,115,254)**	-	-	**(1,115,254)**
Restated balance at 1 January 2018	**8,607,135**	**2,431,917**	**11,865,765**	**694,193**	**843,314**	**24,442,324**
Comprehensive income						
Loss for the year	-	-	(2,540,053)	-	-	(2,540,053)
Transfer to Regulatory reserve	-	-	(1,843,064)	1,843,064		-
Transfer from General risk reserve	-	-	64,097	-	(64,097)	-
Total comprehensive income	**-**	**-**	**(4,319,020)**	**1,843,064**	**(64,097)**	**(2,540,053)**
At 31 December 2018	**8,607,135**	**2,431,917**	**7,546,745**	**2,537,257**	**779,217**	**21,902,271**
At 1 January 2017	8,607,135	2,431,917	20,040,593	538,090	1,346,333	32,964,068
Comprehensive income	-	-	-	-	-	-
Loss for the year	-	-	(7,406,490)	-	-	(7,406,490)
Transfer from Regulatory reserve	-	-	(156,103)	156,103	-	-
Transfer to General risk reserve	-	-	503,019	-	(503,019)	-
Total comprehensive income	-	-	(7,059,574)	156,103	(503,019)	(7,406,490)
At 31 December 2017	**8,607,135**	**2,431,917**	**12,981,019**	**694,193**	**843,314**	**25,557,578**

*Regulatory reserve represents the surplus of provision for credit losses computed in accordance with Bank of Tanzania regulations over the provision for impairment of loans and advances computed in accordance with International Financial Reporting Standards.

**General risk reserve represents 1% provision on loans classified as current including other risk assets in line with regulatory requirements of the Bank of Tanzania.

STATEMENT OF CASH FLOWS

	Notes	2018 TZS 000	2017 TZS 000
Cash flows from operating activities			
Loss before taxation		**(3,727,050)**	(10,890,843)
Adjustments for:			
Depreciation and amortisation		**1,566,835**	1,585,459
Loss/(profit) on disposal of property and equipment		**103,136**	(4,852)
Movement in provisions		**-**	(7,130)
		(2,057,079)	(9,317,366)
Movement in working capital			
Statutory Minimum Reserve		**2,366,526**	4,647,830
Loans and advances to customers		**17,188,683**	42,886,396
Government securities		**(7,392,966)**	(3,270,446)
Other assets		**747,942**	8,846
Deposit from customers		**(33,525,143)**	(15,664,269)
Balances from other banks		**10,520,770**	(3,162,767)
Other liabilities		**(631,817)**	(1,533,705)
Cash flows (used in)/generated from in operations		**(12,783,084)**	14,594,519
Tax paid	14(c)	-	(5,010,358)
Net cash flows generated from in operations		**(12,783,084)**	9,584,161
Cash flows from investing activities			
Purchase of property and equipment	20	**(373,679)**	(783,825)
	21	**(542,595)**	
Purchase of intangible assets			(179,001)
Purchase of leasehold improvements	22	**(40,553)**	(163,400)
Proceeds from sales of property and equipment		**-**	5,844
Net cash used in investing activities		**(956,827)**	(1,120,382)
Cash flows from financing activities			
Dividend paid		**-**	(25,212)
Net cash used in financing activities		**-**	(25,212)
Net (decrease)/increase in cash and cash equivalents		**(13,739,911)**	8,438,567
Cash and cash equivalent at the beginning of the year		**33,324,518**	24,885,951
Cash and cash equivalent at the end of the year	27	**19,584,607**	33,324,518

NOTES

1. REPORTING ENTITY

Akiba Commercial Bank Plc (''The Bank") is a limited company incorporated in Tanzania under the Companies Act 2002 and is domiciled in Tanzania. The address of its registered office and principal place of business is:

3rd Floor, Amani Place
Ohio Street
PO Box 669
Dar es Salaam, Tanzania

The Bank provides micro finance, retail and corporate banking services.

The financial statements of Akiba Commercial Bank Plc for the year ended 31 December 2018 have been approved for issue by the board of Directors on 29 March 2019. Neither the entity owners nor others have the power to amend the financial statements after issue.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Basis of preparation

The financial statements of Akiba Commercial Bank Plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. The bank financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Bank's financial statements are disclosed in Note 4.

(a) Changes in accounting policy and disclosures

(i) New standards amendments and interpretations adopted by the Bank

The following standards and interpretations became effective in the current year and were relevant to the bank and had material impact on the amounts reported in these financial statements.

Adoption of IFRS 9

The bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previous recognized in the financial statements. The Bank did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

NOTES (CONTINUED)

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

Basis of preparation (continued)
Changes in accounting policy and disclosures
(i) New standards amendments and interpretations adopted by the Bank

Adoption of IFRS 9 (continued)
Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosure repeats those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standard dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in the section below.

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

	IAS 39		IFRS 9	
Financial assets	**Measurement category**	**Carrying amount**	**Measurement category**	**Carrying amount**
Cash and balances with the Bank of Tanzania	Amortised cost (Loan and receivables)	**32,199,247**		**32,199,247**
Placements and balances with other banks	Amortised cost (Loan and receivables)	**6,611,250**	Amortised cost	**6,661,250**
Loan and advances to customers.	Amortised cost (Loan and receivables)	**101,777,524**	Amortised cost	**100,184,304**
Investment in government securities:	Held to maturity	**19,177,226**	Amortised cost	**19,177,226**
Other assets	Amortised cost (Loan and receivables)	**8,440,704**	Amortised cost	**8,440,704**
Equity Investments	FVOCI (Available for sale)	**20,000**	FVOCI	**20,000**

There were no changes to the classification and measurement of financial liabilities, other than to changes in the fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in the instrument's credit risk, which are now presented in other comprehensive income.

NOTES (CONTINUED)

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

Basis of preparation (continued)

(a) Changes in accounting policy and disclosures (continued)

(i) New standards amendments and interpretations adopted by the Bank (continued)

Adoption of IFRS 9 (continued)

1. Classification and Measurement of Financial Instruments (continued)

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

	2018 TZS '000
Retained earnings 31 December	**12,981,019**
Reclassify investments from available-for-sale to FVPL	**-**
Increase in provision for debt investments at amortised cost	**-**
Increase in provision for debt investments at FVOCI	**-**
Increase in provision for loans and advances to customers at amortised cost	**(1,593,220)**
Gross adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	**(1,593,220)**
Less deferred tax impact	**477,966**
Net adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018	**(1,115,254)**
Opening retained earnings 1 January - IFRS 9	**11,865,765**

NOTES (CONTINUED)

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

Basis of preparation (continued)
(a) Changes in accounting policy and disclosures (continued)
(i) New standards amendments and interpretations adopted by the Bank (continued)

Adoption of IFRS 9 (continued)
(2) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics.

The following table reconciles the carrying amounts of financial assets, from their view previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Amortised Cost	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Cash and balances with Bank of Tanzania				
Opening balance under IAS 39 and closing balance under IFRS 9	32,199,247	-	-	**32,199,247**
Placements and balances with other banks				
Opening balance under IAS 39	6,611,250			
Remeasurements: ECL allowance	-	-	-	**-**
Closing balance under IFRS 9				**6,611,250**
Loan and advances to customers.				
Opening balance under IAS 39	101,777,524	-	-	
Remeasurements: ECL allowance		-	(1,593,220)	
Closing balance under IFRS 9		-	-	**100,184,304**
Investment in Government securities- Amortised cost				
Opening balance under IAS 39	19,177,226	-	-	-
Remeasurement: ECL allowance	-	-	-	-
Addition: From financial assets held to maturity	-	-	-	
Remeasurement: ECL allowance	-	-	-	
Closing balance under IFRS 9				**19,177,226**
Unquoted equity investment				
Opening balance under IAS 39	20,000	**-**	**-**	**-**
Remeasurement: ECL allowance	-	**-**	**-**	**-**
Closing balance under IFRS 9				**20,000**
Other assets (excluding prepayments)				
Opening balance under IAS 39	6,003,402	-	-	**-**
Remeasurement: ECL allowance	-	-	-	**-**
Closing balance under IFRS 9				**6,003,402**

NOTES (CONTINUED)

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

Basis of preparation (continued)
(a) Changes in accounting policy and disclosures (continued)
(i) New standards amendments and interpretations adopted by the Bank (continued)

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

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

Measurement category	Loan Loss allowance under IAS 39	Reclassifications	Remeasurements	Loan loss allowance under IFRS 9
Loan and receivables (IAS 39)/Financial assets at amortised cost (IFRS 9)				
Cash and balances with the Bank of Tanzania	-	-	-	-
Placements and balances with other banks	-	-	-	-
Investment in government securities	-	-	-	-
Loans and advances to customers	17,951,863		839,650	18,791,513
Total	**17,951,863**	**-**	839,650	18,791,513
Held to maturity(IAS 39)/Financial assets at amortised cost(IFRS 9)				
Investment in government securities.	-	-	-	-
Loan commitments and financial guarantees contracts				
Loan and advances to customers (Loan commitments)	-	-	-	-
Provisions (Loan commitments)	-	-	17,175	17,175
Provisions (Financial guarantees)	-	-	736,395	736,395
Total	**-**	**-**	**753,570**	**753,570**

Impact on Capital

The Bank of Tanzania has issued guidelines on transition requirements for the implementation of IFRS 9 that require in the first adoption, when IFRS 9 impairment is greater than BOT provision, for the purpose of computing core capital banks and financial institutions shall spread the excess impairment equally over three years. See note 5.6

NOTES (CONTINUED)

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

Basis of preparation (continued)
(a) Changes in accounting policy and disclosures (continued)
(i) New standards amendments and interpretations adopted by the Bank (continued)

The following standards and interpretations became effective in the current year and were relevant to the bank but had no material impact on the amounts reported in these financial statements.

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

NOTES (CONTINUED)

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

Basis of preparation (continued)

(a) Changes in accounting policy and disclosures (continued)

(i) New standards amendments and interpretations adopted by the Bank (continued)

The following standards and interpretations became effective in the current year and were relevant to the bank but had no material impact on the amounts reported in these financial statements

Title	**Key requirement**
Annual improvements 2014-2016 cycle	The following improvements were finalised in December 2016: • IFRS 1 - deleted short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10, which are no longer relevant. • IAS 28 - clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition.
Interpretation 22 Foreign Currency Transactions and Advance Consideration	The interpretation clarifies how to determine the date of transaction for the exchange rate to be used on initial recognition of a related asset, expense or income where an entity pays or receives consideration in advance for foreign currency-denominated contracts. For a single payment or receipt, the date of the transaction should be the date on which the entity initially recognises the non-monetary asset or liability arising from the advance consideration (the prepayment or deferred income/ contract liability). If there are multiple payments or receipts for one item, a date of transaction should be determined as above for each payment or receipt. Entities can choose to apply the interpretation: • retrospectively for each period presented • prospectively to items in scope that are initially recognised on or after the beginning of the reporting period in which the interpretation is first applied, or prospectively from the beginning of a prior reporting period presented as comparative information

NOTES (CONTINUED)

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

Basis of preparation (continued)

(a) Changes in accounting policy and disclosures (continued)

(i) New standards amendments and interpretations adopted by the Bank (continued)

Title	Key requirements	Effective Date
IFRS 16 Leases	IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The statement of profit or loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Leases held by the bank accounted as operating leases will start to be accounted as assets and financial liabilities. The standard will not have a significant impact on the Bank.	1 January 2019 Early adoption is permitted only if IFRS 15 is adopted at the same time

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Interest income and expense

Accounting policies applicable in prior period under IAS 39

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

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

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

Accounting policies applicable in current period under IFRS 9

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

(a) Profit or Loss through Other Comprehensive Income (POCI) financial assets, for which the original credit – adjusted effective is applied to the amortized cost of the financial asset.

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

(b) Fees and commission income

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees income can be divided into the following categories:

<u>(i) Fee income earned from services that are provided over a certain period of time</u>

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Fees and commission income (continued)

(i) Fee income earned from services that are provided over a certain period of time (continued)

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 (EIR) on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight line basis.

(ii) 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.

(ii) Operating income

Results arising from trading activities include all gains and losses from changes in fair value and related interest income or expense and dividends for financial assets and financial liabilities held for trading.

Other income is recognized in the period in which it is earned.

(c) Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements in the Bank are measured using the currency of the primary economic environment in which the Bank operate ("the functional currency"). The financial statements are presented in Tanzania Shillings (TZS) rounded to the nearest million, which is the Bank's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into Tanzania Shillings using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities

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

Initial recognition and measurement

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

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

Transaction costs of financial assets and liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debts instruments measured at FCOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing or recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement

(i) Classification and subsequent measurement (continued)

Financial assets

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

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

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

- **Amortised cost:** Assets that are held for collection for contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 17. Interest income from these financial assets is included in 'Interest and similar income' using effective interest rate method.

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

Business model: the business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of the assets.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

Financial assets (continued)

(i) Classification and subsequent measurement (continued)

Debt instruments (continued)

If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. For example, the Bank's business model for the mortgage loan book is to hold to collect contractual cash flows, with sales of loans only being made internally to a consolidated SPV for the purpose of collateralising notes issued, with no resulting derecognition by the Bank. Another example is the liquidity portfolio of assets, which held by the Bank as part of liquidity management and is generally classified within the hold to collect and sell business model. Securities held for trading are held principally for the purposes of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of Short-term profit taking. These securities are classified in the 'other' business model and measured at FVPL.

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

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

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

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

Financial assets (continued)

(i) Equity instruments

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

The Bank's policy is to designate equity investments as FVOCI. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as other income when the Bank's right to receive payments is established.

(ii) Impairment

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

The measurement of ECL reflects:

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

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

Financial assets (continued)

(iii) Modification of loans

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

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

If the terms are substantially different, the Bank derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of the initial recognition for impairment calculation purposes, including for the purposes of determining whether a significant increase in credit risk has occurred. However, the Bank also assessed whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as gains or loss on derecognition. If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

Financial assets (continued)

(iv) Derecognition other than on a modification

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

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

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

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

Financial Liabilities

(i) Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to Changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

Financial Liabilities (continued)

(i) Classification and subsequent measurement (continued)

presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and

(ii) Derecognition

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

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

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

Financial Liabilities (continued)

Financial guarantee contracts and loan commitments

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

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

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

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

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

Accounting policies applicable in Prior period under IAS 39

Financial instruments - initial recognition and subsequent measurement

The Bank initially recognises loans and advances, deposits, debt securities issued,on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

Financial assets

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

Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investments, other than because of credit deterioration.

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

Available for sale financial assets

Available-for-sale assets are financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity.

Available-for-sale investments are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss. Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits and other liabilities are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates liabilities at fair value through profit or loss.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

Reclassification of financial assets and liabilities

The bank is permitted to reclassify, in certain circumstances, financial instruments out of the “Available-for-sale” category and into the “Loans and receivables” category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For financial assets reclassified out of the’ Available-for-sale’ category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the Effective Interest Rate (EIR). If the asset is subsequently determined to be impaired then the amount recycled in equity is recycled to profit or loss.

The Bank may reclassify a non-derivative trading asset out of the ‘Held-for-Trading’ category into the ‘Loans and receivables’ category if it meets the definition of loans and receivables and the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimate of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that receipt is recognised as an adjustment to the EIR from the date of change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition. There are no reclassified financial assets.

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

Financial assets	***Class***
Cash and balances with Bank of Tanzania	Loans and receivables
Loans and advances to Banks	Loans and receivables
Loans and advances to customer	Loans and receivables
Government securities	Loans and receivables
Equity investment	Available for sale
Other assets (excluding prepayment and stationery stock and interest income amortisation adjustment)	Loans and receivables
Financial liabilities	
Deposits from Banks	Financial liabilities at amortized cost
Deposits from customers	Financial liabilities at amortized cost
Other liabilities (excluding statutory deductions and deferred loan processing fees)	Financial liabilities at amortized cost

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

De-recognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

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

Determination of fair value

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

De-recognition of financial assets and financial liabilities (continued)

Determination of fair value (continued)

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

Impairment of financial assets

The Bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

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

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers as well as held-to-maturity investments), the bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, 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, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

De-recognition of financial assets and financial liabilities (continued)

Financial assets carried at amortised cost (continued)

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss and is shown separately.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

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

De-recognition of financial assets and financial liabilities (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in statement of financial position.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Cash and cash equivalents

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

(f) Taxes

Current tax

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

Deferred tax

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

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity or other comprehensive income are also recognised in equity or other comprehensive income and not in profit or loss.

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

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Value added tax

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

(h) Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

(i) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off statement of financial position transactions and disclosed as contingent liabilities. Estimates of the outcome and financial effect of contingent liabilities is made by management based on information available up to the date the financial statements are approved for issue by directors. Any expected loss is charged to the statement of profit or loss.

(j) Employees' benefits including post-employment benefits

Short-term employment benefits such as salaries, social security contributions, and leave fare assistance are recognised as an expense in profit or loss in the period the employees render the services.

(i) <u>Post-employment benefits</u>

The Bank operates a defined contribution plan whereby each of its employees and the Bank contribute 10% each of the employee's monthly salaries to the state owned and managed (statutory) Funds. The Bank has no further payment obligations once the contributions have been paid. The contributions are recorded as an expense under "Personnel expenses" in the year to which they relate. Unpaid contributions are recognised as a liability.

(ii) <u>Other employee benefits</u>

The Bank provides free medical treatment for existing staff and their dependants. The cost is recorded as an expense under "Personnel expenses". The estimated monetary liability for employees' accrued leave entitlement at the reporting date is recognised as an expense accrual.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Employees' benefits including post-employment benefits (Continued)

(iii) Bonus Scheme

A liability for employee benefits in the form of bonus scheme is recognised when there is a formal scheme and the amounts to be paid are determined before the end of the reporting period or past practice has created a valid expectation in employees that they will receive a bonus subject to satisfactory performance and the amount can be determined before the financial statements are issued. Liabilities for bonus scheme are expected to be settled within 3 months and are measured at the amounts expected to be paid when they are settled.

(k) Provision

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

(l) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, excluding the costs of day-to-day servicing. Costs of replacing part of the property and equipment and major inspection cost are capitalised if the recognition criteria are met as required by IAS 16. Borrowing costs for long-term projects are capitalised if they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other repair and maintenance costs are recognised in profit or loss as incurred. Depreciation is calculated on straight line basis to write down the cost of the asset to its residual value over the estimated useful life as follows:

Description of assets	Rate (%)
Leasehold improvement	10
Motor vehicles	25
Furniture, fittings and equipment	20
Computer equipment and software	20

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Property and equipment (Continued)

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. (Refer to accounting policy on impairments of non-financial assets).

(m) Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product including the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Leasing

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

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the profit or loss in the statement of comprehensive income on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

Bank as a lessor

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

Leasehold improvements

Leases of leasehold improvements are classified as operating leases; these include improvements made on leased Bank buildings for its head office and branches. The total payments made under operating leases are charged to profit or loss on a straight-line basis over the life of the lease period.

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

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

The annual amortisations of operating leasehold in use are:

Leasehold improvements	10 years

No amortisation charge is made to leasehold improvements work in progress under refurbishments.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment of non-financial assets

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

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

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

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

NOTES (CONTINUED)

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of Bank's financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Measurement of the expected credit loss allowance

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

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

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

(b) Property and equipment

Critical estimates are made by the directors in determining depreciation rates for equipment and their residual values. The rates used are set out in the accounting policies section of these financial statements under Note 3. There is no significant risk of these estimates changing in the next 12 months that may lead to a material change in the carrying value of property and equipment and intangible assets.

(c) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT

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

Risk management is carried out by the Risk and Compliance department under policies approved by the Board of Directors.

The Board provides written principles for overall risk management, as well as written policies covering specific areas. In addition, the Internal Audit department is responsible for the independent review of risk management and the control environment. The most significant risks are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest risk and price risk.

5.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that the counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; Directors therefore carefully manage its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Bank's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments.

The credit risk management and controls are centralised in Commerce, Risk and Compliance departments of the Bank and reported to the Board of Directors and Heads of Departments regularly.

5.1.1 Credit risk measurement

Loans and advances

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. The Loan book is split into Term Loans (Secured & unsecured) and off- balance sheet items (these include overdrafts, Letters of Credit and Guarantees)

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1.1 Credit risk measurement (Continued)

Loans and advances (Continued)

The Bank considers a term loan to be in default if the repayments on the loan are more than 90 days past due for all product types, further considering a revolving facility in default if the facility is drawn above the loan limit for more than 90 consecutive days during the lifetime of the facility or if the drawn amount is still outstanding 90 days after maturity of the facility.

The Bank estimates the Loss Given Default for both term loan (secured and unsecured) based on recoveries on loans that defaulted and were written off and collections from loans that defaulted but were not written off while for off balance sheet items the probability of default and loss given default component for revolving facilities has been combined to determine a loss rate.

Exposure at Default for term loans is estimated as contractual rundown on the loans and for the off balance sheet items the exposure at default is estimated by determining a credit conversion factor (CCF).

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

Bank's internal ratings scale			% used for
	Description of the grade	Ageing	Regulatory provisioning
1.	Current	0 - 30 days	1%
2.	Especially mentioned	31 - 90 days	3%
3.	Sub-standard	91 - 180 days	20%
4.	Doubtful	181 – 360 days	50%
5.	Loss	360 days and above	100%
	Solidarity group loan provisioning		
1.	Current	0 - 5 days	1%
2.	Especially mentioned	6 - 30 days	5%
3.	Sub-standard	31 - 60 days	25%
4.	Doubtful	61 - 90 days	50%
5.	Loss	91 days and above	100%

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.2: Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Refer to note 5.1.2.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 5.1.2.2 for a description of how the Bank defines credit-impaired and default.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 5.1.2.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 5.1.2.4 includes an explanation of how the Bank has incorporated this in its ECL models.

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

5.1.2.1: Significant increase in credit risk (SICR)

The bank measures significant increase in credit risk using quantitative, qualitative or backstop criteria. If one or more of the following criteria are met the bank considers that a financial instrument to have experience a significant increase in credit risk.

Quantitative criteria:

A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.2: Expected credit loss measurement (Continued)

5.1.2.1: Significant increase in credit risk (SICR) (Continued)

Qualitative criteria

Loans and advances to customers

A loan facility is assessed to have significant increase in credit risk if the borrower meets one or more of the following criteria:

- Direct debit cancellation;
- Previous arrears within the last 12 months;
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- Actual or expected forbearance or restructuring;
- Actual or expected significant adverse change in operating results of the borrower;
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default;
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans; and
- Identified fraudulent activities in issuing the loan

The assessment of SICR incorporates forward-looking information and is performed on an annual basis at a portfolio level.

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Loans and advances to banks

The following qualitative factors are considered as indicators of significant increase in credit risk

- Significant counterparty management restructuring or re-organisation due to prolonged poor performance of the entity
- Significant advance change in regulatory, economic, or technological environment of the borrower that results in a significant change in ability to meet its debt obligations; and
- Significant reductions in financial support from a parent entity that resulted to significant adverse change of operating results of the counterparty.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.2: Expected credit loss measurement (Continued)

5.1.2.1: Significant increase in credit risk (SICR) (Continued)

Government securities

Government securities are considered to have experienced a significant increase in credit risk when at least one of the following factors have occurred:

- The government has received a low credit rating ("C") by the International rating agencies; or
- The government has initiated debt restructuring process.

Low credit risk exemption

Government securities such as treasury bills measured at amortised cost are classified as low credit risk financial instruments and impairment will be recorded only if there is evidence of expected default on Government securities. It is important to note that there is no history of default on the Tanzania Government securities.

5.1.2.2: Definition of default and credit impaired assets

Loans and advances to customers

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

Quantitative

The Bank considers a term loan to be in default if the repayments on the loan are more than 90 days past due for all product, further considering a revolving facility in default if the facility is drawn above the loan limit for more than 90 Consecutive days during the lifetime of the facility or if the drawn amount is still outstanding 90 days after maturity of the facility.

Qualitative

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where: -

- the borrower is in long-term forbearance;
- the borrower is deceased;
- the borrower is insolvent;
- the borrower is in breach of financial covenant(s);
- An active market for that financial asset has disappeared because of financial difficulties;

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.2: Expected credit loss measurement (Continued)

5.1.2.2: Definition of default and credit impaired assets (Continued)

- Concessions have been made by the lender relating to the borrower's financial difficulty;
- Fraudulent activities were conducted in issuance of the loan;
- It is becoming probable that the borrower will enter bankruptcy; and
- Financial assets are purchased or originated at a deep discount that reflects the incurred credit losses.

The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Group's expected loss calculations.

Loans and advances to banks

For balances due from other banks below events are considered as default when they occur

- When repayments of interest and principal are not done on time as per contractual schedules to the extent of 30 days delay;
- When counterpart is taken under management by Statutory Manager;
- When counterpart licence has been revoked by Central Banks; and
- When counterpart has been declared bankrupt by responsible bodies like Registration, Insolvency and Trusteeship Agency (RITA) and Court.

Government securities

For government securities below events are considered as default when they occur: -

- When repayments of interest and principal are not done on time as per contractual schedules to the extent of 30 days delay;
- When the government is downgraded to below "C" Status by International Rating Agency such as Moody's. S&P or Fitch; and
- When the government is declared default/bankrupt by responsible agencies like World Bank or IMF.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.2: Expected credit loss measurement (Continued)

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

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

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

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

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

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

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.2: Expected credit loss measurement (Continued)

5.1.2.4: Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. These economic variables and their associated impact on the PD and vary between secured and unsecured loans and off-balance sheet exposure. Expert judgment has also been applied in this process.

The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, management team also provides other possible scenarios along with scenario weightings. The number of other scenarios used is set based on the analysis of each major segment type to ensure non-linearity are captured. The number of scenarios and their attributes are reassessed at each reporting date. At 1 January 2018 and 31 December 2018, for all the Group concluded that three scenarios appropriately captured non-linearity.

The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Bank measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.2: Expected credit loss measurement (Continued)

5.1.2.4: Forward-looking information incorporated in the ECL models (Continued)

Economic variable assumptions

The most significant period-end assumptions used for the ECL estimate as at 31 December 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	2019	2020	2021	2022	2023
GNI(Current LCU)					
Base	11%	10%	9%	7%	6%
Upside	13%	12%	11%	9%	8%
Downside	9%	8%	7%	5%	4%

The most significant period-end assumptions used for the ECL estimate as at 1 January 2018 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	2018	2019	2020	2021	2022
Gross Domestic Savings					
Base	10%	15%	20%	25%	30%
Upside	5%	10%	15%	20%	25%
Downside	30%	50%	70%	90%	100%

The weightings assigned to each economic scenario at 1 January 2018 and 31 December 2018 was 80%, 10% and 10% for "base", "upside" and "downside" respectively.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.2: Expected credit loss measurement (Continued)

5.1.2.4: Forward-looking information incorporated in the ECL models (Continued)

Economic variable assumptions (Continued)

If the credit growth in private sector changed by 10% expected loss allowance would have been as follows:

Sensitivity Analysis	Expected loss allowance	
	Higher end	Lower end
	TZS '000	TZS 000
Secured term loans	963,088	902,629
Unsecured term loans	1,030,745	985,574
Total expected loss allowance	**1,993,833**	**1,888,203**

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

5.1.3 Credit 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 balance sheet exposures. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.3 Credit risk limit control and mitigation policies (Continued)

Some other specific control and mitigation measures are outlined below.

(a) Collateral

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

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

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Credit-related commitments

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

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

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

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.4 Credit exposure

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

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

(a) Unsecured Term Loans

	2018 ECL Staging				2017
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Credit grade					
Current	49,632,293	-	-	**49,632,293**	64,025,647
Especially mentioned	-	1,349,279	-	**1,349,279**	2,945,556
Doubtful	-	-	1,686,921	**1,686,921**	4,164,341
Substandard	-	-	1,241,608	**1,241,608**	3,208,612
Loss	-	-	5,111,303	**5,111,303**	4,326,909
Gross Carrying amount	**49,632,293**	**1,349,279**	**8,039,832**	**59,021,404**	78,671,067
Loss allowance	(992,814)	(40,649)	(6,990,748)	(8,024,211)	(10,375,403)
Carrying amount	**48,639,479**	**1,308,630**	**1,049,084**	**50,997,193**	68,295,664

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.4 Credit exposure (Continued)

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

(b) Secured Term Loans

	2018 ECL Staging				2017
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Credit grade					
Current	26,052,837	-	-	26,052,837	16,422,698
Especially mentioned	-	1,090,766	-	1,090,766	3,107,930
Doubtful	-	-	2,988,144	2,988,144	3,786,343
Substandard	-	-	629,955	629,955	3,131,523
Loss	-	-	3,443,757	3,443,757	1,147,514
Gross Carrying amount	**26,052,837**	**1,090,766**	**7,061,856**	**34,205,459**	27,596,011
Loss allowance	(711,894)	(72,504)	(4,302,690)	(5,087,088)	(5,229,775)
Carrying amount	**25,340,943**	**1,018,262**	**2,759,166**	**29,118,371**	22,366,236

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.4 Credit exposure (Continued)

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

(c) Overdraft

	Stage 1	Stage 2	Stage 3	Total	Total
	12-month ECL	Lifetime ECL	Lifetime ECL		
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Credit grade					
Current	546,241	-	-	546,241	5,848,137
Substandard	-	-	2,669,227	2,669,227	
Loss	-	-	3,833,375	3,833,375	7,503,625
Gross Carrying amount	**546,241**	**-**	**6,502,602**	**7,048,843**	**13,351,762**
Loss allowance	(86,626)	-	(4,085,159)	(4,168,785)	(3,203,510)
Carrying amount	**459,615**	**-**	**2,417,443**	**2,880,058**	**10,148,252**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance

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

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

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (continued)

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

(a) Unsecured term Loans

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	TZS'000	TZS'000	TZS'000	TZS'000
Loss allowances as at 1 January 2018	**798,033**	**47,431**	**9,529,939**	**10,375,403**
Movements				
Transfer from stage 1 to stage 2	-	3,273	-	**3,273**
Transfer from stage 1 to stage 3	-		1,717,937	**1,717,937**
Transfer from stage 2 to stage 3	-	-	1,061,763	**1,061,763**
Transfer from stage 3 to stage 1	(152,868)	-	-	**(152,868)**
Transfer from stage 3 to stage 2	-	(8,945)	-	**8,945**
Transfer from stage 2 to stage 1	(537)	-	-	**(537)**
FX and other movements	(313,631)	(10,630)	(593,153)	**(917,414)**
New financial assets originated or purchased	618,012	16,345	462,191	**1,096,548**
Changes to model assumptions and methodologies	43,805	(279)	293,243	**336,769**
Total net P&L charge during the period	**194,780**	**- 6,782**	**2,941,981**	**3,129,979**
Other movements with no P&L impact				
Write-offs	-	-	(5,481,172)	(5,481,172)
Loss allowance as at 31 December 2018	**992,814**	**40,649**	**6,990,748**	**8,024,211**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (continued)

(b) Secured term Loans

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	TZS'000	TZS'000	TZS'000	TZS'000
Loss allowances as at 1 January 2018	**324,314**	**65,438**	**4,840,024**	**5,229,775**
Movements				
Transfer from stage 1 to stage 2		(2,081)		**(2,081)**
Transfer from stage 1 to stage 3			319,825	**319,825**
Transfer from stage 2 to stage 3			207,891	**207,891**
Transfer from stage 3 to stage 1	(204,380)			**(204,380)**
Transfer from stage 2 to stage 1	(8,758)		-	**8,758**
FX and other movements	(143,114)	(40,842)	(982,277)	**(1,166,233)**
New financial assets originated or purchased	803,602	51,689	325,643	**1,180,934**
Changes to model assumptions and methodologies	(59,770)	(1,699)	(408,416)	**(469,885)**
Total net P&L charge during the period	387,581	7,066	(537,334)	**(142,687)**
Loss allowance as at 31 December 2018	**711,894**	**72,504**	**4,302,690**	**5,087,088**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (continued)

(c) Overdraft

Loss allowances as at 1 January 2018	57,335	-	3,146,175	**3,203,510**
Movements				
Transfer from stage 1 to stage 3	-	-	200,132	**200,132**
FX and other movements	(48,839)	-	(552,789)	**(601,628)**
New financial assets originated or purchased	12,429	-	-	**12,429**
Changes to model assumptions and methodologies	62,702	-	1,291,641	**1,354,343**
Total net P&L charge during the period	26,291	-	938,984	965,276
Loss allowance as at 31 December 2018	**83,626**	**-**	**4,085,159**	**4,168,785**

(d) Off-balance sheet items	**TZS'000**
Loss allowances as at 1 January 2018	**736,395**
Movements	**(736,395)**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (continued)

The following tables explain changes in the gross carrying amount of the portfolio to help explain their significance to the changes in the loss allowance for the same portfolio:

(a) Unsecured term loans

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	TZS'000	TZS'000	TZS'000	TZS'000
Gross carrying amount as at 1 January 2018	63,917,239	3,076,273	11,788,102	**78,781,614**
Movements				
Transfer from stage 1 to stage 2	(660,451)	660,451	-	-
Transfer from stage 1 to stage 3	(2,293,554)	-	2,293,554	-
Transfer from stage 2 to stage 3	-	(1,173,272)	1,173,272	-
Transfer from stage 3 to stage 1	80,965	-	(80,965)	-
Transfer from stage 3 to stage 2	-	8,364	(8,364)	-
Transfer from stage 2 to stage 1	115,452	(115,452)	-	-
Financial assets derecognized during the period other than write-offs	(50,655,476)	(1,799,834)	(2,218,784)	**(54,674,094)**
New financial assets originated or purchased.	39,128,119	692,748	574,190	**40,395,057**
Write-offs		-	(5,481,172)	**(5,481,172)**
Gross carrying amount as at 31 December 2018	**49,632,293**	**1,349,279**	**8,039,832**	**59,021,405**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (continued)

(b) Secured term loans

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
	TZS'000	TZS'000	TZS'000	TZS'000
Gross carrying amount as at 1 January 2018	16,259,199	3,271,431	8,065,381	**27,596,011**
Movements				
Transfer from stage 1 to stage 2	(191,842)	191,842	-	-
Transfer from stage 1 to stage 3	(502,580)	-	502,580	-
Transfer from stage 2 to stage 3	-	(361,672)	361,672	-
Transfer from stage 3 to stage 1	482,744	-	482,744	-
Transfer from stage 2 to stage 1	680,301	(680,301)	-	-
Financial assets derecognized during the period other than write-offs	(12,922,349)	(2,039,746)	(2,422,857)	**(17,384,952)**
New financial assets originated or purchased.	22,247,363	709,213	1,037,823	**23,994,399**
Write-offs				
Gross carrying amount as at 31 December 2018	26,052,837	1,090,766	7,061,855	**34,205,458**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.5 Loss allowance (continued)

(c) Overdraft

Gross carrying amount as at 1 January 2018	5,848,137	-	7,503,625	**13,351,762**
Movements				
Transfer from stage 1 to stage 3	(225,041)	-	225,041	**-**
Financial assets derecognized during the period other than write-offs	(5,140,960)	-	(1,226,064)	**-** **(6,367,025)**
New financial assets originated or purchased.	64,106	-	-	**64,106**
Gross carrying amount as at 31 December 2018	546,241	-	6,502,602	**7,048,843**

5.1.6 Amounts due from banks

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

5.1.7 Debt securities, treasury bills and other eligible bills

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

5.1.8 Balances with bank of Tanzania and other assets

Other assets and balances with Bank of Tanzania are categorized as stage 1. The Bank has used simplified model for estimation of ECL. The impact has been determined to be insignificant.

5.1.9 Repossessed collateral

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

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.10 Concentration of risks of financial assets with credit risk exposure

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2018. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

Credit risk exposures relating to on-balance sheet assets are as follow **31 December 2018**	**Tanzania** **TZS '000**	**Europe** **TZS '000**	**America** **TZS '000**	**Others** **TZS '000**	**Total** **TZS '000**
Cash and balances with the Bank of Tanzania	23,898,892	-	-	-	**23,898,892**
Placement and balances with other banks	197,278	227,924	-	-	**425,202**
Investment in Government securities					
- Amortised cost	26,570,192	-	-	-	**26,570,192**
Loans and advances to customers:	82,995,084	-	-	-	**82,995,084**
Other assets (excluding prepayments)	4,605,748	-	-	-	**4,605,748**
As at 31 December 2018	**138,267,194**	**227,924**	**-**	**-**	**138,495,118**
Credit risk exposures relating to off-balance sheet assets are as follows:					
Undrawn commitments	**874,578**	**-**	**-**	**-**	**874,578**
As at 31 December 2018	**874,578**	**-**	**-**	**-**	**874,578**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.10 Concentration of risks of financial assets with credit risk exposure (continued)

(a) Geographical sectors (continued)

Credit risk exposures relating to on-balance sheet assets are as follows **31 December 2017**	Tanzania TZS '000'	Europe TZS '000'	America TZS '000'	Others TZS '000'	Total TZS '000'
Cash and balances with the Bank of Tanzania	32,199,247	-	-	-	32,199,247
Placement and balances with other banks	5,952,925	658,324	-	-	6,611,250
Investment in Government securities					
- Amortised cost	19,177,226	-	-	-	19,177,226
Loans and advances to customers:	101,777,524	-	-	-	101,777,524
Other assets (excluding prepayments)	6,003,400	-	-	-	6,003,400
As at 31 December 2017	165,110,323	658,324	-	-	165,768,647
Credit risk exposures relating to off-balance sheet assets are as follows:					
Guarantees and indemnities	3,060,849	-			3,060,849
Undrawn commitments	1,202,703				1,202,703
As at 31 December 2017	**4,263,553**	**-**	**-**	**-**	**4,263,553**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.10 Concentration of risks of financial assets with credit risk exposure (continued)

(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. (Amounts are in TZS' Millions):

31 December 2018	Financial institutions TZS '000	Manufacturing TZS '000	Trading and commercial TZS '000	Transport and communication TZS '000	Wholesale and retail TZS '000	Agriculture TZS '000	Individuals TZS '000	Others TZS '000	Total TZS '000
Balances with the Bank of Tanzania	23,898,892	-	-	-	-	-	-	-	**23,898,892**
Placement and balances with other banks	425,202	-	-	-	-	-	-	-	**425,202**
Investment in Government securities									
- Amortised cost	26,570,192	-	-	-	-	-	-	-	**26,570,192**
Loans and advances to customers:	-	-	50,769,445	-	24,204,882		8,021,294		**82,995,621**
Other assets (excluding prepayments)	-	-	-	-	-	-	-	4,605,748	**4,605,748**
As at 31 December 2018	**50,894,286**	**-**	**50,769,445**	**-**	**24,204,882**	**-**	**8,021,294**	**4,605,748**	**138,495,655**

Credit risk exposures relating to off-balance sheet assets are as follows:

Undrawn commitments	-	-	**874,578**	-	-	-	-	-	**874,578**
As at 31 December 2018	-	-	**874,578**	-	-	-	-	-	**874,578**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (Continued)

5.1.10 Concentration of risks of financial assets with credit risk exposure (continued)

(b) Industry sectors (continued)

31 December 2017	Financial institutions	Manufacturing	Trading and commercial
	TZS '000	TZS '000	TZS '000
Balances with the Bank of Tanzania	22,851,981	-	-
Placement and balances with other banks	6,611,250	-	-
Investment in Government securities			
- at amortised cost	19,177,226		-
Loans and advances to customers:	-	-	78,961,678
Other assets (excluding prepayments)			5,734,287
As at 31 December 2017	48,640,457		84,695,965

Credit risk exposures relating to off-balance sheet assets are as follows:

Guarantees and indemnities - (Note			
Undrawn commitments (Note)	-	-	-
Acceptances and letters of credit (Note)			2,040,566
As at 31 December 2017	**-**	-	2,040,566

Transport and communication	Wholesale and retail	Agriculture	Individuals	Others	Total
TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
-	-	-	-	-	22,851,981
-	-	-	-	-	6,611,250
-	--	-	-	-	19,177,226
-	5,049,555	-	10,177,527	7,588,765	101,777,524
-	-	-	-	269,115	6,003,402-
-	5,049,555	-	10,177,527	7,857,880	156,421,384
-	830,109	-	372,594	-	1,202,703
-	-	-	-	1,020,283	--
-	830,109	-	372,594	1,020,283	3,060,849

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk

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

The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Banks Assets and Liability Committee (ALCO) and heads of department.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the Bank's retail and corporate banking assets and liabilities.

5.2.1 Foreign exchange risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.1 Foreign exchange risk (continued)

Concentrations of currency risk - on - and off - balance sheet financial instruments:

As at 31 December 2018	USD TZS'000	EURO TZS'000	GBP TZS'000	Others TZS'000	Total TZS'000
Assets					
Cash and balances with Bank of Tanzania	2,969,311	18,885		10,732	**2,998,928**
Placement and balances with other banks		227,924	-	-	**227,924**
Loans and advances to customers	1,931,612	-	-	-	**1,931,612**
Other assets (excluding prepayments)	-	-	-	-	**-**
Total financial assets	**4,900,923**	**246,809**	**-**	**10,732**	**5,158,464**
Liabilities					
Deposits from customers	4,907,646	88,132	2,828.	0	**4,998,606**
Other liabilities (excluding non-financial other liabilities)	-	42,170	-	-	**42,170**
Total financial liabilities	**4,907,646**	**130,302**	**2,828**	**-**	**5,040,776**
Net on-balance sheet financial position	**6,723**	**116,507**	**- 2,828**	**10,732**	**117,688**
Off balance sheet position					
Undrawn commitments	-	-	-	-	-
	-	**-**	**-**	**-**	**-**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.1 Foreign exchange risk (continued)

Concentrations of currency risk - on - and off - balance sheet financial instruments:

As at 31 December 2017	USD	EURO	GBP	Others	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Assets					
Cash and balances with Bank of Tanzania	4,882,923	13,777	126,300	46,201	5,069,201
Placement and balances with other banks	159,475	485,539	13,310	-	658,324
Loans and advances to customers	3,109,340				3,109,340
Other assets (excluding prepayments)	-	-	-	-	
Total financial assets	8,151,738	499,316	139,610	46,201	8,836,865
Liabilities					
Deposits from customers	9,553,618	-	-	-	9,553,618
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	-
Total financial liabilities	9,553,618	-	-	-	9,553,618
Net on-balance sheet financial position	(1,401,880)	499,316	139,610	46,201	(716,753)
Off balance sheet position					
Guarantee and indemnities	2,330,597				2,330,597
Undrawn commitments	-	-	-	-	
	2,330,597	-	-	-	2,330,597

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.1 Foreign exchange risk (continued)

Foreign exchange sensitivity analysis

The impact of fluctuation of Bank's post tax profit for the year resulting from foreign exchange movements, keeping all other variables held constant on translation of foreign currency dominated cash and balances with the Bank of Tanzania, placements and balances with other banks, loans and deposits from customers and other banks is analysed in the table below

	% change in exchange rate	2018 TZS'000	2017 TZS'000
USD	10%	(6,723)	140,188
EURO	10%	116,507	(49,932)
GBP	10%	(2,828)	(13,961)

The effect of translation of placements and balances with other banks in Kenyan shillings is not considered to be significant.

5.2.2 Interest rate risk

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

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Bank's Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly by the Bank. The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

As at 31 December 2018	Up to 1 month TZS'000	1 - 3 months TZS'000	3 - 12 months TZS'000	1 - 5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
Assets						
Cash and balances with Bank of Tanzania	-	-	-	-	23,898,892	**23,898,892**
Investment in Government securities						
- Amortised cost	10,725,734	8,128,792	7,715,666	-	-	**26,570,192**
Placement and balances with other banks	-	-	-	-	425,202	**425,202**
Loans and advances to customers	17,551,415	3,359,936	34,906,945	27,177,326	-	**82,995,621**
Equity Investments					20,000	20,000
Other assets (excluding prepayments)	-	-	-	-	4,605,748	**4,605,748**
Total financial assets	**28,277,149**	**11,488,728**	**42,622,611**	**27,177,326**	**28,949,842**	**138,515,655**
Liabilities						
Deposits from other banks	10,520,770	-	-	-	-	**10,520,770**
Deposits from customers	51,949,921	10,724,832	17,849,434	171,682	39,219,927	**119,915,796**
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	2,,000,032	**2,000,032**
Total financial liabilities	**62,470,691**	**10,724,832**	**17,849,434**	**171,682**	**39,219,927**	**132,436,598**
Total interest repricing gap	**(34,193,542)**	**763,896**	**24,773,177**	**27,005,644**	**(10,270,085)**	**6,079,057**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Market risk (continued)

5.2.2 Interest rate risk (continued)

As at 31 December 2017	Up to 1 month TZS '000	1 - 3 months TZS '000	3 - 12 months TZS '000	1 - 5 years TZS '000	Non-interest bearing TZS '000	Total TZS '000
Assets						
Cash and balances with Bank of Tanzania	-	-	-	-	32,199,247	32,199,247
Investment in Government securities						
Held-to-maturity	2,480,398	5,645,583	11,031,245	-	-	19,197,226
Placement and balances with other banks	5,501,726	-	-	-	1,109,524	6,611,250
Loans and advances to customers	6,897,652	6,652,037	48,684,825	39,543,010	-	101,777,524
Equity Investments	-	-	-	-	20,000	20,000
Other assets (excluding prepayments)	-	-	-	-	6,003,402	6,003,402
Total financial assets	**14,879,776**	**12,297,620**	**59,716,070**	**39,543,010**	**39,332,173**	**165,788,649**
Liabilities						
Deposits from customers	61,427,880	17,103,488	27,427,947	279,040	47,202,584	153,440,939
Deposit from banks	-	-	-	-	-	-
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	2,813,364	2,813,364
Total financial liabilities	**61,427,880**	**17,103,488**	**27,427,947**	**279,040**	**50,015,948**	**156,254,303**
Total interest repricing gap	**(46,548,104)**	**(4,805,868)**	**32,288,123**	**39,263,969**	**(10,683,775)**	**9,534,346**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk

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

5.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Bank's Asset and Liability Committee (ALCO), includes:

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

Monitoring and reporting take the form of 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 (Notes 6.3.3).

5.3.2 Funding approach

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

5.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the end of reporting period. The amounts disclosed in the table below are the undiscounted cash flows of liabilities and assets held for managing liquidity risk.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk (Continued)

5.3.3 Non-derivative cash flows (Continued)

As at 31 December 2018	Up to1 month	1 - 3 months	3 - 12 months	Over 1 year	Total
Liabilities	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Deposits from customers	91,208,203	10,901,344	18,961,764	193,739	**121,265,050**
Placements and balances from BOT	10,540,419	-	-	-	**10,540,419**
Other liabilities (excluding non-financial liabilities)	2,994,309	-	-	-	**2,994,309**
Total liabilities	**104,742,931**	**10,901,344**	**18,961,764**	**193,739**	**134,799,778**
Assets held for managing liquidity	**48,083,252**	**11,488,728**	**42,622,611**	**36,321,065**	**138,515,656**
As at 31 December 2017					
Liabilities					
Deposits from customers	108,630,465	17,103,488	27,427,947	279,040	153,440,939
Other liabilities (excluding non-financial liabilities)	2,813,364	-	-	-	2,813,364
Total liabilities	111,443,829	17,103,488	27,427,947	279,040	156,524,303
Assets held for managing liquidity	45,680,497	12,297,488	59,716,071	39,563,009	157,257,197

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Liquidity risk (Continued)

5.3.4 Assets held for managing liquidity risk

The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with the Bank of Tanzania (excluding SMR);
- Investment in government securities; and
- Placements with other banks:

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.

5.4 Off-balance sheet items

(a) Undrawn commitments, outstanding letters of credit, guarantee and indemnities

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities (Note 35) are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 35) are also included below based on the earliest contractual maturity date.

	No later than 1 year TZS'000	1 - 5 years TZS'000	Total TZS'000
As at 31 December 2018			
Guarantee and indemnities	-	-	-
Undrawn commitments	874,578	-	874,578
Total	**874,578**	**-**	**874,578**
As at 31 December 2017			
Guarantee and indemnities	3,060,849	-	3,060,849
Undrawn commitments	1,202,703	-	1,202,703
Total	4,263,553	-	4,263,553

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Fair value of financial assets and liabilities

5.5.1 Fair value estimation

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

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

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

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

There were no transfers between the levels during the year.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Fair value of financial assets and liabilities (Continued)

5.5.1 Fair value estimation (Continued)

Fair value of financial assets and liabilities that are not measured at fair value

Cash and balances with Bank of Tanzania

The carrying amount of cash and balances with Bank of Tanzania is a reasonable approximation of fair value

Investment in government securities

Investment in government securities includes treasury bonds and treasury bills. The fair value of government securities has been determined by discounting the estimated future cash flows expected cash flows at current market yields as observed from rates of similar bills and bonds traded by Bank of Tanzania.

Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight advances is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing advances is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

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.

Deposits from banks and customers

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

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

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Fair value of financial assets and liabilities (Continued)

5.5.1 Fair value estimation (Continued)

Fair value of financial assets and liabilities that are not measured at fair value (continued)

		Carrying amount		Fair value	
		2018	2017	2018	2017
	Hierarchy level	TZS'000	TZS'000	TZS'000	TZS'000
Financial assets					
Cash and balances with Bank of Tanzania	**Level 2**	**23,898,892**	32,199,247	**23,898,892**	32,199,247
Government securities – Loans and receivable (Treasury bills)	**Level 2**	**26,570,192**	19,177,226	**26,570,192**	19,177,226
Placement and balances with other banks	**Level 2**	**425,202**	6,611,250	**425,202**	6,611,250
Loans and advances to customers	**Level 3**	**82,995,621**	101,777,524	**82,995,621**	101,777,524
Other assets (excluding prepayment)	**Level 3**	**4,605,748**	6,003,400	**4,605,748**	6,003,400
		138,495,655	165,768,647	**138,495,655**	165,768,647
Financial liabilities					
Deposits from customers	**Level 3**	**119,915,796**	153,440,939	**119,915,796**	153,440,939
Deposits from banks	**Level 2**	**10,520,770**	-	**10,520,770**	-
Other liabilities (Excluding non-financial other liabilities)	**Level 3**	**2,955,497**	3,626,950	**2,955,497**	3,626,950
		133,392,063	157,067,889	**133,392,063**	157,067,889

There was no transfer of assets between the fair value hierarchy levels

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Capital management

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

- To comply with the capital requirements set by the Bank of Tanzania (BoT);
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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 (BoT), for supervisory purposes. The required information is filed with the BoT on a monthly basis.

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

(a) Hold a minimum level of core capital of TZS 15 billion;

(b) Maintain a ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets or above the required minimum of 10%; and

(c) Maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

(d) Maintain a capital conservation buffer of 2.5% of risk-weighted assets and off-balance sheet exposures from August 2018. The capital conservation buffer is be made up of items that qualify as tier 1 capital.

When a bank is holding capital conservation buffer of less than 2.5% of risk-weighted assets and off-balance sheet exposures but is meeting its minimum capital requirements that bank:

- Shall not be distribute dividends to shareholders or bonuses to senior management and other staff members until the buffer is restored to at least 2.5%;
- Shall submit a capital restoration plan to Bank of Tanzania within a period specified by BoT, indicating how the bank is going to raise capital to meet its minimum requirement including capital conservation buffer within a specified period of time; and
- In the event that BoT does not approve the capital restoration plan, it may direct the bank to raise additional capital within a specified time period in order to restore its capital conservation buffer.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Capital management (Continued)

The Bank's regulatory capital is divided into two tiers:

- **Tier 1 capital:** means permanent shareholders' equity in the form of issued and fully paid ordinary shares, and perpetual non-cumulative preference shares, capital grants and disclosed reserves less year to date losses, goodwill organization, pre-operating expenses, prepaid expenses, deferred charges, leasehold rights and any other intangible assets.
- **Tier 2 capital:** means general provisions which are held against future, presently unidentified losses and are freely available to meet losses which subsequently materialize, subordinated debts, cumulative redeemable preferred stocks and any other form of capital as may be determined and announced from time to time by the Bank.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature 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-balance sheet 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 2018 and year ended 31 December 2017. During those two periods, the Bank has not complied with all of the externally imposed capital requirements to which they are subject.

	Note	2018 TZS'000	2017 TZS'000
Tier 1 capital			
Share capital	27	**8,607,135**	8,607,135
Share premium		**2,431,917**	2,431,917
Retained earnings		**7,546,745**	12,981,019
Less: Prepaid expenses		**(1,190,859)**	(2,437,303)
Less: Intangible assets	21	**(712,320)**	(267,373)
Less: Deferred tax assets	23	**(7,825,685)**	(6,160,721)
Total qualifying Tier 1 capital		**8,856,933**	15,154,674

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Capital management (Continued)

	Note	2018 TZS'000	2017 TZS'000
Tier 2 capital			
General risk reserve		**779,217**	843,314
Total qualifying Tier 2 capital		**779,217**	843,314
Total regulatory capital		**9,636,150**	15,997,988

	2018 TZS' 000	2017 TZS' 000
Risk-weighted assets		
On-balance sheet	**86,085,246**	**106,012,201**
Off-balance sheet	**874,578**	**2,750,904**
Operational risk	**27,624,851**	**38,578,916**
Market risk	**215,547**	**76,684**
Total risk-weighted assets and operational and market risk	**114,800,222**	**147,418,705**
	Bank's ratio **2017** %	Bank's ratio 2016 %
Tier 1 capital (BOT minimum 12.5%)	**7.72%**	10.28%
Tier 1 + Tier 2 capital (BOT minimum 14.5%)	**8.39%**	10.85%

Capital injection and growth plans

Akiba has made significant progress in 2018 and specifically in recent months, to strengthen its financial performance and to control and fully provision a problematic legacy corporate portfolio. Emphasis is placed on positioning the bank as the "Go-to" bank for Micro Small and Medium Enterprises (MSMEs).

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Capital management (Continued)

Based on these positive developments, the capital restoration plan for Akiba Commercial Bank rests on three elements which are briefly summarised below. Each of these would result in raising additional capital to help improve capital adequacy for the bank and to support growth plans in 2019 and beyond.

The three approaches being used to raise additional capital by Management and the Board are described below:

1. **Raise capital from existing shareholders and through private placements:** In addition to the already raised capital from existing local shareholders, as a result of the rights issue, Akiba is aiming to attract an additional capital from existing shareholders and potential local individual investors.
2. **New investor(s) are being invited to acquire shares in the bank:** The Board has entered into discussions/negotiations with investors (both local and international) for possible investment in Akiba.
3. Partnership with other financial institutions that have similar client focus and strategy.

The agreed capital restoration plan coupled with the performance improvement strategies will ensure sufficient capitalization of the Bank in 2019 and beyond which will support planned growth in the future.

6. INTEREST INCOME

	2018	2017
	TZS 000	TZS 000
Interest on loans and advances to customers	**26,690,809**	33,166,656
Income from government securities	**2,020,442**	2,175,749
Interest from placement with other banks	**9,891**	136,000
	28,721,142	35,478,405

NOTES (CONTINUED)

7. INTEREST EXPENSE

	2018 TZS 000	2017 TZS 000
Saving deposits	**1,056,076**	1,142,129
Time deposits	**4,115,084**	7,077,410
Other borrowings	**213,555**	335,769
	5,384,715	8,555,308

8. FEES AND COMMISSION INCOME

	2018 TZS 000	2017 TZS 000
Commission income	**1,749,845**	1,910,801
ATM card	**173,574**	264,513
ATM fees	**179,592**	181,737
Loans commitment fees	**1,911,980**	2,494,202
Legal fees	**429,620**	845,104
Premature loans	**50,668**	695,502
Withdrawal charges	**324,534**	333,879
Ledger fees	**2,033,146**	1,182,651
Telegraphic transfer	**77,548**	104,849
Salary processing	**53,864**	92,890
Other fees	**92,747**	81,072
	7,077,119	8,187,201

9. FOREIGN CURRENCY

Foreign currency trading	**90,216**	145,544

NOTES (CONTINUED)

10. OTHER OPERATING INCOME

	2018 TZS 000	2017 TZS 000
Insurance income	**662,363**	456,680
Profit on disposal of property and equipment	**103,136**	4,850
Other income	**53,817**	133,157
	819,316	594,687

11. EMPLOYEE BENEFITS EXPENSES

	2018 TZS 000	2017 TZS 000
Salaries and allowances	**11,996,415**	12,676,795
Social security costs	**1,224,227**	1,258,405
Medical insurance	**1,232,061**	1,260,958
Leave allowance	**136,998**	3,217
Staff welfare	**107,023**	406,226
Staff incentives provision/(reversal)	**93,040**	(114,526)
Skill and development levy	**538,230**	578,109
Workers Compensation Fund	**110,373**	116,179
Other staff cost	**561,729**	612,466
	16,000,096	16,797,829

NOTES (CONTINUED)

12. GENERAL AND ADMINISTRATIVE EXPENSES

	2018 TZS 000	2017 TZS 000
Operating leases	**3,507,133**	3,513,522
Umoja Switch expenses	**655,343**	677,987
Advertising and marketing	**340,453**	642,118
ICT expenses	**1,376,042**	1,466,881
Technical assistance fees	**2,151,980**	202,986
Auditors’ remuneration	**201,072**	203,877
Directors’ fees and other emoluments	**237,962**	208,700
Training	**138,513**	243,956
Travel and lodging	**370,382**	572,500
Maintenance equipment	**347,887**	444,004
Akiba Mobile expenses	**338,469**	201,994
Fuel Motor vehicles and generators	**462,575**	447,136
Telephones	**117,391**	130,613
Stationery expenses	**374,936**	405,847
Insurance	**432,403**	415,515
Subscription and professional fees	**393,183**	402,432
Legal expenses	**759,325**	711,983
Right Issues Expenses	**112,100**	-
Security	**1,052,289**	953,798
Premises expenses	**715,939**	1,275,471
Provision other assets	**(14,919)**	1,122,122
Postage and courier	**30,220**	38,572
Auctioneer commission	**280,809**	462,569
Miscellaneous expenses	**46,035**	124,486
	14,427,519	14,869,069

NOTES (CONTINUED)

13. DEPRECIATION AND AMORTISATION

	2018 TZS 000	2017 TZS 000
Depreciation (Note 21, 22 and 23)	**1,566,876**	1,585,459

14. INCOME TAX CREDIT

(a) Tax expense for the year is arrived at as follows:

Current income tax - current year	**-**	1,112,020
Current income tax -prior year	**-**	-
Deferred income tax - current year	**(1,183.162)**	(4,364,107)
Deferred income tax - prior periods	**(3,835)**	(232,266)
	(1,186,997)	(3,484,353)

(b) Reconciliation of tax expense to the expected tax based on accounting profit.

	2018 TZS 000	2017 TZS 000
Accounting loss before tax	**(3,727,050)**	(10,890,843)
Tax calculated at the statutory income tax rate of 30%	**(1,118,115)**	(3,267,253)
Tax effect of:		
Expenditure permanently disallowed	**4,513**	12,933
Other permanent differences	**(69,561)**	2,233
Prior year deferred tax under-provision	**(3,834)**	(232,266)
Income tax credit	**(1,186,997)**	(3,484,353)

NOTES (CONTINUED)

14. INCOME TAX CREDIT (CONTINUED)

(c) Current income tax

	2018 TZS 000	2017 TZS 000
At 1 January	**(3,111,881)**	(786,457)
Payments made during the year	**-**	5,010,358
Charge to profit or loss	**-**	(1,112,020)
	(3,111,881)	3,111,881

15. CASH AND BALANCES WITH THE BANK OF TANZANIA

	2018 TZS 000	2017 TZS 000
Cash balances	**6,643,116**	9,347,266
Balances with Bank of Tanzania:		
Clearing account - local currency	**5,967,676**	7,741,423
Clearing account - foreign currency	**2,164,361**	3,620,292
Statutory minimum reserve (SMR)	**9,123,739**	11,490,266
Current	**23,898,892**	32,199,247

The SMR deposit is not available to finance the Bank's day-to-day operations and is excluded from cash and cash equivalents for the purpose of the cash flow statement (Note 27). Cash and balances with Bank of Tanzania are non-interest bearing.

NOTES (CONTINUED)

16. LOANS AND ADVANCES TO BANKS

	2018 TZS 000	2017 TZS 000
Placement with local banks	**-**	5,501,523
Balance with foreign banks	**227,924**	658,324
Cheques and items in the course of clearing	**196,921**	451,403
Balances with local banks	**357**	-
Current	**425,202**	6,611,250

17. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers	**94,560,735**	112,093,533
Staff loans	**5,714,970**	7,635,854
Gross loans and advances	**100,275,706**	119,729,387
Less: allowance for impairment	**(17,280,084)**	(17,951,863)
	82,995,621	101,777,524

Gross loans and advances to customers by class are as follows:

Micro and Small Enterprises (MSEs)	**66,693,192**	82,690,461
Consumer loans	**2,328,578**	4,156,376
Term loans	**24,204,882**	19,530,788
Overdrafts	**7,049,054**	13,351,762
	100,275,706	119,729,387

NOTES (CONTINUED)

17. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2018 TZS 000	2017 TZS 000
Analysis of loans and advances to customers by maturity		
Maturing:		
Within 1 year	**55,818,295**	62,234,515
Between 1 year and 5 years	**27,177,326**	39,543,009
	82,995,621	101,777,524

Reconciliation of allowance account for losses on loans and advances is as follows:

Balance at 1 January	**17,951,863**	4,690,640
IFRS 9Adjustment 01.01.2018	**1,593,220**	-
Impairment losses for the year	**3,184,175**	13,770,669
Loans and advances written off during the year	**(5,449,174)**	(509,476)
	17,280,084	17,951,863

Reconciliation of allowances account for losses on loans and advances by class is as follows:

	Individual (retail) customers		Corporate entities		
	Small and Medium Enterprises TZS 000	**Consumer TZS 000**	**Term loans TZS 000**	**Overdrafts TZS 000**	**Total TZS 000**
Balance at 1 January 2018	10,275,290	806,859	3,672,785	3,196,929	17,951,863
IFRS 9 Day one adjustment	355,019	54,720	389,752	793,729	1,593,220
Increase in provision for loan impairment	2,965,612	424,065	434,383	228,881	3,184,175
Write offs	(5,187,462)	(261,712)	-	-	5,449,174
At 31 December 2018	**8,408,459**	**969,212**	**3,497,975**	**4,219,539**	**17,280,084**

NOTES (CONTINUED)

17. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	Individual (retail) customers		Corporate entities		
	Small and Medium Enterprises TZS 000	**Consumer TZS 000**	**Term loans TZS 000**	**Overdrafts TZS 000**	**Total TZS 000**
Balance at 1 January 2017	3,564,019	397,268	351,027	378,326	4,690,640
Increase in provision for loan impairment	6,821,399	409,591	3,665,567	2,818,603	13,770,699
Write offs	(110,128)		(343,809)		(509,476)
At 31 December 2017	**10,275,290**	**806,859**	**3,672,785**	**3,196,929**	**17,951,863**

	2018 TZS 000	2017 TZS 000
The provision as at year is made up of the following:		
Stage 3 (allocated impairment)	**15,255,557**	17,550,908
Stage 1 and 2 (unallocated impairment)	**2,024,527**	400,955
	17,280,084	17,951,863

Impairment charge to profit or loss is broken down as follows:

Impairment charges for credit losses	**3,184,175**	13,770,699
Amounts recovered during year	**(128,539)**	(281,684)
Charge to profit or loss	**(3,055,637)**	13,489,015

18. GOVERNMENT SECURITIES

Treasury bills:		
Maturing after 91 days	**26,570,192**	19,177,226
Current	**26,570,192**	19,177,226

Treasury bills are debt securities issued by the Government of the United Republic of Tanzania and are classified as loans and receivables. All above securities are current.

NOTES (CONTINUED)

19. UNQUOTED EQUITY INVESTMENT

	2018	2017
	TZS 000	TZS 000
Investment in shares	**20,000**	20,000

Investments in shares represent 20 ordinary shares in Umoja Switch Company Limited. The investment represents 9.1% of the Company's total issued and paid up ordinary share capital. The shares are measured at fair value through OCI. As at reporting date there were no material change of the carrying amount.

UmojaSwitch Company Limited is a jointly controlled operation whereby 11 banks have pulled together resources to invest in a nationwide ATM network. Each bank has an equal voting right in respect of decision making.

20. PROPERTY AND EQUIPMENT

31 December 2018	**Motor vehicles TZS 000**	**Fixtures fittings and equipment TZS 000**	**Total TZS 000**
COST			
At start of year	**1,459,904**	**9,293,810**	**10,753,714**
Additions	**-**	**373,679**	**373,679**
Disposal	**(318,294)**	**(37,997)**	**(356,291)**
Adjustment	**-**	**(1,920)**	**(1,920)**
At end of year	**1,141,610**	**9,627,572**	**10,769,182**
DEPRECIATION			
At start of year	**1,105,915**	**7,089,722**	**8,195,637**
Charge for the year	**139,349**	**827,819**	**967,168**
Disposals	**(318,294)**	**(37,931)**	**(356,224)**
Adjustment	**-**	**(2,242)**	**(2,242)**
At end of year	**926,971**	**7,877,368**	**8,804,338**
NET BOOK VALUE			
At end of year	**214,640**	**1,750,204**	**1,964,844**

NOTES (CONTINUED)

20. PROPERTY AND EQUIPMENT (CONTINUED)

31 December 2017	Motor vehicles TZS 000	Fixtures fittings and equipment TZS 000	Total TZS 000
COST			
At start of year	1,253,282	8,777,786	10,031,068
Additions	206,622	577,202	783,824
Disposal	-	(68,298)	(68,298)
Reclassification from Leasehold improvements	-	7,322	7,322
Adjustment	-	(202)	(202)
At end of year	1,459,904	9,293,810	10,753,714
DEPRECIATION			
At start of year	960,943	6,271,389	7,232,332
Charge for the year	144,972	885,329	1,030,301
Disposals	-	(67,387)	(67,387)
Adjustment	-	391	391
At end of year	1,105,915	7,089,722	8,195,637
NET BOOK VALUE			
At end of year	353,989	2,204,088	2,558,077

None of the premises and equipment has been pledged as security for liabilities (2017: Nil).

NOTES (CONTINUED)

21. INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2018	2017
	TZS 000	TZS 000
COST		
At start of year	**3,029,835**	2,850,834
Additions	**542,595**	179,001
At end of year	**3,572,430**	3,029,835
AMORTIZATION		
At start of year	**2,762,463**	2,709,203
Current year charge	**97,648**	53,260
At end of year	**2,762,463**	2,762,463
NET BOOK VALUE	**712,320**	267,373

22. LEASEHOLD IMPROVEMENTS

	2018	2017
	TZS 000	TZS 000
COST		
At start of year	**6,492,196**	6,336,118
Additions	**40,553**	163,400
Disposal/Write-Offs	**(103,695)**	-
Reclassification to Property and Equipment	**-**	(7,322)
At end of year	**6,492,196**	6,492,196
AMORTIZATION		
At start of year	**4,190,732**	3,696,477
Current year charge	**502,019**	506,618
Adjustment	**-**	(12,363)
At end of year	**4,692,751**	4,190,732
NET BOOK VALUE	**1,736,304**	2,301,464

NOTES (CONTINUED)

23. DEFERRED INCOME TAX

Deferred income tax is calculated on all temporary differences under the liability method using a principal tax rate of 30%. The movement on the deferred income tax account is as follows:

	2018	2017
	TZS 000	TZS 000
At start of year	**6,160,721**	1,564,348
Prior years credit to profit or loss	**3,835**	232,266
Deferred tax on IFRS 9 Day 1 Impact	**477,966**	-
Current year credit to profit or loss	**1,183,163**	4,363,107
At the end of year	**7,825,685**	6,160,721

Deferred income tax liabilities and deferred income tax charge to the profit and loss account are attributed to the following items:

	1 January	Deferred tax on Day 1 Impact	(Debit)/Credit to profit or loss	31 December
	TZS '000	TZS '000	TZS '000	TZS' 000
2018				
IFRS 9 day 1 impairment		**477,966**		**477,966**
Tax losses	**-**	**-**	**1,767,661**	**1,767,661**
Property and equipment	**250,757**	**-**	**122,653**	**373,410**
Other timing differences	**5,909,964**	**-**	**(703,316)**	**5,206,648**
	6,160,721	**477,966**	**1,186,997**	**7,825,685**
2017				
Property and equipment	178,713	-	72,044	250,757
Other timing differences	1,385,635	-	4,524,329	5,909,964
	1,564,348	-	4,596,373	6,160,721

NOTES (CONTINUED)

24. OTHER ASSETS

	2018 TZS 000	2017 TZS 000
Float balance	**4,384,252**	6,004,287
Prepayments	**1,190,859**	2,437,303
Other receivables	**1,988,198**	1,564,518
Less: Provision for losses	**(1,491,104)**	(1,565,404)
Current	**6,072,205**	8,440,704

25. DEPOSITS FROM CUSTOMERS

Current accounts	**21,722,761**	26,205,325
Biashara accounts	**17,497,166**	20,997,261
Savings accounts	**44,704,063**	52,475,081
Time deposit accounts	**35,002,128**	51,310,681
Solidarity savings	**989,677**	2,452,591
	119,915,796	153,440,939

MATURITY ANALYSIS:

Payable within three months	**99,890,747**	125,733,952
Payable within three to twelve months	**19,853,368**	27,427,947
Payable over one year	**171,682**	279,040
	119,915,796	153,440,939

NOTES (CONTINUED)

26. OTHER LIABILITIES

	2018	2017
	TZS 000	TZS 000
Statutory deductions	**372,919**	483,781
Other tax payables	**621,358**	879,665
Bills payable	**61,708**	63,616
Deferred facility fees	**253,014**	329,805
Accrued leave	**177,523**	182,615
Other accrued expenses	**606,696**	594,004
Trade creditors	**358,973**	477,864
Auditors fees payable	**131,636**	151,425
Directors fees payable	**274,700**	235,289
Dividend payable	**45,436**	46,260
Mobile service payable	**8,709**	6,621
Loan insurance premium	**5,821**	45,878
Customer suspense	**5,406**	36,440
Other accounts payable	**70,410**	93,687
	2,994,309	3,626,950
Current	**2,994,309**	3,505,212
Non-current	**-**	121,738
	2,994,309	3,626,950

NOTES (CONTINUED)

27. CASH AND CASH EQUIVALENT

	2018 TZS 000	2017 TZS 000
Cash and balances with Bank of Tanzania (Note 15)	**23,898,892**	32,199,247
Less: Statutory Minimum Reserves (Note 15)	**(9,123,739)**	(11,490,266)
Mobile float balance	**4,384,252**	6,004,287
Loans and Advances to Banks (Note16)	**425,202**	6,611,250
Current	**19,584,607**	33,324,518

28. SHARE CAPITAL

Authorised		
100,000,000 ordinary shares of TZS 1,000 each	**100,000,000**	100,000,000
Issued and fully paid		
8,607,135 (2017: 8,607,135) ordinary shares of TZS 1,000 each	**8,607,135**	8,607,135

For purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 3 months' maturity from the date of acquisition including: cash and balances with Bank of Tanzania, Government securities, and deposits and balances due from Banking instructions. Cash and cash equivalents exclude the Statutory Reserve requirement held with the Bank of Tanzania.

NOTES (CONTINUED)

29. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

In common with other Banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Acceptances are a draft or bill of exchange drawn upon and accepted by a Bank.

Guarantees are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customer's default.

At the end of the reporting period the Bank had no outstanding Acceptances, guarantees and letters of credit (2017: TZS 3.1 billion).

Commitments to extend credit

At the end of the reporting period the Bank had outstanding commitments to extend credit amounting to TZS 0.9 billion (2017: TZS 1.2 billion).

Legal claims

The Bank is currently involved in legal proceedings and has in consultation with its legal counsel assessed the outcome of these proceedings. Following this assessment, the Bank's management has determined that a provision of TZS 306 million (2017: TZS 483 million). Litigations, current or pending, are not likely to have a material adverse effect to the Bank.

Various employees have sued the Bank for unfair dismissal. Furthermore, some loan customers have also sued the Bank. In the opinion of the Directors, in combination with the Bank's legal advisors, the ultimate liability to the Bank in respect of the amounts claimed in these two situations is not expected to be material.

Capital commitments

There were no capital commitments authorized as at year end.

NOTES (CONTINUED)

29. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Operating lease commitments

At the end of the reporting date, the Bank had outstanding commitments under operating leases, payable as follows:

	2018	2017
	TZS 000	TZS 000
Not later than 1 year	**2,279,394**	2,221,135
Later than 1 year but not later than 5 years	**7,293,055**	8,234,711
	9,572,449	10,455,846

Operating lease commitments represent rentals payable by the Bank for its office premises, branches and residence houses for employees. Leases are negotiated for an average term of one to three years during which rentals are fixed.

30. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

A number of Banking transactions are entered into with related parties in the normal course of business and on the Bank's normal commercial terms. The values of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

(i) Loans and advances to related parties

Advances to shareholders and their related companies were as follows:

	2018	2017
	TZS 000	TZS 000
At start of year	**393,989**	341,679
Net movement during the year	**544,2014**	52,310
At end of year	**938,193**	393,989
Interest income earned	**-**	73,810

Advances to key management personnel were as follows:

NOTES (CONTINUED)

30. RELATED PARTY DISCLOSURES (CONTINUED)

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

	2018 TZS 000	2017 TZS 000
At start of year	**428,128**	284,774
Net movement during the year	**(141,083)**	143,354
At end of year	**287,045**	428,128
Interest income earned	**15,861 -**	16,551

Loans and advances to related parties were fully performing as at 31 December 2018 and 31 December 2017.

(ii) Deposits from related parties

a) Deposits received from shareholders.	2018 TZS 000	2017 TZS 000
Inter Consult Limited	**22**	138,290
PPF Pensions Fund	**-**	4,519,836
ERNCON Holdings Limited	**8,340**	21,651
	8,363	4,679,777
At start of year	**4,679,777**	6,825,931
Net movement during the year	**(4,671,548)**	(2,146,154)
At end of year	**8,363**	4,679,777
Interest expense incurred	**-**	412,548

b) Deposits by Directors and key management personnel

At start of year	**235,675**	513,949
Net movement during the year	**(52,179)**	(278,274)
Balance as at 31 December	**183,496**	235,675
Interest expense incurred	**3,142**	3,457

NOTES (CONTINUED)

30. RELATED PARTY DISCLOSURES (CONTINUED)

(iii) Key management compensation

	2018 TZS 000	2017 TZS 000
Salaries	**1,374,848**	1,708,108
Other short-term benefits	**204,386**	425,999
	1,579,233	2,134,107

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, including any director of the Bank.

(iv) Directors' remuneration

Fees and other emoluments paid to Directors of the Bank during the period are as follows:

Name	2018 Directors fees TZS 000	2018 Other emoluments TZS 000	2017 Directors fees TZS 000	2017 Other emoluments TZS 000
Ernest Massawe	**16,145**	**14,250**	15,846	6,000
Joseph Rugumyamheto	**11,532**	**11,000**	11,218	10,500
Jean Marie Prevost	**11,532**	**15,000**	11,250	15,500
Brian Kuwik	**11,532**	**15,000**	11,250	11,000
John Fischer	**11,532**	**8,000**	11,250	5,000
Dr. Richard Kasungu	**11,532**	**15,000**	11,218	14,250
Selestine Joseph Some	**11,532**	**13,250**	11,218	9,000
Liesbeth Soer	**11,532**	**10,500**	11,250	11,000
Travelling/Lodging	**-**	**31,968**		31,950
	96,869	**133,968**	94,500	114,200

NOTES (CONTINUED)

31. COUNTRY OF INCORPORATION

The Banks incorporated under the Companies Act, 2002 and domiciled in Tanzania.

32. ASSETS PLEDGED AS SECURITY

As at 31 December 2018, treasury bills amounting to TZS 12,066 million were had been pledged by the Bank to secure liabilities the bank will liquidate the liability before maturity.

33. FAIR VALUE

The Directors consider that there is no material difference between the fair value and the carrying value of the Bank's financial assets and financial liabilities where fair value details have not been presented.

34. SUBSEQUENT EVENTS DISCLOSURE

At the date of signing the financial statements, the Directors are not aware of any other matter or circumstance arising since the end of the financial year, not otherwise dealt with in these financial statements, which significantly affected the financial position of the Company and results of its operations.

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