AKIBA COMMERCIAL BANK PLC

ANNUAL REPORT

& Financial Statements 2019

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Rising

Our sun sets to rise again

ANNUAL REPORT

& Financial Statements **2019**

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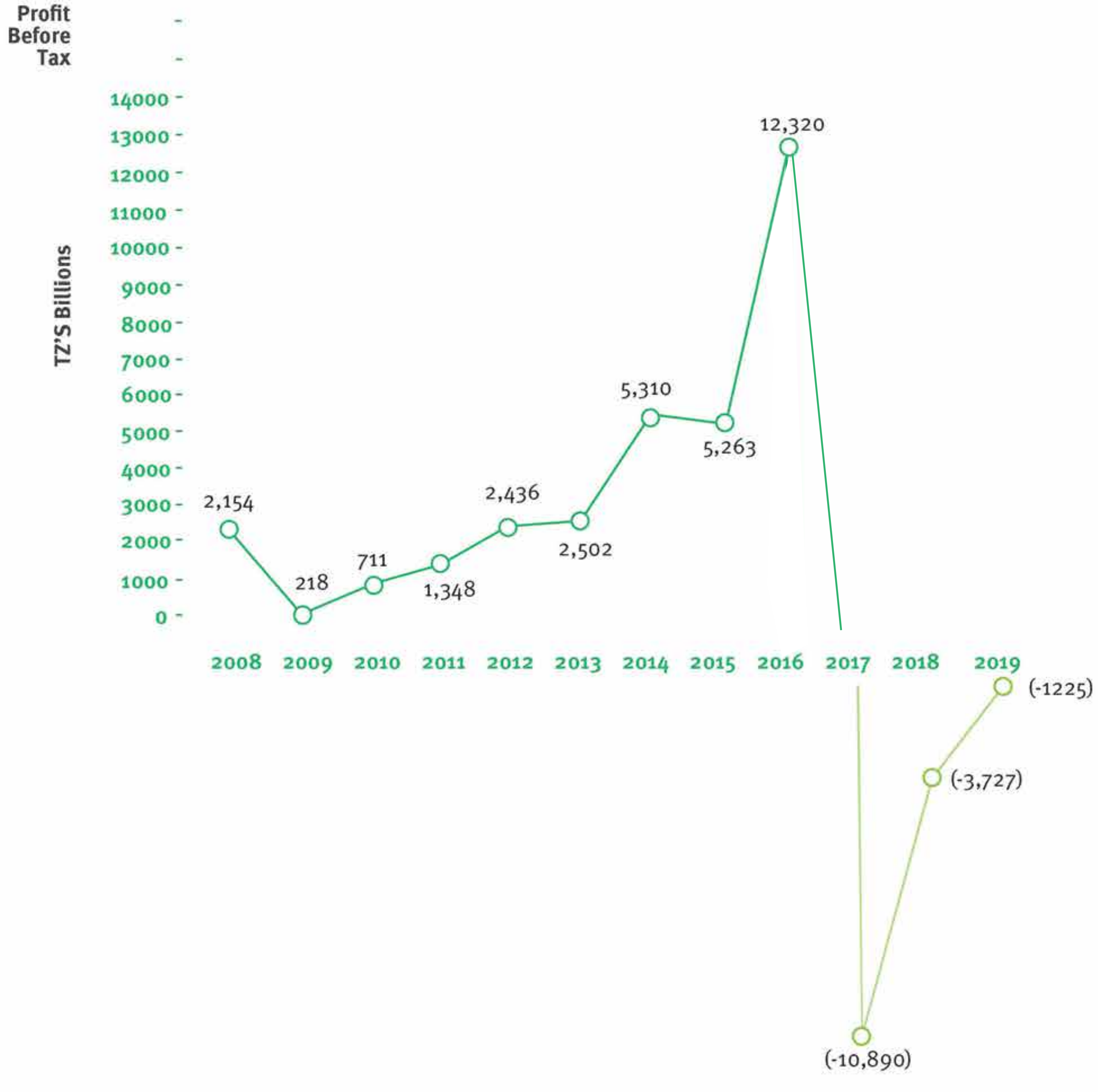
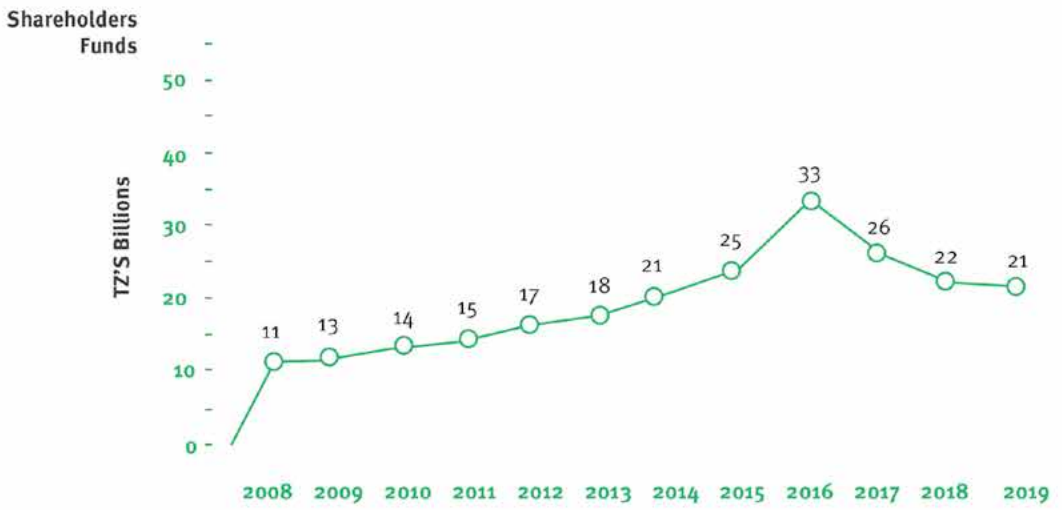
Key Business Area Highlights





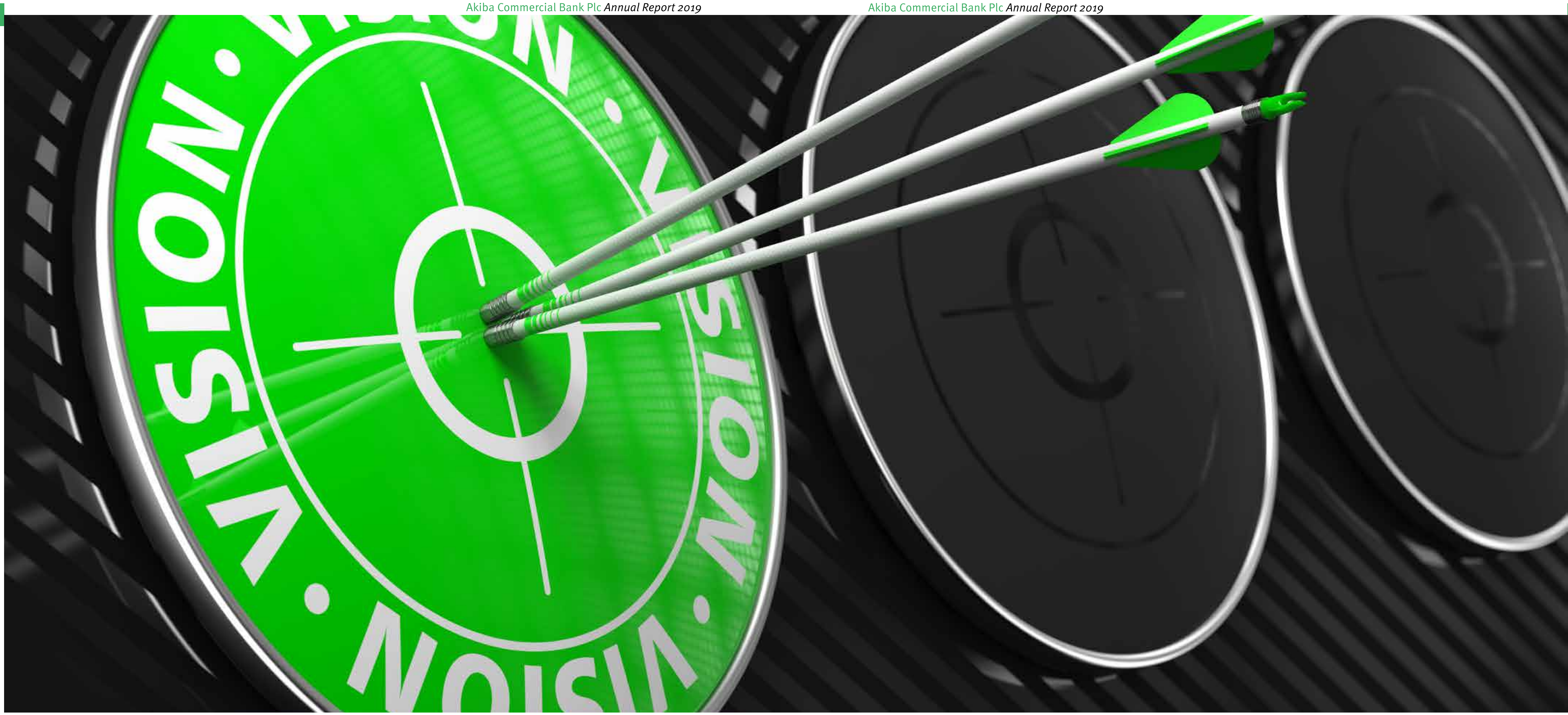
Letter of Transmittal

Dear Shareholders,

It is my pleasure, on behalf of Board of Directors, to present to you the Bank's Annual Report for the year 2019. 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.

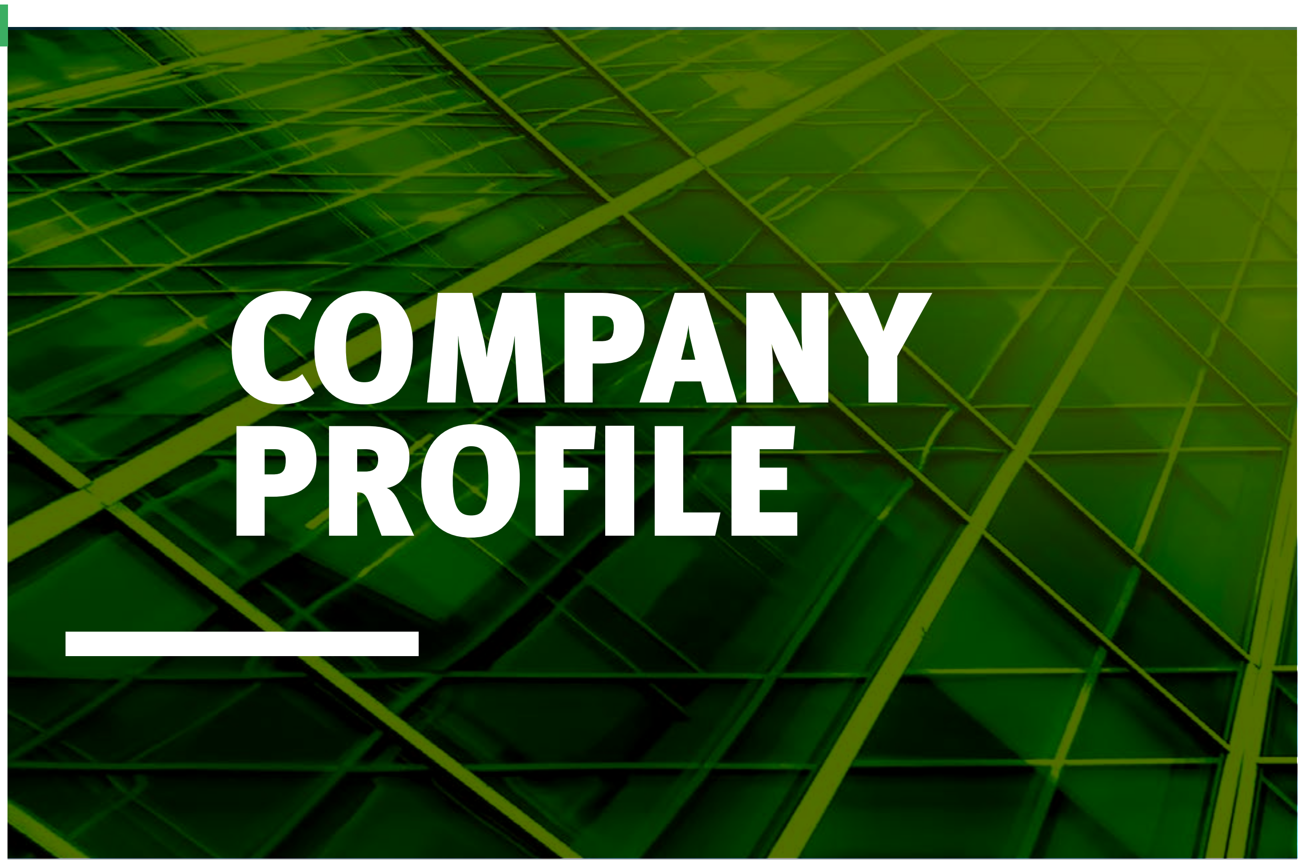
Yours faithfully,

Mr. Ernest Massawe
Board Chairman



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

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 to move into micro-finance, by the moral and economical concern for the plight of millions of Tanzanians. These founding members were bound together by a strong conviction that in Akiba Commercial Bank they will have the vehicle through which they would reach and help transform the lives of previously unbanked and commercially ill-equipped people around the country.

The bank's essence was to support the emergence of start-up Tanzanian businesses through the provision of financial services at all levels by a Tanzanian-owned commercial bank which understood the people it aimed to serve and was committed to. This was the original, very firm and deep rooted mission of its founding members.

In order to strengthen the resource base of the bank, the founding members over time invited like-minded local and international investors to coalesce their resources, strengths, and expertise for the common vision of growing ACB's services and reach. These institutions were also invited because they were willing to participate actively without being driven by profits as their main objective, but rather they were committed to uplifting the economic status of Tanzanians irrespective of their socio-economic positions in life provided they had entrepreneurial skills that can be nurtured. ACB's target market is small and medium sized entrepreneurs, companies and community banks.

Today ACB has expanded its services beyond Dar es Salaam successfully establishing itself as a strong presence in the Tanzanian banking sector which has one of the highest numbers of banks in Africa. ACB has also broadened its reach enabling it to provide financial services to customers of all levels including college and university students, entire families, home owners, business owners, as well as private operations.

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

It is my pleasure to present to you the Bank's Annual Report and Financial Statements for 2019. It is the second year of implementing the Bank's turnaround strategy that aimed at boosting the business portfolio through enhanced efficiency in operational performances.

After recording positive results in 2018 the Bank continued to broaden its footprint in 2019 by attracting new customers outside the traditional core market. This was possible with implementation of various digital platforms that allowed the Bank to leverage on digital financial solutions and products. The Bank's digital transformation agenda has accelerated the accessibility and affordability of banking services to a wider spectrum of customers that were traditionally unbanked. Building from that foundation, the Bank continues to enhance a bouquet of products such as mobile banking, ATMs, Internet banking, Agency banking, Electronic Funds Transfers (EFTs) and other related products. All these already have positive results in diversifying the Bank's revenue streams by enhancing non-funded income.

Economic Trends

The National Bureau of Statistics (NBS) completed rebasing of national accounts statistics for Tanzania Mainland in February 2019, using 2015 as base year period.

The rebasing was done in order to comply with the 2008 System of National Accounts and other ratified United Nations agreements including International Standard of Industrial Classification (ISIC) and EAC benchmarks. This was done in order to comprehensively capture changes in the structure of the economy and ensure good quality of national accounts statistics.

As indicated in the Bank of Tanzania Financial Stability Report for December 2019 domestic economy performance continues to improve supported by stable macroeconomic environment, investment in infrastructure and manufacturing. The economic growth remained stable and among the highest in the region at 7.0 percent in 2019. This growth momentum was supported by accommodative monetary policy, improved business environment and investment in infrastructure. Subsequently, growth of credit to the private sector doubled to 11.1 percent in 2019 compared with 4.9 percent in 2018.

Inflation remained stable at an average of 3.4 percent in 2019, which is below the country medium term target of 5.0 percent and within convergence criteria of the EAC of not more than 8.0 percent and a range of 3.0 and 7.0 percent for SADC.

Banking sector highlights

The banking sector remained resilient throughout 2019 as the Bank of Tanzania maintained sound fiscal and monetary policies to ensure stability and profitability. The quality of banking assets improved, as the ratio of non-performing loans to gross loans declined from 10.7 percent in 2018 to 10.4 percent in 2019.

In 2019, BOT issued various circulars, targeting to stimulate liquidity in banking sector, including reduced statutory minimum reserve (SMR) rate on non-central government deposits and borrowings held by banks from 8% to 7%.

This was done to allow banks to utilize up to 20% of their required SMR during the 14-day maintenance period up from 10% that had been previously operational.

The revisions eased liquidity, boosting credit extension to the private sector by banks. The overnight market was also fairly liquid throughout the year with inter-bank rates averaging at 4.8% in 2019 compared to 1.9% in 2018.

Other regulations issued in 2019 by BOT include ; the Bank of Tanzania Financial Consumer Protection Regulations 2019 and Microfinance (Non-Deposit Taking Microfinance Service Providers) Regulations 2019, the Microfinance (Savings and Credit Cooperative Societies) Regulations 2019 and Microfinance (Community Microfinance Groups) Regulations 2019.

Furthermore, in 2019 the BOT directed the banks to implement capital restoration plans and adhere to the regulatory requirements.

According to the BOT's Financial Stability report for December 2019, the banking sector assets grew by 8.8 percent to TZS 33,067.3 billion as at the end of December 2019 compared to 2018, mainly driven by retail deposit mobilization efforts through agency banking and digital platforms as well as special programme financing deposits.

The ratio of core deposits to gross loans was 84.5 percent in 2019 compared to 90.1 percent in December 2018, implying that the risk of depending on core deposits as the major source of financing gross loans decreased.

Capital Challenges

I draw attention to the fact that the Bank's core capital as at 31 December 2019 was TZS 11 billion which is below the minimum regulatory capital required of TZS 15 billion.

The Bank effected a rights issue to its existing shareholders whereby, 2,377,281 shares were acquired that make the issued total shares of the Bank to stand at 10,984,416 shares in 2019 from 8,607,135 shares in 2018.

Recapitalization efforts are progressing positively with shareholders' approval for 75% stake acquisition of Akiba Commercial Bank Plc by National Bank of Malawi who will inject additional capital of $7.31 (equivalent to TZS 16.7 billion) into the Bank. Implementation of this transaction is awaiting statutory approvals from the relevant authorities.

Changes in the Board

The Bank's Board maintains high standards of management and corporate governance which we believe are key to delivering sustainable shareholder value and the Bank's long term success. As always, the Board continued to provide leadership through oversight of the Bank's strategy execution, internal controls, risk management and people management.

During the year Dr. Richard Kasungu representing Local Shareholders Forum (LSF) retired after serving in the board for two consecutive terms. On behalf of the Board, I appreciate his enormous contributions. I take this opportunity to wish him good health and prosperity in his future endeavours. On the other hand, we welcomed Ms. Catherine Kimaryo to the Board to replace Dr Kasungu. Her professional experience spans from various leadership roles in multilateral and private sector in emerging and frontier markets.

Conclusion and outlook

The Bank is well set to sail through 2020 despite consequences of COVID-19. According to the World Bank forecasts, the pandemic is expected to slow down the global economic growth for 2020.

To ensure our business is not compromised due to COVID-19, the Bank continues to advocate the use of alternate and digital platforms in delivering banking services to its customers.

More selective and conscious measures are being deployed in assessing credit facilities applications to overcome the risks associated with the covid 19 pandemic. Consideration and restructuring is being taken into account for most affected sectors to minimize the impact of non-performing loans.

We further look forward to leveraging more on technology and digital transformation to widen our footprints at a relatively low cost and innovate state of art products and services all geared towards attaining financial inclusion.

Appreciation

On behalf of the board of directors of Akiba, customers, staff and stakeholders, I extend our appreciation to the Bank of Tanzania (BOT) for continuing to support our efforts to address the capital deficiency challenge.

I also welcome our new customers who joined the bank in 2019. Additionally, I also recognise the trust of existing customers given to our bank for years. I believe that we have so many customers whom we have grown together through trusted partnership.

Ernest Massawe,
Board Chairman

The Board of Directors

Mr. Ernest Massawe
Board Chairman

Mr. Brian Kuwik
Director

Dr. Richard Kasungu
Director

Mr. Joseph Rugumyamheto
Director

Mr. Jean-Marie Pre'vost
Director

John Fischer
Director

Rukia J. Adam
Independent Director

Dr. Josephat Lotto
Independent Director

Managing Director's Statement

2019 marked the second year of implementing our recovery plan that target to turnaround the bank from loss to profit making. The plan has been implemented through collaborative efforts by all stakeholders with objective of ensuring we attain our short and medium term operational goals.

Amidst a very competitive environment, Akiba Commercial Bank (ACB) maintained a sound financial position in 2019, focusing mostly on promoting savings culture among Tanzanians, while ensuring delivery of reliable, convenient and affordable financial services to the MSME segment.

Business Highlights

The bank recorded a Profit before tax reduction by 67% from TZS (3,727.05) Million (2018) to TZS (1,225.88) Million (2019). The loss is due to previous year tax assessment of TZS 1.8 billion. Without the re - assessed amount, the bank could have recorded an operating profit of TZS 596 million in 2019.

Interest Income increased by 2% from TZS 28,721.14 million (2018) to TZS 29,294.64 Million (2019).
Foreign exchange income recorded tremendous growth by 287 percent to TZS 348.82 million (2019) from TZS 90.21 million (2018).

Loans and advances to customers increased to TZS 84,745.35 million in 2019 from TZS 82,995.62 million in 2018, which indicated the improvement of quality of loans.

Impairment on loans and advances reduced by 40 percent from TZS (3,055.63) Million (2018) to TZS (1,824.22) Million (2019)

The mentioned above achievements attained due to measures implemented to control operating expenses from TZS 40.3 billion (2018) to TZS 34.88 billion (2019).

The commitment by the bank' staff, management, the regulator and our esteemed customers, who jointly participated in driving and supporting our corporate vision, were the motives behind improvements of book of accounts.

Operational Highlights

In 2019, the Bank realised 18% reduction in operating expenses. Operational efficiency and cost reduction measures which the bank started to implement in 2018, were further enhanced in 2019 as part of the turnaround strategy.

Product Development

Customers continue to be the key pillar of our existence and all initiatives are centred in fulfilling their needs according to market dynamics. During the year under review, the Bank developed several products geared towards addressing customers' needs.

Akiba Lengo Investment Plan (Akiba LIP); which is a contractual and programmed savings account designed to meet customers' life time dreams. The product enables the customers to build their savings progressively for given period of time as per the customer's preference. The tenure ranges from 1-5 years with lucrative interest for each period.

Akiba Fasta was revamped to enhance the process of remote account opening with the objective of optimising customer acquisition outside the banking halls. The embedded application allows the customer to acquire the account within the period of 4-5 minutes. Further initiatives to acquire full Digital field application (DFA) are in place.

The modalities of issuing interest to Fixed Deposit Account (FDR) was also revised. Previously, customers were given interest at the end of the term but various market research revealed the need of offering interest either upfront, monthly, quarterly, and semi-annually.

Future Development Plans

Subject to securing the necessary approvals for capital injection, in 2020 and beyond, the Bank intends to implement a digital transformation strategy and introduce new digital products.

It is undeniable fact that the future growth of the Bank depends 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 business segment, through leveraging on digital finance solutions.

In 2019 the Bank developed a digital financial strategy to accelerate the accessibility and affordability of banking services to a wider spectrum of customers that have traditionally been under banked.

I expect 2020 to be a challenging year considering the effect of COVID-19 already recorded by various developed economies. In countering any future possible effect of COVID-19 that may amount into business services lockdown, we have already designed specific interventions for our client to continue accessing our services and these interventions will be communicated accordingly as looking forward.

Thank You

Augustine Akowuah
Managing Director

Senior Management Team

Augustine Akouwah
Managing Director

Juliana Swai
General Manager Operations

Felician Girambo,
General Manager Commerce

Bertha Simon
General Manager Finance

Mahmoud Suleiman
General Manager Credit

Hamisi Malipula
General Manager ICT

Dora Saria
Head of Marketing and Communications

Robert Masala
Head of Human Resources

Tetwigis Charles
Head of Risk and Compliance

Chemo Mutani
Chief Internal Auditor

Niwaeli Mziray
Company Secretary

Grace Products

It was not easy to start my business. Am proud of who I am today. My Idea was to start making natural-ingredient cosmetics business. But, I asked myself on how I should start without a room. My zeal was to start business of my dream possible. So, I rented someone's veranda, I bought buckets and raw materials for making soaps and gels manually.

I used buckets, barrels and sticks to mix raw materials with free hands to get the mixture needed, according to the standards of the products I was making. Later, soaps came and gels came!

At first, business was hard. But later, customers started to understand the importance of using locally made products. As our products are made from natural ingredients extracted from plants, people started to love our products. As you see now, Grace Products has become reputable cosmetics brand in Dar es Salaam and all over Tanzania and Zanzibar.

Back in the days of struggling, I went to a very reputable bank to seek financial advice. As its slogan portrays saving for small businesses, I believe that would be my home bank. I wouldn't like to mention the name of the bank, but I was so disappointed at first day.

I was shocked to be told that they never lend money to small and struggling entrepreneurs like me; because I had no proper guarantees that are sufficient to cover the loan as collaterals.

After a long struggle trying to find a Bank that can upgrade my business, I finally ended up on Akiba Commercial Bank counters. After a long chat with the bank officials, they asked if I was ready to open an account at their Bank. This was necessary to account for my business transactions, especially cash in and cash out. I opened up an account quickly, and later I was able to receive a loan that was the reason for sharing my success story today. Indeed ACB Loan has enabled to improve my working tools, which have simplified my production volumes and products quality.

To be honest from the bottom of my heart, my plans for producing cosmetics and soap products have been enabled by ACB. Nowadays, machines are doing all the production works. They are modernised with certified standards for cosmetics manufacturing.

ACB also equipped me with business leadership skills such as business management, financial records keeping, customer service and marketing strategies. ACB is my family. A family of no resemblance. Recently I have celebrated 10th Anniversary since I received my first loan, and I have given ACB Certificate of Recognition as being the helpful financial platform for my businesses. I don't have anywhere else to go apart ACB.

Long Life ACB!

Shareholder's Profiles

The vision of establishing ACB can be traced back to the 1980s when Tanzania was transitioning from a socialist to a market economy when a few committed citizens engaged in business decided to pursue a common goal of establishing mechanisms for growing bigger and building a legacy of success.

This group, effectively the very first shareholders, identified itself by Swahili name "Mshikamano wa Kujiendeleza", which can translated as Solidarity for Development, and they convened on Fridays to deliberate and develop ideas that would ultimately help them establish an entity designed to accommodate their dream and consequently set them on a path to improved livelihoods. By the early 90s they had reached a unanimous agreement to establish a commercial bank that will focus on serving people in the low-income echelon.

With the primary initiative of raising a capital of TZS I billion which at the time was an astronomically huge sum, they took early steps by making personal contributions through which they raised TZS 200m, a fraction of the required mark. Their next option was to invest it in government stocks and after 2 years the amount had doubled to TZS 400m.

Government parastatals such as NIC and PPF were soon attracted by the idea and resolved to buy shares, however the initial capital target still remained distant. As a last resort this tireless group of entrepreneurs sought the involvement of foreign investors many of whom turned down their approach. This protracted struggle culminated in 1997 when Triodos and others finally joined hands with them and completed their vision.

Inter-Consult Ltd.

From its establishment in 1978 in a small Dar es Salaam office offering civil and structural engineering services to an ISO 9001-2008 certified multi-disciplinary consultancy firm, Inter-Consult Ltd. has successfully delivered a full spectrum of services that bring infrastructure projects to life.

During more than three decades of consistent growth the company has 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 in 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 its mission is a pledge to clients to provide the highest quality consulting services on time and at fair market value in all aspects of the construction industry including architecture and urban planning, quantity surveying, structural, mechanical, and electrical engineering. Inter-Consult also offers services in highway engineering, water supply and sanitation, geotechnical and materials engineering, ICT, and project management.

By positioning itself as a dynamic and growing business with a turnover of TZS 5 billion, focused on meeting clients' changing needs, the company has attained good performance standards. It effectively handles all stages of project management from feasibility studies, planning and design, to construction supervision extending to commissioning.

Inter-Consult has also invested in Inter Press Ltd. whose vision is towards poverty alleviation.

Public Service Social Security Fund (PSSF)

The Public Service Social Security Fund is a social security scheme established by Public Service Social Security Act of 2018. The main purpose is to collect contributions and payment of terminal benefits to employees of public service.The act shall apply in mainland Tanzania.

Members of PSSSF:
Employees in the public service employed after the commencement of PSSSF Act. Employees who are members of the former schemes at the time of commencement of the PSSSF Act.

Employees employed after the commencement of the act in any specified corporation (company or corporation where the government or its agent owns more than 30% of the share)

ACCION International
ACCION International, a world pioneer in microfinance, is a private nonprofit organization with the mission of giving people the financial tools they need including microenterprise loans, business training and other financial services to help them work their way out of poverty. It was founded in 1961 and issued its first microloan in 1973 in Brazil. Over time, the organization 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 International is an innovator in financial access, pioneering many
of the best practices and emerging standards in the industry providing
a full range of management services, technical assistance and training,
as well as investment and governance support to help financial institutions build institutional capacity and financial strength. In addition, ACCION International has created and continues to develop leading products and services that bridge the divide between commercial finance institutions and the working poor. Their business solutions focus on radically enhancing efficiency and increasing versatility through product and delivery channel diversification.

ACCION International also provides support in the form of investment
to micro finance institutions, helping them to build upon its other services and linking them with commercial banks and capital markets. Through equity and quasi-equity investments, as well as loan guarantees, it enables MFIs to strengthen core systems, access innovations, attract deposits, become independent of donor funds and establish financial leverage.

Erncon Holdings Limited
Erncon Holdings Limited is a family investment company established
in 1993 by Ernest S. Massawe and his family for the sole purpose of managing the family's various investment activities as well as its assets.
The initial directors of the company are all members of the Massawe family.

To-date the company has experienced strong growth and has a diversified portfolio covering a number of sectors including tourism, industrial gases, insurance, assurance, banking, real estate, stock brokering, fund management, leasing, mining, mining services and logistics, transportation, and telecoms.

Incofin CVSO
After 20 years Belgium's 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. It 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 CVSO 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. Incofin CVSO is a shareholder in Akiba Commercial Bank 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. Incofin CVSO currently cooperates with 30 partner institutions in 21 countries, reaching out to 1.8 million micro entrepreneurs.

FMO
Founded in 1970, FMO is a public-private development bank. The Dutch government is the major shareholder, holding a 51% stake. Other shareholders include large Dutch banks, employers' associations, trade unions and individual investors. Rated triple-A by Standard & Poor's, FMO complies with internationally-accepted banking standards and is supervised by the Dutch Central Bank. Its solid profile and high quality portfolio allows the bank to invest in higher risk markets, either with its own capital or on behalf of the Dutch government.

FMO believes a strong private sector leads to economic and social development, empowering people to employ their skills and improve their quality of life. It specializes in sectors where its contribution can have the highest long-term impact including financial institutions, energy, housing and agribusiness, food and water. When financing companies and projects in other sectors such as telecoms and infrastructure, the bank works with a worldwide network of partners with thorough expertise in that area. With an investment portfolio of EUR 5.9bn, it is one of the largest European bilateral private sector development banks.

FMO principally provides long-term finance as well as shorter-term project financing, working with clients to understand their specific needs, and tailoring financial packages to fit them. The bank's participation often acts as a catalyst – attracting interest from other suitable investors who would otherwise avoid what are still considered higher-risk projects.

SIDI
SIDI was set up in 1983 in France as a private company limited by shares, on the initiative of the Catholic Committee against Hunger and for Development (CCFD). In the North SIDI mobilizes funds from institutions and individuals, through its shareholding and an ethical savings fund. These funds are used to finance microfinance and smallholder producer organizations in the South such as credit and savings unions, microfinance banks and companies, specialized NGOs, small-holder producer cooperatives and companies, and farmers' organizations.

SIDI gives priority to institutions that need financial and institutional strengthening and is active mainly in rural areas where institutions provide financial services to small farmers and micro-enterprises. SIDI's share capital, 13 million Euros, is used to provide various financial products to partner institutions such as equity investments, local and hard currency loans, local bank guarantees. The revenue from the ethical fund enables

SIDI to provide regular follow up and technical assistance to its partners in order to strengthen their financial and institutional viability and improve their services to their clients.

End of December 2010, SIDI's portfolio was 10,4 million euros, of which 43% invested in Africa, 32% in Latin America, 6% in Asia, 9% in the Mediterranean basin, 9% in Eastern Europe, and 1% in the Caribbean. Amongst its founding shareholders are the French Development Agency, the Caisse des Dépôts et Consignations and the Crédit Coopératif (two French banks). SIDI's financial and partnership relations are based on two main principles: long-term commitment and risk-sharing. SIDI has been a founding shareholder of various other funds such as Profund, La Cif 1, MAF (Asia) and more recently SEFEA (Eastern Europe), SMEAF (East Africa), FOPEPRO (Latin America). SIDI together with two European allies, ALTERFIN Belgium and ETIMOS Italy, is about to launch FEFISOL fund, a 30 million EUR fund dedicated to financing rural microfinance institutions and producer organizations in Sub-Saharan Africa.

Triodos-Doen Foundation and Hivos-Triodos Fund Foundation
Triodos-Doen and Hivos-Triodos Fund both started in 1994. Triodos-Doen is a joint initiative of Doen Foundation and Triodos Bank, and Hivos-Triodos Fund is a joint-initiative of the Dutch development organization 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.

The microfinance funds Triodos-Doen Foundation (Triodos-Doen) and Hivos-Triodos Fund Foundation (Hivos-Triodos Fund) are 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 seeks to contribute to the development of a sustainable financial sector in developing countries 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 holds equity stakes in 19 leading and innovative microfinance institutions and vehicles worldwide.

CORPORATE INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2019

DIRECTORS

Mr. Ernest S. Massawe	Tanzanian	Chairperson
Mr. Brian Kuwik	American	Director
Dr. Richard Kasungu	Tanzanian	Director*
Mr. Joseph Rugumyamheto	Tanzanian	Director
Mr. Jean-Marie Prevost	French	Director
Mr. John Fischer	American	Director
Ms. Rukia J. Adam	Tanzanian	Director**
Dr. Josephat Daniel Lotto	Tanzanian	Director **

*Resigned 7th December 2019
** Appointed 7th February 2019 as Independent director

MANAGING DIRECTOR
Augustine Akowuah
(up to December 2019)

COMPANY SECRETARY
Niwaeli Mziray
3rd Floor, Amani Place, Ohio Street,
PO Box 669
Dar es Salaam, Tanzania

REGISTERED OFFICE
3rd Floor, Amani Place, Ohio Street
PO Box 669
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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, Of Maktaba Street
Dar es Salaam

Law Guide Attorneys
P. O. Box 13021
Arusha, Tanzania

1. INTRODUCTION

The Directors submit their report and the audited financial statements for the year ended 31 December 2019 which disclose the state of affairs of Akiba Commercial Bank Plc ("the Bank").

2. INCORPORATION

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

3. PRINCIPAL ACTIVITIES

The principal activity of the Bank is the provision of banking and related services stipulated by the Banking and Financial Institutions Act, 2006. There has been no significant change in the principal activities of the Bank during the financial year ended 31 December 2019.

4. MISSION AND VISION

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

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

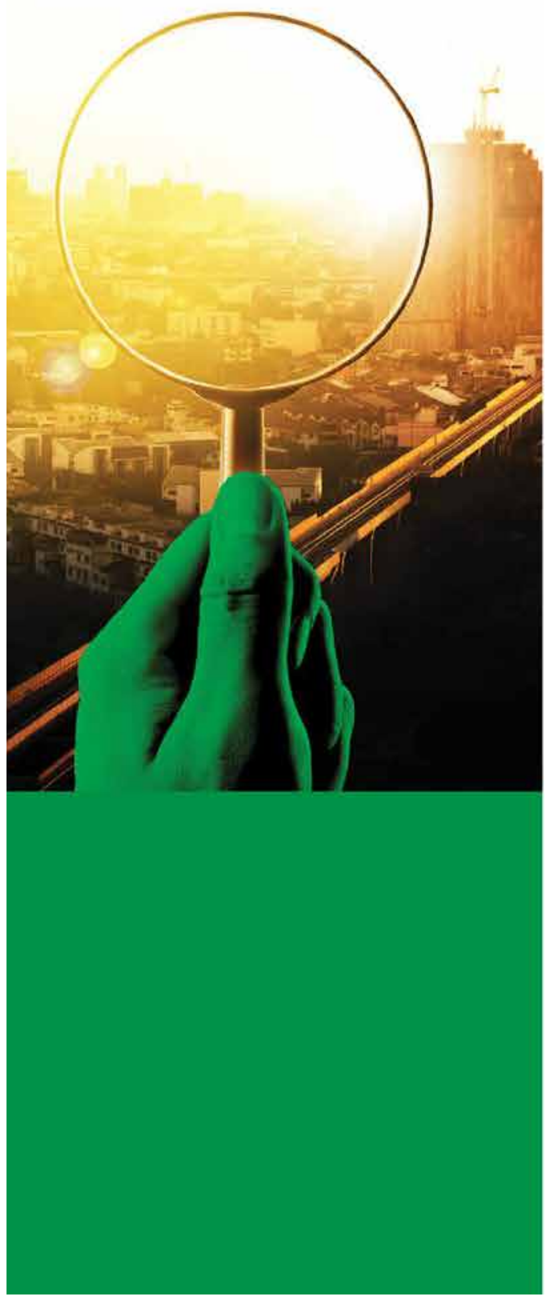
5. REVIEW OF BUSINESS PERFORMANCE

Particulars	2019	2018	Variance	Growth
Total Income	35,475,388	36,707,793	(1,232,405)	(3%)
Total Operating Expenses	(34,878,550)	(40,434,843)	5,556,293	(14%)
Operating Result	596,838	(3,727,050)	4,323,888	116%
Loss before income tax	(1,225,880)	(3,727,050)	2,501,170	(67%)

The Bank's results are set out on page 44 of these financial statements. During the year under review, the Bank recorded a positive operating result of TZS 597 million compared with a loss of TZS 3,727 million in 2018. This represents 116% improvement over last year. The main contributing factors for the good performance were:

- A 2% growth in interest income. Even though Gross loans and advances declined by 6%, the quality of the outstanding was better than last year, leading to less suspension of interest.
- Credit impairment losses improved by 40%, as a result of good quality portfolio. In 2018, the bank implemented new credit standards as part of the restructuring and turnaround strategies. Loans disbursed after the new standards, which was 65.8% of the total loan portfolio as of December 2019, are performing very well with less than 2% NPL after two years.
- 18% reduction in operating expenses in 2019. Efficiency and cost reduction measures which the bank started implemented in 2018, were further enhanced in 2019 as part of the turnaround focus of the bank. This resulted in a reduction in operating expenses by TZS 5,743 million.

In spite of the above remarkable performance, Loss before and after tax were TZS 1,226 million (2018: TZS 3,727 million) and TZS 2,888 million (2018: TZS 2,540 million) respectively. These loss positions in 2019 were due prior years' tax settlements, adjustment and provisions. These outstanding tax disputes belong to periods from 2005 to 2017. Details of the tax settlements, adjustments and provisions are in notes 13 and 15.



5. REVIEW OF BUSINESS PERFORMANCE (CONTINUED)

Interest income

Interest income during the year amounted to TZS 29,265 million compared to TZS 28,721 million in the previous year, representing an increase of 2% (TZS 544 million). The increase is mainly due to increase in performing loans of newly disbursed port folio. However, in comparison to the previous year, gross loans and advances has decreased by 6% (TZS 6,326million).

Interest expense

Interest expense during the year amounted to TZS 6,803 million, as compared to TZS 5,384 million in the prior year, representing an increase of 26% (TZS 1,419 million). The increase in interest expense is mainly attributed by increase in interest from lease liability after adopting the new accounting standard IFRS 16.

Net Interest income

Net interest income (interest income less interest expense) during the year amounted to TZS 22,461 million, as compared to TZS 23,336 million in prior year, representing a decrease of 4% (TZS 875 million). The decrease was due to the increase of finance cost after adoption of the new accounting standard. Net interest income without the effect of the new standard increased by 2% due to performing loans with high yield.

Non - Interest income

Non-interest income amounted to TZS 6,211 million compared to TZS 7,987 million in the previous year, showing an annual decrease of 22%. Non-interest income mainly includes fee and commission income, foreign exchange income and other operating income.

Operating expenses

Operating expenses includes employees benefit, depreciation and amortisation as well as General and Administration expenses. Operating expenses amounted to TZS 26,251 million as compared to TZS 31,994 million in prior year, implying a decrease of 18% (TZS 5,743 million) due to cost containment and efficiency measures implemented.

Income tax expense

Income tax expense/(credit) amounted to TZS 1,662. million (2018: TZS 1,186 million).

Key performance ratios

The key performance ratios of the Bank are indicated as hereunder:

	2019	2018
Return on average assets	(1.8) %	(1.5%)
Return on average equity	(13.3) %	(10.70%)
Non-interest income to net interest income	27.7 %	34.22%
Operating expenses to average assets	16.2 %	18.93%
Non-interest expenses before tax to operating income Item	74.0%	87.16%

6. REVIEW OF FINANCIAL POSITION

Deposits
There is a net decrease in customer deposits by TZS 7,921 million (7%) mainly due to low customers account operations, however the deposit mobilization campaign embarked on by the bank during Q4 2019 helped to reduce the rate of decrease.

Loans and advances
There has been a net decrease in gross loans and advances by TZS 6,326 million (6%). The bank had to change its growth strategy to maintain a balance liquid funds as the capital restoration plan implemented by the bank delayed in bringing the needed result in 2019.

Government securities
There has been decrease in investment in government securities by TZS 1,531 million (6%) during the year due to drying up of buffer for investment resulted from low growth of deposits. Short term borrowings were available to support the daily liquidity.

Key efficiency ratios
The key efficiency ratios of the Bank as at year end are as indicated hereunder:

	2019	2018
Shareholders fund to total assets	12.6%	14.10%
Non-performing loans to total advances	17.8%	21.36%
Gross loans to total deposits	83.9%	83.62%
Loans to total assets	55.5%	64.56%
Liquidity ratio	31.70%	38.14%

7. GOING CONCERN AND SOLVENCY EVALUATION

The core capital and capital adequacy ratios have continued to be below the regulatory requirement since end of 2017. However, recapitalization efforts are progressing positively with shareholders' approval of 75% acquisition by National Bank of Malawi who will inject additional capital of $7.31 (equivalent to TZS 16.7 billion). With this development nothing further 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.

The Directors consider the Bank to be solvent within the meaning ascribed by the Tanzanian Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

8. ACCOUNTING POLICIES

The annual financial statements are prepared on the underlying assumption of a going concern. The Bank's accounting policies, which are laid out in section 2 are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

9. FUTURE DEVELOPMENTS PLANS

Subject to securing the necessary approvals for capital injection, the Bank intends to implement the following plan to turnaround the performance of the Bank:

i) Increase cheap funding, customer deposits

Once the Bank meets the regulatory capital, a campaign to the former institutional depositors that left the Bank would be aggressively undertaken to attract deposits.

Similarly, a change in focus from a lending push to attract deposit in the Bank will be intro duced.

ii) Introduce Digital Banking products

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 cus tomers outside its core market by leveraging digital finance solutions.

In 2019 the Bank developed a digital finance strategy to accelerate the accessibility and afford ability of banking services to a wider spectrum of customers that have traditionally been under banked. Building from that foundation the Bank will introduce the bouquet of products under mobile banking, internet banking, Electronic funds transfers and related products to the market to enhance fee income.

iii) Digitalization transformation

Implement digitalization transformation on the Bank to ensure all processes are digitalized for efficiency.

iv) Introduce Leasing, Group Treasury, International Trade and Corporate Lending
Introduce leasing and group treasury which is not currently offered by the Bank and which has a very low penetration in the market this will be coupled with introduction of various internation al trade products.

10. RISK MANAGEMENT AND INTERNAL CONTROLS

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.

10. RISK MANAGEMENT AND INTERNAL CONTROLS (CONTINUED)

The Board assessed the Bank's internal control systems throughout the financial year ended 31 December 2019 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.

11. MANAGEMENT OF THE BANK

The Bank is under the supervision of the Board of Directors and the day to day management is entrusted to the Managing Director supported by the senior management team.

The organization structure of the Bank comprises 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;
- Credit department
- Internal Audit department (Reporting directly to Board Audit Committee)

12. COMPOSITION OF THE BOARD OF DIRECTORS

The Bank has a broad based Board of Directors comprising of Non-Executive Directors. The Chairman and all other members of the Board of Directors are appointed by the shareholders.

The Directors of the Bank, who held office throughout the year and to the date of this report, were as follows:

Name	Position	Nationality	Age	Date of appointment
Mr. Ernest S. Massawe	Chairperson	Tanzanian	75	25-Jun-2011
Mr. Brian Kuwik	Member	American	47	1-Jun-2008
Dr. Richard Kasungu*	Member	Tanzanian	73	18-Oct-2013
Mr. Joseph Rugumyamheto	Member	Tanzanian	73	25-Jul-2014
Mr. John Fischer	Member	American	53	11-Apr-2008
Mr. Jean-Marie Prevost	Member	French	74	25-Jul-2015
Mrs. Rukia Adam Juma	Member	Tanzanian	63	7-Feb-2019
Dr. Josephat Daniel Lotto	Member	Tanzanian	44	7-Feb-2019

*Resigned 07th December 2019

13. DIRECTORS' REMUNERATION

The remuneration for services rendered by the non-executive Directors of the Bank in 2019 was TZS 217 million (2018: TZS 237 million).

14. CAPITAL STRUCTURE AND SHAREHOLDING

As at 31 December 2019, the Bank had 276 shareholders (2018: 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 %
Mr. Joseph Rugumyamheto	Tanzanian	6,255	6,255	0.073%
Mr. Ernest S. Massawe (Ercon Holdings Ltd)	Tanzanian	1,808,627	1,808,627	16.5%

Shareholder	Number of ordinary shares	Percentage (%)	Number of ordinary shares	Percentage (%)
Accion International				
PSSSF	**1,721,456**	**16**	1,721,456	20
StichtingHivos – Triodos Fonds	**963,957**	**9**	963,957	11
INCOFIN CVSO	**683,335**	**6**	683,335	8
FMO	**617,850**	**6**	617,850	7
Inter Consult Limited	**595,443**	**5**	595,443	7
FEFISOL	**568,811**	**5**	472,229	6
Sustainable Finance Founda-	**434,022**	**4**	434,022	5
tion	**430,798**	**4**	430,798	5
Erncon Holdings Limited	**1,808,627**	**16**	802,302	9
Other Shareholders	**3,160,117**	**29**	1,885,743	22
Total	**10,984,416**	**100**	8,607,135	100

In its strategy to increase additional capital for regulatory requirement, Bank did a rights issue to its existing shareholders, 2,377,281 shares were acquired that make the total shares of the Bank to stood at 10,984,416 shares in 2019 from 8,607,135 shares in 2018

15. CORPORATE GOVERNANCE

All Directors and employees adhere to the principles of the Code of Conduct and Ethics in all their dealings on behalf of the Bank. The Code of Conduct and Ethics ensures that all actions are in the overall best interests of the Bank and reflects the commitment to maintain the highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

The Directors are committed to the principles of good corporate governance and recognize the need to conduct the business in accordance with generally accepted best practice. In so doing, the Directors therefore, confirm that:

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the Bank and monitor senior management;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance.

15. CORPORATE GOVERNANCE (CONTINUED)

In addition, the Board constituted the following Board committees:

Board audit committee

This Committee assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Bank, its internal controls, ensuring compliance with applicable legislation and the requirements of regulatory authorities, reviewing reports and following up on matters raised by the external auditors, internal auditors and Bank of Tanzania.

The Committee meets at least four times in a year. The Board Audit Committee members who served the Committee during 2019 were:

Name	Position	Nationality
Dr. Josephat Daniel Lotto	Chairperson	Tanzanian
Mrs. Rukia Adama Juma	Member	Tanzanian
Mr. Jean-Marie Pre'vost	Member	French

Board credit committee

This Committee assists the Board in fulfilling its primary responsibilities in reviewing the Bank's overall lending policy, conducting independent loan reviews, delegation and review of lending limits and is overall responsible for the management of Credit Risk.

The Committee meets a minimum of four times in a year. The Board Credit Committee members who served the Committee during 2019 were:

Name	Position	Nationality
Mr. Brian Kuwik	Chairperson	American
Mr. Joseph Rugumyamheto	Member	Tanzanian

Board Risk Committee

This Committee assists the Board in fulfilling its primary responsibilities by establishing and implementing the Risk Management process of the Bank in line with the Bank of Tanzania Guidelines as well as risk identification, evaluation, measurement and monitoring of the Risk Management process.

The Committee meets a minimum of four times in a year. The members of the Committee are:

Name	Position	Nationality
Mr. John Fischer	Chairperson	American
Dr. Richard Kasungu	Member	Tanzanian

Board Governance and Human Resources Oversight Committee

This committee has been delegated with the responsibility from the Board to ensure implementation of good governance, review of the governance tools and policies. The committee also has responsibility to undertake structured assessment of candidates for Senior Management positions, consider and review the human resources management and remuneration policies.

The Committee meets a minimum of four times in a year. The members of the Committee are:

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

16 RELATED PARTY TRANSACTIONS

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 all related party transactions and balances are disclosed in note 33 to these financial statements.

17. EMPLOYEE WELFARE

Relationship between management and employees

The relationship between employees and management continued to be cordial. Complaints are resolved through meetings and discussions and the Bank has set up appropriate management committee forums for this purpose. Work morale is good and there were no unresolved complaints from employees.

Training

The Bank continued to expose staff on various technical and soft skills program as a demonstration of management's commitment to improving staff skills in the provision of core banking services. The Bank turnaround strategy also had a key focus to address staff capacity gaps and develop appropriate skills capable of discharging flawless operations across all levels in the organization.

Considerable training interventions both classroom and on the job were done to bridge the identified staff skills and performance gaps. As of end of 2019 a total of 8 in-house and 5 external training programs were attended by 586 and 36 staff members respectively.

Medical facilities

The Bank provides medical cover for both, Inpatient and Outpatient care for employees and their dependents.

Occupational Safety, Health and Environment

The Bank took reasonable steps to safeguard the health, safety and welfare of its employees. 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 provided housing, personal and car loans to staff to enable them to meet their financial requirements and promote economic development. Staff loans are in line with industry best practice and based on specific terms and conditions approved by the Board of Directors.

Retirement benefits

The Bank makes contributions in respect of staff retirement benefits to the National Social Security Fund. The total number of employees, at the year end, was 432 (2018: 456).

DIRECTORS` REPORT (Continued) FOR THE YEAR ENDED 31 DECEMBER 2019

17. EMPLOYEE WELFARE (CONTINUED)

Disabled persons

Applications for employment by disabled persons are always considered bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Bank continues and appropriate training is arranged, where necessary.

Gender parity

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

As at December 2019, the Bank had 432 employees and female employees accounted for 61% of the workforce whilst male was 39% of the total staff population (2018: 456 employees, out of whom 60% were women and 40% were men).

18. POLITICAL DONATIONS

The Bank did not make any political donations during the year (2018: Nil).

19. 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.

20. 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.

21. AUDITORS

The auditors, PricewaterhouseCoopers are not eligible for re-appointment according to The Banking and Financial Institutions (External Auditor) Regulations, 2014.We are looking forward to work with them in the future.

BY ORDER OF THE BOARD

Mr. Ernest Massawe
Chairperson
Date: 27/03/2020

Dr. Josephat Lotto
Director
Date: 27/03/2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2019

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
Date: 27/03/2020

Dr. Josephat Lotto
Director
Date: 27/03/2020

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 2019 have been prepared in compliance with the International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, No.12 of 2002.

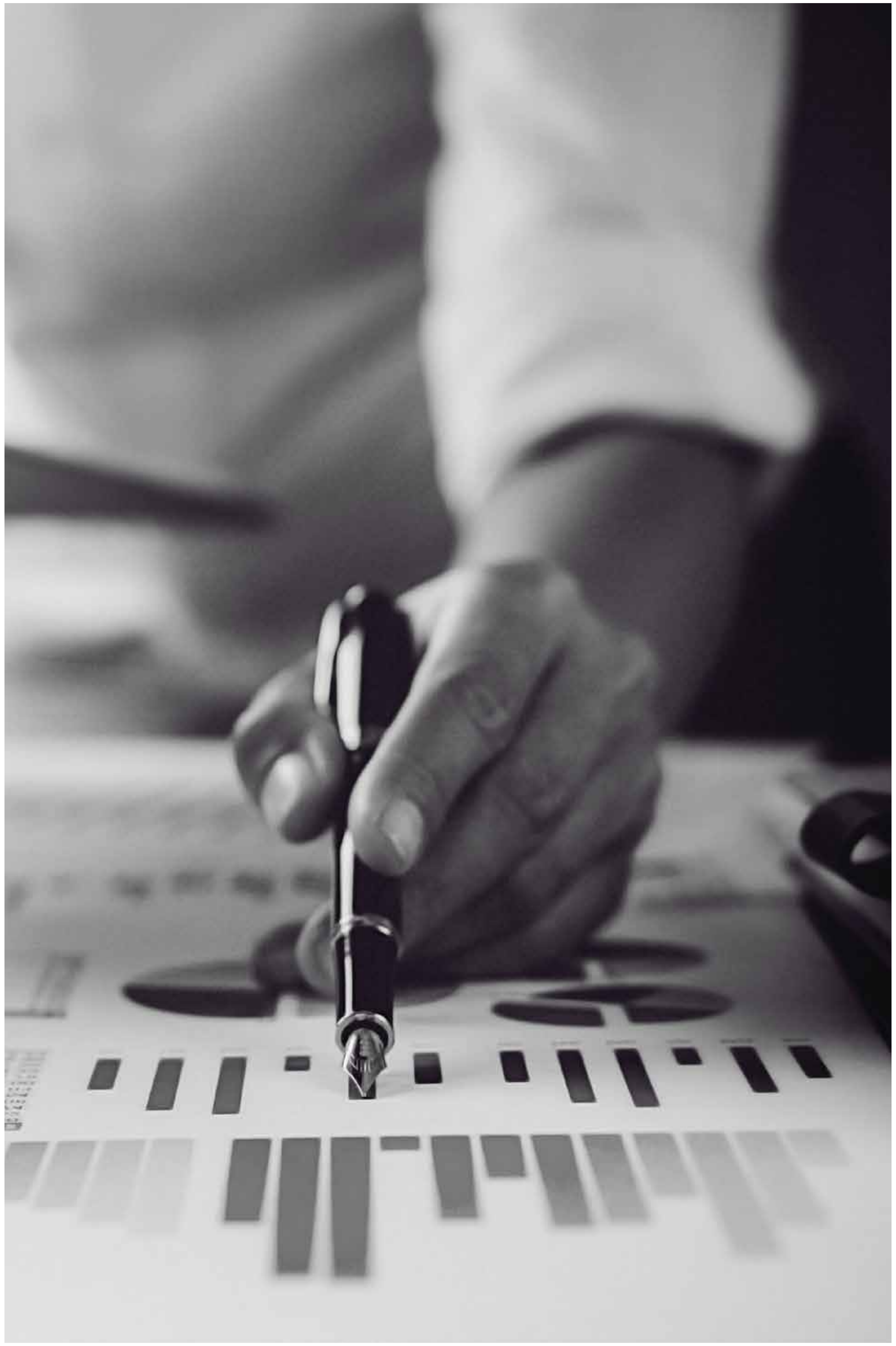
I thus confirm that the financial statements give a true and fair view of the financial performance of Akiba Commercial Bank Plc for the year ended on 31 December 2019 and its financial position as on that date and that they have been prepared based on properly maintained financial records.

Signed by: ______________________

Position: General Manager Finance

NBAA Membership no: ACPA 3137

Date: 27/03/2020



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 2019, 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 18 to 92 comprise:
- Statements of financial position as at 31 December 2019;
- 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.

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

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

Independence
We are independent of the Company in accordance with the IESBA International Code of Ethics for Professional Accountants (including International Independence Standards) (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	*How our audit addressed the key audit matter*
Key audit matter (continued) Impairment of loans and advances to customers Management exercises significant judgment using subjective assumptions over both when and how much to record as loan impairment. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provisions in the following areas: • Quantitative and qualitative criteria for classification of loans and advances based on assessment of factors contributing to significant increase in credit risk and default; • Determination of the probability of defaults (both 12 months and lifetime); • Determination of the forward looking parameters to be incorporated in the estimation of expected credit losses; and • Estimation of the expected cash flows (including from collateral realization) used the determination of the loss given default. The value of the loans and advance to customers is also significant. Further details on loans and advances to customers have been disclosed in Note 3(a), Note 3(d), Note 4(a), Note 5.1 and Note 19 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 for reasonableness of information used for estimating exposure at default, 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 2019 was TZS 11 billion which is below the minimum regulatory capital required of TZS 15 billion. In addition, capital adequacy ratios of 7.9% for Tier I and TZS 7.9% for Tier II as at 31 December 2019 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.

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.

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

Auditor's responsibilities for the audit of the Bank's financial statements (continued)

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

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

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

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

We are responsible for the direction, supervision and performance of the Bank's audit. We remain solely responsible for our audit opinion.

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: 31/03/2020

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	2019	2018
		TZS '000	TZS '000
Interest and similar income	6	**29,264,640**	28,721,142
Interest and similar expense	7	**(6,803,361)**	(5,384,715)
		22,461,279	23,336,427
Net interest income			
Credit impairment losses	18	**(1,824,229)**	(3,055,637)
Net interest income after loan impairment charges		**20,637,050**	20,280,790
Fee and commission income	8	**5,038,984**	7,077,119
Foreign exchange income	9	**348,827**	90,216
Other operating income	10	**822,937**	819,316
Employee benefits expenses	11	**(14,645,405)**	(16,000,096)
General and administrative expenses	12	**(8,174,612)**	(14,427,519)
Depreciation and amortization	14	**(3,430,943)**	(1,566,876)
Prior years tax assessment charges	13	**(1,822,718)**	-
Loss before income tax		**(1,225,880)**	(3,727,050)
Income tax (expense)/credit	15	**(1,662,756)**	1,186,997
Loss for the year		**(2,888,636)**	(2,540,053)
Other comprehensive income for the year, net of tax		**-**	-
Total comprehensive income for the year		**(2,888,636)**	(2,540,053)

STATEMENT OF FINANCIAL POSITION

	Notes	2019	2018
		TZS '000	TZS '000
Assets			
Cash and balances with the Bank of Tanzania	16	**25,244,076**	23,898,892
Balances with other Banks	17	**269,780**	425,202
Government securities at amortized cost	18	**25,038,871**	26,570,192
Loans and advances to customers	19	**84,745,359**	82,995,621
Unquoted equity investment	20	**20,000**	20,000
Property and equipment	21	**1,199,457**	1,964,844
Intangible assets	22	**892,282**	712,320
Leasehold improvements	23	**1,251,392**	1,736,304
Right of use of asset	24	**19,925,644**	-
Current Income tax asset	15	**1,967,603**	3,111,881
Deferred income tax	25	**7,307,207**	7,825,685
Other assets	26	**1,539,493**	6,072,205
TOTAL ASSETS		**169,401,164**	155,333,146
Liabilities			
Deposits from other banks		**12,109,246**	10,520,770
Deposits from customers	27	**111,994,874**	119,915,796
Lease liability	28	**20,312,671**	-
Other liabilities	29	**3,593,457**	2,994,309
Total liabilities		**148,010,248**	133,430,875
Shareholders' equity			
Share capital	31	**10,984,416**	8,607,135
Share premium		**2,431,917**	2,431,917
Retained earnings		**4,687,639**	7,546,745
Regulatory reserve		**3,286,944**	2,537,257
General risk reserve		**-**	779,217
Total equity		**21,390,916**	21,902,271
TOTAL LIABILITIES AND EQUITY		**169,401,164**	155,333,146

The financial statements on pages 18 to 92 were approved and authorised for issue by the Board of Directors on 27 March 2020 and signed on its behalf by:

Mr. Ernest Massawe
Chairperson

Dr.Josephat Lotto
Director

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Retairned earnings	Regulatory Reserve	General risk reserve	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Year ended 31 December 2019						
At 1 January 2019	**8,607,135**	**2,431,917**	**7,546,745**	**2,537,257**	**779,217**	**21,902,271**
Transactions with owners						
Capital injected	**2,377,281**	**-**	**-**	**-**	**-**	**2,377,281**
Comprehensive income						
Loss for the year	**-**	**-**	**(2,888,636)**	**-**	**-**	**(2,888,636)**
Transfer to Regulatory reserve	**-**	**-**	**(749,687)**	**749,687**	**-**	**-**
Transfer to retained earnings	**-**	**-**	**779,217**	**-**	**(779,217)**	**-**
Total comprehensive income	**-**	**-**	**(2,859,106)**	**749,687**	**(779,217)**	**(2,888,636)**
At 31 December 2019	**10,984,416**	**2,431,917**	**4,687,639**	**3,286,944**	**-**	**21,390,916**
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	-	**-**	(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

*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. Start from 01st July 2019, General Risk Reserve is no longer required.

STATEMENT OF CASH FLOWS

	Notes	2,019 TZS 000	2,018 TZS 000
Cash flows from operating activities			
Loss before taxation		**(1,225,880)**	(3,727,050)
Adjustments for:			
Depreciation and amortisation		**3,430,943**	1,566,835
Impairment of loans and advances		**2,172,593**	-
Legal provision release		**206,457**	-
Interest expense on lease liability		**1,382,528**	-
		5,966,641	(2,057,079)
Movement in working capital			
Statutory Minimum Reserve		**1,660,353**	2,366,526
Loans and advances to customers		**(3,922,331)**	17,188,683
Government securities		**1,531,321**	(7,392,966)
Other assets		**899,517**	747,942
Deposit from customers		**(7,920,922)**	(33,525,143)
Balances from other banks		**1,588,476**	10,520,770
Other liabilities		**(266,300)**	(631,817)
Cash flows used in operations		**(463,245)**	(12,783,084)
Tax paid15(c)	15(c)	**-**	-
Net cash flows used in operations		**(463,245)**	(12,783,084)
Cash flows from investing activities			
Purchase of property and equipment	21	**(86,871)**	(373,679)
Purchase of intangible assets	22	**(339,954)**	(542,595)
Purchase of leasehold improvements	23	**-**	(40,553)
Proceeds from sales of property and equipment		**2,603**	-
Net cash used in investing activities		**(424,222)**	(956,827)
Cash flows from financing activities			
Proceeds from shares issued		**2,377,281**	-
Lease payments		**(2,450,185)**	-
Net cash used in financing activities		**(72,904)**	-
Net (decrease)/increase in cash and cash equivalents		**(960,371)**	(13,739,911)
Cash and cash equivalent at the beginning of the year		**19,584,607**	33,324,518
Cash and cash equivalent at the end of the year	30	**18,624,236**	19,584,607

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 2019 have been approved for issue by the board of Directors on 27th March 2020. 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 16

Akiba Commercial Bank Plc (Akiba or the "Bank") has adopted IFRS 16 with a date of transition of 1 January 2019, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The bank did not early adopt IFRS 16 in previous periods.

In accordance with the transition provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated.

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

Adoption of IFRS 16 (continued)

On adoption of IFRS 16, Akiba recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 22% for TZS and 6.6% for USD.

Practical expedients applied

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Akiba has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Measurement of lease liabilities

	2019
	TZS 000
Operating lease commitments disclosed as at 31 December 2018	**18,200,939**
Discounted using the Bank's incremental borrowing rate of 22%	**(17,659,140)**
Add/(less): adjustments as a result of a different treatment of extension and termination options	**165,554**
Lease liability recognized as at 1 January 2019	**17,824,694**
Of which:	
Current lease liability	**2,487,976**
Non-current lease liability	**15,336,718**

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 16 (continued)

Measurement of right of use assets

The right-of use assets were measured at the amount of the initial measurement of the lease liability amounts discounted using the lessee's incremental borrowing rate at the date of initial application, and adjusted for any initial direct costs, direct incentives received and restoration costs.

Adjustments recognized in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right of use create TZS 17,824,694
- Prepayments reduced by TZS 479,096,669
- Lease liability created TZS 17,824,694
- There was no impact on opening retained earnings on 1 January 2019.

Lessor accounting

The Bank did not need to make any adjustments to the accounting for assets held as lessor under operating leases (see note 8(c)) as a result of the adoption of IFRS 16.

IFRS 9 Financial Instruments (amendment) (IFRS 9):

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortised cost or at fair value through other comprehensive income. The amendment has no significant impact on the annual financial statements.

IAS 19 Employee Benefits (amendments) (IAS 19):

The amendments require a company to use the updated assumptions when a change to a plan either an amendment, curtailment or settlement, takes place to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Until now, IAS 19 didnot specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The amendment has no impact on the annual financial statements.

IAS 28 Interest in Associates and Joint Ventures (amendment) (IAS 28):

This amendment clarifies that an entity should apply IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture only when the equity method is not applied. The amendment has no impact on the annual financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23):

This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined by applying this interpretation. This interpretation addresses: whether an entity considers uncertain tax treatments separately; the assumptions an entity makes about the examination of tax treatments by taxation authorities; how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and how an entity considers changes in facts and circumstances. The IFRIC will be applied retrospectively only if possible, without the use of hindsight. The amendment has no significant impact on the annual 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)

Annual improvements 2015-2017 cycle, the IASB has issued various amendments and clarifications to existing IFRS. Early adoption of revised standards:

ii) New standards and amended standards issued but not yet effective

Title: IAS 1 Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors (amendments)

Effective date: 1 January 2020 with earlier application permitted

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.

Title: Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosure – Interest rate benchmark reform

Effective date: 1 January 2020 with earlier application permitted

These amendments provide certain reliefs in connection with interest rate benchmark reform (IBOR). The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the annual financial statements.

Title: IFRS 17, 'Insurance contracts'

Effective date: 1 January 2021 with earlier application permitted

The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin.

NOTES (CONTINUED)

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

Basis of preparation (continued)

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

iii) New standards and amended standards issued but not yet effective

Title: IFRS 17, 'Insurance contracts' (continued)

The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Interest income and expense

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.

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.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Fees and commission income (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.

<u>(ii) Operating income</u>

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 thousands, 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.

(d) Financial assets and liabilities

<u>(i) Initial recognition and measurement</u>

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

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

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

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (Continued)

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

(ii) Classification and subsequent measurement

Financial assets

The Bank classifies its financial assets in the following measurement categories:

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

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

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government 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 19. 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 recognitio of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

Financial assets (continued)
(ii) Classification and subsequent measurement (continued)

Debt instruments (continued)

amortised cost which are recognised in profit and loss. When the financial asset is derecognised in 'Net Investment income'. Interest income from these financial assets is included in 'interest income' using the effective interest rate method.

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

If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

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

Equity instruments

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

The Bank'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.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

Financial assets (continued)

(iii) Impairment

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

The measurement of ECL reflects:

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

(iv) Modification of loans

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

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

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

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

Financial assets (continued)

(v) Derecognition other than on a modification

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

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

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- 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 are classified as subsequently measured at amortised cost, except for:

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

- 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.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial assets and liabilities (continued)

Financial Liabilities

(i) Derecognition

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

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

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a 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.

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) Current and deferred 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.

1. 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.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Post-employment benefits

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 "employee benefits expenses" in the year to which they relate. Unpaid contributions are recognised as a liability.

2. Other employee benefits

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

3. 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.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Intangible assets (continued)
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.

(n) Lease
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. Before 01 January 2019, operating lease payments were 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.

The Bank's leasing activities and how these are accounted for
The Bank leases office space in various parts of the region. Rental contracts are typically made for fixed periods of 5 to 10 years but may have extension options as described in (v) below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Contracts may contain both lease and non-lease components. The Bank allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Bank is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component

Until the 2019 financial year, leases of office space were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Lease (Continued)

The Bank's leasing activities and how these are accounted for (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees the
- exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the Measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Bank, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Akiba, which does not have recent third-party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs and
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

Extension and termination options

Extension and termination options are included in a number of property leases contracts. These terms are used to maximise operational flexibility in terms of managing contracts.

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Lease (Continued)

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). There is no potential future cash outflows that have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The Bank's leasing activities and how these are accounted for (Continued)

For the leases of office space, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Bank is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Bank is typically reasonably certain to extend (or not terminate).
- Otherwise, the Bank considers other factors including historicallease durations and the costs and business disruption required to replace the leased asset. Most extension options in offices and vehicles leases have not been included in the lease liability, because the Bank could replace the assets without significant cost or business disruption.

The lease term is reassessed if an option is exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

(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 higherof 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

NOTES (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Impairment of non-financial assets (Continued)

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.

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.

NOTES (CONTINUED)

4. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

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 behaviour (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 Choosing appropriate models and assumptions to the measurement of ECL
- Establishing the number and relative weightings of forward looking information and scenarios for each segment and the associated ECL;
- Estimating Probability of default, Exposure at Default and Loss Given Default.

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

b) Property and equipment

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 beavailable 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 and interest 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)

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.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.1 Credit risk measurement (continued)

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

	Description of the grade	Ageing	% used for 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%

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.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.2: Expected credit loss measurement (continued)

- 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.

Qualitative criteria

<u>Loans and advances to customers</u>

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

- 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.

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)

<u>Loans and advances to banks</u>

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

- Significant counterparty management restructuring or re-organization 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.

<u>Government securities</u>
Government securities are considered to have experienced a significant increase in credit risk when at l east 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.

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.

5.1.2.2: Definition of default and credit impaired assets

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;
- 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.

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)

Loans and advances to customers

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 segment'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, Insol vency 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 lik World Bank or IMF.

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.

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 (continued)

- 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 collateralor 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.

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.

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 scenario weightings are determined by a combination of statistical analysis and expert credit judge ment, 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.

Economic variable assumptions
The most significant period-end assumptions used for the ECL estimate as at 31 December 2019 are set out below. The scenarios "base", "upside" and "downside" were used for all portfolios.

	2020	2021	2022	2023	2024
Gross National Income (GNI)					
Base	8%	7%	7%	7%	6%
Upside	10%	9%	9%	9%	8%
Downside	6%	5%	5%	5%	4%
Non-performing Loans					
Base	22.8%	26.0%	2.3%	28.5%	30.2%
Upside	16.3%	19.5%	21.8%	22.1%	23.7%
Downside	29.2%	32.5%	34.8%	34.9%	36.7%

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
Gross National Income (GNI)					
Base	11%	10%	9%	7%	6%
Upside	13%	12%	11%	9%	8%
Downside	9%	8%	7%	5%	4%
Non-performing Loans					
Base	17.6%	22.8%	26.0%	2.3%	28.5%
Upside	17.6%	16.3%	19.5%	21.8%	22.1%
Downside	17.6%	29.2%	32.5%	34.8%	34.9%

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 weightings assigned to each economic scenario at 31 December 2019 and 31 December 2018 was 80%, 10% and 10% for "base", "upside" and "downside" respectively.

If the forward-looking information change by 10% expected loss allowance would have been as follows:

Performing loans: Stage 1 and 2

31 December 2019 Sensitivity Analysis	Expected loss allowance	
	Upward change TZS '000	Downward change TZS 000
Secured term loans	883,300	722,700
Unsecured term loans	734,620	601,053
Total expected loss allowance	1,617,920	1,323,753

31 December 2018 Sensitivity Analysis	Expected loss allowance	
	Upward change TZS '000	Downward change 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.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

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.

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-Gross loans

	2019			
	Stage 1 12 - Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Credit grade	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
Current	43,577,100	-	-	**43,577,100**
Especially Mentioned	-	1,497,938	-	**1,497,938**
Doubtful	-	-	456,028	**456,028**
Sub Standard	-	-	298,987	**298,987**
Loss	-	-	3,251,282	**3,251,282**
Gross Carrying amount	**43,577,100**	**1,497,938**	**4,006,297**	**49,081,334**
Loss allowance	(791,468)	(24,142)	(2,520,421)	**(3,336,030)**
Carrying amount	**42,785,632**	**1,473,796**	**1,485,877**	**45,745,304**

	2018			
	Stage 1 12 - Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade	TZS'000	TZS'000	TZS'000	TZS'000
Current	49,632,293	-	-	49,632,293
Especially Mentioned	-	1,349,279	-	1,349,279
Doubtful	-	-	1,686,921	1,686,921
Sub Standard	-	-	1,241,608	1,241,608
Loss	-	-	5,111,303	5,111,303
Gross Carrying amount	49,632,293	1,349,279	8,039,832	59,021,404
Loss allowance	(992,814)	(40,649)	(6,990,748)	(8,024,211)
Carrying amount	48,639,479	1,308,630	1,049,084	50,997,193

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

(b) Secured Term Loans- Gross loans

	2019			
	Stage 1 12 - Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Credit grade	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
Current	33,693,463	-	-	33,693,463
Especially Mentioned	-	3,074,029	-	3,074,029
Doubtful	-	-	1,232,574	1,232,574
Sub Standard	-	-	721,291	721,291
Loss	-	-	2,581,669	2,581,669
Gross Carrying amount	**33,693,463**	**3,074,029**	**4,535,534**	**41,303,025**
Loss allowance	(649,363)	(74,104)	(3,124,611)	(3,848,078)
Carrying amount	**33,044,100**	**2,999,925**	**1,410,923**	**37,454,947**

	2018			
	Stage 1 12 - Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Credit grade				
Current	26,052,837	-	-	26,052,837
Especially Mentioned	-	1,090,766	-	1,090,766
Doubtful	-	-	2,988,144	2,988,144
Sub Standard	-	-	629,955	629,955
Loss	-	-	3,443,757	3,443,757
Gross Carrying amount	26,052,837	1,090,766	7,061,856	34,205,459
Loss allowance	(711,894)	(72,504)	(4,302,690)	(5,087,088)
Carrying amount	25,340,943	1,018,262	2,759,166	29,118,371

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

(c) Overdraft- Gross loans

	2019			
	Stage 1 12 - Month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Credit grade	**TZS'000**	**TZS'000**	**TZS'000**	**TZS'000**
Current	425,994	-	-	**425,994**
Doubtful	-	-	1,301,392	**1,301,392**
Sub Standard	-	-	14,709	**14,709**
Loss	-	-	1,823,174	**1,823,174**
Gross Carrying amount	**425,994**	-	**3,139,275**	**3,565,269**
Loss allowance	(12,019)	-	(2,008,142)	**(2,020,161)**
Carrying amount	**413,975**	-	**1,131,133**	**1,545,108**

	2018			
	Stage 1 12 - Month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	TZS '000	TZS '000	TZS '000	TZS '000
Credit grade				
Current	546,241	-	-	546,241
Substandard	-	-	2,669,227	2,669,227
Loss	-	-	3,833,375	3,833,375
Gross Carrying amount	546,241	-	6,502,602	7,048,843
Loss allowance	(83,626)	-	(4,085,159)	(4,168,785)
Carrying amount	462,615	-	2,417,443	2,880,058

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).

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

5.1.5.1 Changes in the loss allowance

(a) Unsecured term Loans

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	12 - Month ECL TZS'000	**Lifetime ECL TZS'000**	**Lifetime ECL TZS'000**	**TZS'000**
Loss allowance as at 1 January 2019	992,814	40,649	6,990,748	**8,024,211**
Transfers:				
Transfer from stage 1 to stage 2	(12,515)	32,697	-	**20,182**
Transfer from stage 1 to stage 3	(76,521)	-	1,599,213	**1,522,692**
Transfer from stage 2 to stage 1	2,273	(5,293)		**(3,020)**
Transfer from stage 2 to stage 3	-	(23,616)	364,211	**340,596**
Transfer from stage 3 to stage 1	758	-	(110,007)	**(109,249)**
Transfer from stage 3 to stage 2	-	536	(43,971)	**(43,435)**
Changes in model assumptions	(264,237)	(536)	(1,277,142)	**(1,541,915)**
Financial assets derecognised during the period other than write offs	(319,389)	(30,576)	(959,910)	**(1,309,874)**
New financial assets originated	468,616	10,280	596,991	**1,075,887**
Total net P&L release during the period	**(201,014)**	**(16,507)**	**169,385**	**(48,136)**
Other movements with no P&L impact				
Write-offs	(332)	-	(4,639,713)	**(4,640,045)**
Loss allowance as at 31 December 2019	**791,468**	**24,142**	**2,520,421**	**3,336,030**

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loss allowance
5.1.5.1 Changes on the loss allowance (continued)

(a) Unsecured term Loans (continued)

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL TZS'000	Lifetime ECL TZS'000	Lifetime ECL 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)
5.1.5.1 Changes on the loss allowance (continued)

(a) Secured term Loans

	Stage 1	Stage 2	Stage 3	Total
	12-month ECL TZS'000	Lifetime ECL TZS'000	Lifetime ECL TZS'000	TZS'000
Loss allowance as at 1 January 2019	**711,894**	**72,504**	**4,302,690**	**5,087,088**
Transfers:				
Transfer from stage 1 to stage 2	(28,131)	38,940	-	**10,810**
Transfer from stage 1 to stage 3	(13,180)	-	92,868	**79,688**
Transfer from stage 2 to stage 1	2,751	(12,483)	-	**(9,732)**
Transfer from stage 2 to stage 3	-	(9,889)	83,103	**73,213**
Transfer from stage 3 to stage 1	13,818	-	(69,242)	**(55,424)**
Transfer from stage 3 to stage 2	-	-	-	**-**
Changes in model assumptions	(239,168)	(3,169)	(9,637)	**(251,974)**
Financial assets derecognised during the period other than write offs	(341,893)	(62,303)	(846,899)	**(1,251,095)**
New financial assets originated	543,272	50,504	405,651	**999,426**
Total net P&L release during the period	(62,531)	**1,600**	**(344,157)**	**(405,088)**
Other movements with no P&L impact				
Write-offs	-	-	(833,922)	**(833,922)**
Loss allowance as at 31 December 2019	**649,363**	**74,104**	**3,124,611**	**3,848,078**

	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	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 year	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
5.1.5.1 Changes on the loss allowance (continued)

(b) Overdraft

	Stage 1	Stage 2	Stage 3	Total
	12 - Month ECL	Lifetime ECL	Lifetime ECL	
	TZS'000	TZS'000	TZS'000	TZS'000
Loss allowance as at 1 January 2019	**83,626**	-	**4,085,159**	**4,168,785**
Transfers:				
-Transfer from stage 1 to stage 3	(272)	-	7,322	**7,051**
Changes in model assumptions	(73,527)	-	49,459	**(49,726)**
New financial assets originated	2,192	-	-	**2,192**
Total net P&L charge during the period	**(71,607)**	-	**56,781**	**(14,826)**
Other movements with no P&L impact				
Write-offs	-	-	(2,133,798)	**(2,133,798)**
Loss allowance as at 31 December 2019	**12,019**	-	**2,008,142**	**2,020,161**

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 year	26,291		938,984	965,276
		-		
Loss allowance as at 31 December 2018	83,626	-	4,085,159	4,168,785

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

5.1.5 Loss allowance (continued)

5.1.5.2 Changes on the gross carrying amount

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-Gross 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 2019	49,632,293	1,349,279	8,039,832	**59,021,404**
Transfers:				
Transfer from stage 1 to stage 2	(1,827,576)	1,827,576	-	-
Transfer from stage 1 to stage 3	(3,704,221)	-	3,704,221	-
Transfer from stage 2 to stage 1	168,058	(168,058)	-	-
Transfer from stage 2 to stage 3	-	(841,430)	841,430	-
Transfer from stage 3 to stage 1	117,210	-	(117,210)	-
Transfer from stage 3 to stage 2	-	49,518	(49,518)	-
Financial assets derecognised during the period other than write offs	(36,370,939)	(1,672,422)	(3,523,450)	**(41,566,811)**
New financial assets originated	35,579,627	953,475	863,230	**37,396,332**
Write-offs	(17,351)	-	(5,752,239)	**(5,769,590)**
Gross carrying amount as at 31 December 2019	**43,577,100**	**1,497,938**	**4,006,297**	**49,081,334**

	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)

5.1.5.2 Changes on the gross carrying amount (continued)

(b) Secured term loans-Gross 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 2019	**26,052,837**	**1,090,766**	7,061,855	**34,205,458**
Transfers:				
Transfer from stage 1 to stage 2	(1,196,477)	1,196,477	-	-
Transfer from stage 1 to stage 3	(581,604)	-	581,604	-
Transfer from stage 2 to stage 1	183,293	(183,293)	-	-
Transfer from stage 2 to stage 3	-	(211,656)	211,656	-
Transfer from stage 3 to stage 1	1,250,984	-	(1,250,984)	-
Transfer from stage 3 to stage 2	-	-	-	-
Financial assets derecognised during the period other than write offs	(15,485,165)	(1,054,811)	(3,652,327)	**(20,192,302)**
New financial assets originated or purchased	23,469,595	2,236,545	2,495,657	**28,201,797**
Write-offs	-	-	(911,928)	**(911,928)**
Gross carrying amount as at 31 December 2019	**33,693,463**	**3,074,029**	**4,535,534**	**41,303,025**

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

	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 31 December 2019	546,241	-	6,502,602	7,048,843
Transfers:				
Transfer from stage 1 to stage 3	(114,356)	-	114,356	-
Financial assets derecognised during the period other than write offs	(83,376)	-	(420,439)	(503,815)
New financial assets originated	77,484	-	-	77,484
Write-offs	-	-	(3,057,244)	(3,057,244)
Gross carrying amount as at 31 December 2019	**425,994**	-	**3,139,275**	**3,565,269**
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

(d) Off-balance sheet items	TZS'000
Loss allowances as at 1 January 2018	736,395
Movements	(736,395)
Loss allowance as at 31 December 2018	-

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1 Credit risk (continued)

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 2019 (2018: 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 2019 (2018: 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.

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 2019. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

(a) Geographical sectors (continued)

Credit risk exposures relating to on-balance sheet assets are as follows	Tanzania TZS '000	Europe TZS '000	America TZS '000	Others TZS '000	Total TZS '000
31 December 2019					
Balances with the Bank of Tanzania	15,678,629	-	-	-	15,678,629
Placement and balances with other banks	60,146	209,634	-	-	269,780
Investment in Government securities		-	-	-	-
- Amortised cost	25,038,871	-	-	-	25,038,871
Loans and advances to customers:	84,745,359	-	-	-	84,745,359
Other financial assets (Excluding Prepayments)	751,057	-	-	-	751,057
As at 31 December 2019	126,274,062	209,634	-	-	126,483,696
Credit risk exposures relating to off-balance sheet assets are as follows:					
Undrawn commitments	949,344	-	-	-	949,344
As at 31 December 2019	949,344	-	-	-	949,344

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 follow	Tanzania TZS '000	Europe TZS '000	America TZS '000	Others TZS '000	Total TZS '000
31 December 2018					
Balances with the Bank of Tanzania	17,255,776	-	-	-	17,255,776
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:	82,995,621	-	-	-	82,995,621
Other financial assets	4,605,748	-	-	-	4,605,748
As at 31 December 2018	131,624,615	227,924	-	-	131,852,539
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

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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 2019	Financial institutions TZS '000	Manu-facturing 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	15,678,629	-	-	-	-	-	-	-	15,678,629
Placement and balances with other banks	269,780	-	-	-	-	-	-	-	269,780
Investment in Government securities									
- Amortised cost	25,038,871	-	-	-	-	-	-	-	25,038,871
Loans and advances to customers:	-	208,563	-	387,311	60,173,607	452,347	4,376,982	19,146,549	84,745,359
Other assets (excluding prepayments)	-	-	-	-	-	-	-	751,057	751,057
As at 31 December 2019	40,987,280	213,309	-	-	52,910,230	906,958	1,062,126	30,255,148	126,483,696

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

Undraw n commitments	-	-	-	949,344	-	-	-	-	949,344
As at 31 December 2019	-	-	-	949,344	-	-	-	-	949,344

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)

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

31 December 2018	Financial institutions TZS '000	Manu-facturing 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	17,255,776	-	-	-	-	-	-	-	17,255,776
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	44,251,170	-	50,769,445	-	24,204,882	-	8,021,294	4,605,748	131,852,539

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

Undraw n commitments	-	-	874,578	-	-	-	-	-	874,578
As at 31 December 2019	-	-	874,578	-	-	-	-	-	874,578

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 2019. 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 2019	USD TZS'000	EURO TZS'000	GBP TZS'000	Others TZS'000	Total TZS'000
Assets					
Cash and balances with Bank of Tanzania	**574,566**	**-**	**-**	**-**	**574,566**
Placement and balances with other banks	**-**	**209,634**	**-**	**-**	**209,634**
Loans and advances to customers	**-**	**-**	**-**	**-**	**-**
Other assets (excluding prepayments)	**-**	**-**	**-**	**-**	**-**
Total financial assets	**574,566**	**209,634**	**-**	**-**	**784,200**
Liabilities					
Deposits from customers	**3,843,896**	**88,132**	**2,828**	**-**	**3,934,856**
Deposits from other banks	**-**	**-**	**-**	**-**	**-**
Lease liability	**18,948,741**	**-**	**-**	**-**	**18,948,741**
Other liabilities (excluding non-financial other liabilities)	**29**	**41,174**	**-**	**-**	**41,203**
Total financial liabilities	**22,792,666**	**129,306**	**2,828**	**-**	**22,924,800**
Net on-balance sheet financial position	**(22,218,100)**	**80,328**	**(2,828)**	**-**	**(22,140,600)**
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 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
Balance 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	-	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)

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	2019 TZS'000	2018 TZS'000
USD	10%	(1,603,905)	(6,723)
EURO	10%	12,930	116,507
GBP	10%	(282)	(2,828)

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 movem602ents 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)

5.2.1 Foreign exchange risk (continued)

5.2.2 Interest rate risk (continued)

As at 31 December 2019	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	-	-	-	-	25,244,076	25,244,076
Investment in Government securities						-
- Amortised cost	-	-	25,038,871	-	-	25,038,871
Placement and balances with other banks	-	-	-	-	269,780	269,780
Loans and advances to customers	2,705,470	3,649,406	35,919,756	42,470,727	-	84,745,359
Unquoted Equity Investments					20,000	20,000
Other assets (excluding prepayments)	-	-	-	-	751,057	751,057
Total financial assets	**2,705,470**	**3,649,406**	**60,958,627**	**42,470,727**	**26,284,913**	**136,069,143**
Liabilities						
Deposits from other banks	12,109,246	-	-	-	-	**12,109,246**
Lease liability	-	-	4,975,953	15,336,718	-	**20,312,671**
Deposits from customers	7,304,715	15,492,265	14,759,238	92,639	74,346,018	**111,994,875**
Other liabilities (excluding non-financial other liabilities)	-	-	-	-	1,625,272	**1,625,272**
Total financial liabilities	**19,413,961**	**15,492,265**	**19,735,191**	**15,429,357**	**75,971,290**	**146,042,064**
Total interest repricing gap	**(16,708,491)**	**(11,842,859)**	**41,223,436**	**27,041,370**	**(49,686,377)**	**(9,972,921)**

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	1 - 3 months	3 - 12 months	1-5 years	Non-interest bearing	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	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)

Sensitivity period	Net Interest-Bearing Funding	Net position	Impact
2019			
Less than 30 days			
1 year	**14,452,595**	**38,163,684**	**381,637**
2018			
Less than 30 days			
1 year	18,349,175	8,656,496	86,565

5.3 Liquidity risk

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

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

As at 31 December 2019	**Up to 1 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	**81,650,733**	**15,492,265**	**14,759,238**	**92,638**	**111,994,874**
Deposits from other Banks	**12,109,246**	**-**	**-**	**-**	**12,109,246**
Lease liability	**-**	**-**	**4,975,953**	**15,336,718**	**20,312,671**
Other liabilities (excluding non-financial liabilities)	**-**	**-**	**1,625,272**	**-**	**1,625,272**
Total liabilities	**93,759,979**	**15,492,265**	**21,360,463**	**15,429,356**	**146,042,063**
Assets held for managing liquidity	**28,219,326**	**3,649,406**	**60,958,627**	**42,470,727**	**135,298,086**
As at 31 December 2018					
Liabilities					
Deposits from customers	89,858,949	10,901,344	18,961,764	193,739	119,915,796
Deposits from other Banks	10,540,419	-	-	-	10,540,419
Other liabilities (excluding non-financial liabilities)	2,000,032	-	-	-	2,000,032
Total liabilities	102,399,400	10,901,344	18,961,764	193,739	132,436,598
Assets held for managing liquidity	48,083,252	11,488,728	42,622,611	36,321,065	138,515,655

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);
- Loans and advances to customers;
- Investment in government securities; and
- Placements and balances 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 32) are summarised in the table below.

(b) Financial guarantees and other financial facilities

Financial guarantees (Note 32) 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 2019			
Guarantee and indemnities	**-**	-	**-**
Undrawn commitments	**949,344**	-	**949,344**
Total	**949,344**	-	**949,344**
As at 31 December 2018			
Guarantee and indemnities	-	-	-
Undrawn commitments	874,578	-	874,578
Total	874,578	-	874,578

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.eas 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.

ii) 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.

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.5 Fair value of financial assets and liabilities

5.5.1 Fair value estimation

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

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

		Carrying amount		Fair value	
	Hierarchy level	2019 TZS'000	2018 TZS'000	2019 TZS'000	2018 TZS'000
Financial assets					
Cash and balances with Bank of Tanzania	Level 2	**25,244,076**	23,898,892	**25,244,076**	23,898,892
Government securities – Loans and receivable (Treasury bills)	Level 2	**25,038,871**	26,570,192	**25,038,871**	26,570,192
Placement and balances with other banks	Level 2	**269,780**	425,202	**269,780**	425,202
Loans and advances to customers	Level 3	**84,745,359**	82,995,621	**84,745,359**	82,995,621
Other assets (excluding prepayment)	Level 3	**751,057**	4,605,748	**751,057**	4,605,748
		136,049,143	138,495,655	**136,049,143**	138,495,655
Financial liabilities					
Deposits from customers	Level 3	**111,994,874**	119,915,796	**111,994,874**	119,915,796
Deposits from banks	Level 2	**12,109,246**	10,520,770	**12,109,246**	10,520,770
Lease liability	Level 2	**20,312,671**	-	**20,312,671**	-
Other liabilities (Excluding non-financial other liabilities)	Level 3	**1,625,272**	2,000,032	**1,625,272**	2,000,032
		146,042,063	**132,436,598**	**146,042,063**	**132,436,598**

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. 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)

5.6 Capital management (continued)

- 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 2019 and year ended 31 December 2018. During those two periods, the Bank has not complied with all of the externally imposed capital requirements to which they are subject.

	Note	2019 TZS'000	2018 TZS'000
Tier 1 capital			
Share capital	31	**10,984,416**	8,607,135
Share premium		**2,431,917**	2,431,917
Retained earnings		**4,687,639**	7,546,745
Less: Prepaid expenses	26	**(721,544)**	(1,190,859)
Less: Intangible assets	22	**-**	(712,320)
Less: Deferred tax assets	25	**(7,307,207)**	(7,825,685)
Total qualifying Tier 1 capital		**10,075,221**	8,856,933
Tier 2 capital			
General risk reserve		**-**	779,217
Total qualifying Tier 2 capital		**-**	779,217
Total regulatory capital		**10,075, 221**	9,636,150

NOTES (CONTINUED)

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.6 Capital management (continued)

	2019 TZS'000	2018 TZS'000
Risk-weighted assets		
On-balance sheet	**108,203,973**	86,085,246
Off-balance sheet	**350,268**	874,578
Operational risk	**17,810,835**	27,624,851
Market risk	**104,807**	215,547
Total risk-weighted assets and operational and market risk	**126,469,843**	114,800,222
	Bank's ratio 2019 %	Bank's ratio 2018 %
Tier 1 capital (BOT minimum 12.5%)	**7.97%**	7.72%
Tier 1 + Tier 2 capital (BOT minimum 14.5%)	**7.97%**	8.39%

Capital injection and growth plans

The board on behalf of the shareholders has reached an agreement with strategic investor to acquire 75% stake in the bank. An injection of capital into the bank as part of the investment will result in strong capital position, way above the required regulatory capital, supporting expansion and further growth of Akiba.

The strategic investor is a strong player in the eastern African financial market. Beyond capital investment, they also bring along wealth of experience acquired in operating in other African markets to push Akiba to higher competitive position in the Tanzanian financial market.

The following changes are expected as the new investor come on board:

i) Capitalization of the Bank to support growth and expansion.
The acquisition of 75% stake in the bank will ensure compliance with regulatory capital and an injection of new funds for growth, primarily expansion of financial solutions for MSME customers, in line with the focus of the bank.

ii) Introduce Digital Banking products
Immediately introduce bouquet of products under mobile banking, internet banking, Electronic funds transfers and related products to the market to enhance product offering and customer experience. Other solutions like Visa, Cardless, Companion card, Agency banking will be introduced within a shortest possible time.

iii) Digitalization transformation
Implement digitalization transformation in the bank to ensure all processes are digitalized for efficiency.

iv) Introduce Leasing, International Trade and Corporate Lending
Introduce leasing which is not currently offered in the bank and which has a very low penetration in Tanzania. Introduce international trade products by extending the relationships the investor has with providers of lines of credit available to the bank future.

NOTES (CONTINUED)

		2019 TZS 000	2018 TZS 000
6	**INTEREST INCOME**		
	Interest on loans and advances to customers	**27,508,276**	26,690,809
	Income from government securities	**1,754,158**	2,020,442
	Interest from placement with other banks	**2,206**	9,891
		29,264,640	28,721,142
7	**INTEREST EXPENSE**		
	Saving deposits	**1,029,234**	1,056,076
	Time deposits	**3,692,762**	4,115,084
	Lease liability	**1,382,528**	-
	Other borrowings	**698,837**	213,555
		6,803,361	5,384,715
8	**FEES AND COMMISSION INCOME**		
	Commission income	**1,281,054**	1,749,845
	ATM card	**83,873**	173,574
	ATM fees	**110,479**	179,592
	Loans commitment fees	**1,666,596**	1,911,980
	Legal fees	**-**	429,620
	Premature loans	**5,052**	50,668
	Withdrawal charges	**197,749**	324,534
	Ledger fees	**1,539,588**	2,033,146
	Telegraphic transfer	**49,736**	77,548
	Salary processing	**43,102**	53,864
	Other fees	**61,754**	92,747
		5,038,984	7,077,119
9	**FOREIGN EXCHANGE INCOME**		
	Foreign currency trading	**348,827**	90,216
10	**OTHER OPERATING INCOME**		
	Insurance income	**709,834**	662,363
	Profit on disposal of property and equipment	**2,603**	103,136
	Other income	**110,500**	53,817
		822,937	819,316

NOTES (CONTINUED)

		2019 TZS 000	2018 TZS 000
11	**EMPLOYEE BENEFITS EXPENSES**		
	Salaries and allowances	**11,002,570**	11,996,415
	Social security costs	**1,022,311**	1,224,227
	Medical insurance	**984,838**	1,232,061
	Leave allowance	**98,223**	136,998
	Staff welfare	**190,442**	107,023
	Staff incentives provision	**151,503**	93,040
	Skill and development levy	**460,258**	538,230
	Workers Compensation Fund	**94,546**	110,373
	Other staff cost	**640,713**	561,729
		14,645,405	16,000,096
12	**GENERAL AND ADMINISTRATIVE EXPENSES**		
	Operating leases	**-**	3,507,133
	Umoja Switch expenses	**419,227**	655,343
	Advertising and marketing	**300,019**	340,453
	ICT expenses	**936,026**	1,376,042
	Technical assistance fees	**898,730**	2,151,980
	Auditors' remuneration	**258,324**	201,072
	Directors' fees and other emoluments	**217,000**	237,962
	Training	**65,832**	138,513
	Travel and lodging	**263,218**	370,382
	Maintenance equipment	**315,449**	347,887
	Akiba Mobile expenses	**308,945**	338,469
	Fuel Motor vehicles and generators	**386,706**	462,575
	Telephones	**80,017**	117,391
	Stationery expenses	**290,122**	374,936
	Insurance	**422,064**	432,403
	Subscription and professional fees	**240,548**	393,183
	Legal expenses	**517,472**	759,325
	Right issues Expenses	**-**	112,100
	Security	**939,333**	1,052,289
	Premises expenses	**795,684**	715,939
	Provision other assets	**143,016**	(14,919)
	Postage and courier	**33,993**	30,220
	Auctioneer commission	**255,489**	280,809
	Miscellaneous expenses	**87,398**	46,032
		8,174,612	14,427,519

		2019 TZS 000	2018 TZS 000
13	**PRIOR YEAR TAX ASSESSEMENT CHARGES**		
	Assessed and paid	**997,238**	
	Assessed and provided for	**825,480**	-
			-
		1,822,718	-

NOTES (CONTINUED)

		2019 TZS 000	2018 TZS 000
14	**DEPRECIATION AND AMORTISATION**		
	Depreciation-Property and equipment (note 21)	**852,258**	967,168
	Amortisation-Intangible assets (note 22)	**159,992**	97,648
	Depreciation-Leasehold improvements (note 23)	**484,912**	502,019
	Amortization- Right of use of asset (note 24)	**1,933,781**	-
		3,430,943	1,566,876
15	**INCOME TAX EXPENSE/ (CREDIT)**		
	(a) Tax expense for the year is arrived at as follows:		
	Current income tax - current year	**-**	-
	Current income tax -prior year	**1,144,278**	-
	Deferred income tax - current year	**42,062**	(1,183,162)
	Deferred income tax - prior periods	**476,416**	(3,835)
		1,662,756	(1,186,997)

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

	2019 TZS 000	2018 TZS 000
Accounting loss before tax	**(1,225,880)**	(3,727,050)
Tax calculated at the statutory income tax rate of 30%	**(367,764)**	(1,118,115)
Tax effect of:		
Expenditure permanently disallowed	**567,518**	4,513
Bad debt recovery	**(104,509)**	(38,562)
Rights of use	**(53,183)**	
Fixed asset adjustment	**-**	(30,999)
Prior years corporate tax	**1,144,278**	-
Prior year deferred tax under/(over)-provision	**476,416**	(3,834)
Income tax expense	**1,662,756**	1,186,997
(c) Current income tax		
At 1 January	**(3,111,881)**	(3,111,881)
Charge to profit or loss	**1,144,278**	-
	(1,967,603)	(3,111,881)

		2019	2018
16	**CASH AND BALANCES WITH THE BANK OF TANZANIA**		
	Cash balances	**9,565,447**	6,643,116
	Balances with Bank of Tanzania:		
	Clearing account - local currency	**7,640,677**	5,967,676
	Clearing account - foreign currency	**574,566**	2,164,361
	Statutory minimum reserve (SMR)	**7,463,386**	9,123,739
		25,244,076	23,898,892

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 29). Cash and balances with Bank of Tanzania are non-interest bearing.

NOTES (CONTINUED)

17 LOANS AND ADVANCES TO BANKS

	2019 TZS 000	2018 TZS 000
Balance with foreign banks	**209,633**	227,924
Cheques and items in the course of clearing	**58,843**	196,921
Balances with local banks	**1,303**	357
Current	**269,780**	425,202

18 GOVERNMENT SECURITIES

	2019 TZS 000	2018 TZS 000
Treasury bills:		
Maturing after 91 days	**25,038,871**	26,570,192
Current	**25,038,871**	26,570,192

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.

19 LOANS AND ADVANCES TO CUSTOMERS

	2019 TZS 000	2018 TZS 000
Loans and advances to customers	**88,674,638**	94,560,735
Staff loans	**5,274,990**	5,714,970
Gross loans and advances	**93,949,628**	100,275,706
Less: allowance for impairment	**(9,204,269)**	(17,280,084)
	84,745,359	82,995,621

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

	2019 TZS 000	2018 TZS 000
Micro and Small Enterprises (MSEs)	**62,273,377**	66,693,192
Consumer loans	**1,122,725**	2,328,578
Term loans	**26,988,257**	24,204,882
Overdrafts	**3,565,269**	7,049,054
	93,949,628	100,275,706

Analysis of loans and advances to customers by maturity

	2019 TZS 000	2018 TZS 000
Maturing:		
Within 1 year	**42,274,632**	55,818,295
Between 1 year and 5 years	**42,470,727**	27,177,326
	84,745,359	82,995,621

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

	2019 TZS 000	2018 TZS 000
Balance at 1 January	**17,280,084**	17,951,863
IFRS 9-day one adjustment	**-**	1,593,220
Impairment (release)/charge for the year	**(468,049)**	3,184,175
Impairment directly charged to P&L upon writeoff	**2,640,642**	
Loans and advances written off during the year	**(10,248,408)**	(5,449,174)
	9,204,269	17,280,084

NOTES (CONTINUED)

19 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2019 TZS 000	2018 TZS 000
The provision as at year is made up of the following:		
Stage 3 (non-performing)	**7,653,174**	15,255,557
Stage 1 and 2 (performing)	**1,551,095**	2,024,527
	9,204,269	17,280,084
Impairment charge to profit or loss is broken down as follows:		
Impairment release/charge for credit losses	**(468,049)**	3,184,175
Direct write off during the year	**2,640,642**	-
Amounts recovered during the year	**(348,364)**	(128,538)
	1,824,229	3,055,637

20 UNQUOTED EQUITY INVESTMENT

	2019 TZS 000	2018 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.

21 PROPERTY AND EQUIPMENT

31 December 2019	**Motor vehicles TZS 000**	**Fixtures fittings and equipment TZS 000**	**Total TZS 000**
COST			
At start of year	**1,141,610**	**9,627,572**	10,769,182
Additions	**-**	**86,871**	86,871
Disposal	**-**	**(34,977)**	(34,977)
At end of year	**1,141,610**	**9,679,466**	10,821,076
DEPRECIATION			
At start of year	**926,971**	**7,877,368**	8,804,338
Charge for the year	**122,267**	**729,991**	852,258
Disposals	**-**	**(34,977)**	(34,977)
At end of year	**1,049,238**	**8,572,382**	9,621,619
NET BOOK VALUE			
At end of year	**146,542**	**1,107,084**	1,199,457

NOTES (CONTINUED)

21 PROPERTY AND EQUIPMENT (CONTINUED)

31 December 2019	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

None of the premises and equipment has been pledged as security for liabilities (2018: Nil).

22 INTANGIBLE ASSETS - COMPUTER SOFTWARE

	2019 TZS 000	2018 TZS 000
COST		
At start of year	3,572,430	3,029,835
Additions	339,954	542,595
At end of year	3,912,384	3,572,430
AMORTIZATION		
At start of year	2,860,110	2,762,463
Current year charge	159,992	97,648
At end of year	3,020,102	2,762,463
NET BOOK VALUE	892,282	712,320

NOTES (CONTINUED)

23 LEASEHOLD IMPROVEMENTS

	2019 TZS 000	2018 TZS 000
COST		
At start of year	6,429,054	6,492,196
Additions	-	40,553
Disposal/Write-Offs	-	(103,695)
At end of year	6,429,054	6,429,054
AMORTIZATION		
At start of year	4,692,751	4,190,732
Current year charge	484,912	502,019
At end of year	5,177,663	4,692,751
NET BOOK VALUE	1,251,391	1,736,304

24 RIGHT OF USE OF ASSET

	2019	2018
At start of year	18,303,792	-
Additions	3,555,633	-
At end of year	21,859,425	-
AMORTIZATION		
At 1 January 2019	-	-
Charge for the year	1,933,781	-
At 31 December 2019	1,933,781	-
NET BOOK VALUE	19,925,644	-

25 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:

	2019 TZS 000	2018 TZS 000
At start of year	7,825,685	6,160,721
Prior years (charge)/credit to profit or loss	(476,416)	3,835
Deferred tax on IFRS 9 Day 1 Impact	-	477,966
Current year (charge)/credit to profit or loss	(42,062)	1,183,163
At the end of year	7,307,207	7,825,685

NOTES (CONTINUED)

25 DEFERRED INCOME TAX (CONTINUED)

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

	1 January TZS '000	Deferred tax on Day 1 Impact TZS '000	(Debit)/ Credit to profit or loss TZS '000	31 December TZS' 000
2019				
IFRS 9 day 1 impairment	**477,966**	-	**(477,966)**	**-**
Tax losses	**1,767,661**	-	**1,783,620**	**3,551,281**
Property and equipment	**373,410**	-	**108,081**	**481,491**
Other timing differences	**5,206,648**	-	**(1,932,213)**	**3,274,435**
	7,825,685	-	**(518,478)**	**7,307,207**
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	1,186,998	7,825,685

26 OTHER ASSETS

	2019 TZS 000	2018 TZS 000
Float balance	**751,057**	4,384,252
Prepayments	**721,544**	1,190,859
Other receivables	**1,657,397**	1,988,198
Less: Provision for losses	**(1,590,505)**	(1,491,104)
Current	**1,539,493**	6,072,205

27 DEPOSITS FROM CUSTOMERS

	2019	2018
Current accounts	**15,542,184**	21,722,761
Biashara accounts	**17,060,439**	17,497,166
Savings accounts	**41,405,917**	44,704,063
Time deposit accounts	**37,648,857**	35,002,128
Solidarity savings	**337,477**	989,677
	111,994,874	119,915,796

MATURITY ANALYSIS:

	2019	2018
Payable within three months	**97,142,998**	99,890,747
Payable within three to twelve months	**14,759,238**	19,853,368
Payable over one year	**92,638**	171,682
	111,994,874	119,915,796

NOTES (CONTINUED)

28 LEASE LIABILITY

	2019 1 January TZS '000	2018 1 January TZS '000
At start of the year	**17,824,695**	-
Additional	**3,555,633**	-
Finance Cost	**1,382,528**	-
Payments	**(2,450,185)**	-
	20,312,671	-

29 OTHER LIABILITIES

	2019	2018
Statutory deductions	**413,971**	372,919
Withholding Tax and VAT Payable	**1,554,214**	621,358
Bills payable	**50,998**	61,708
Deferred facility fees	**191,293**	253,014
Accrued leave	**249,955**	177,523
Other accrued expenses	**327,266**	606,696
Trade creditors	**265,801**	358,973
Auditors fees payable	**191,283**	131,636
Directors fees payable	**192,050**	274,700
Dividend payable	**43,615**	45,436
Other accounts payable	**113,011**	90,346
	3,593,457	2,994,309

30 CASH AND CASH EQUIVALENTS

	2019	2018
Cash and balances with Bank of Tanzania (Note 16)	**25,244,076**	23,898,892
Less: Statutory Minimum Reserves (Note 16)	**(7,640,677)**	(9,123,739)
Mobile float balance	**751,057**	4,384,252
Loans and Advances to Banks (Note17)	**269,780**	425,202
	18,624,236	19,584,607

31 SHARE CAPITAL

	2019	2018
Authorised		
100,000,000 ordinary shares of TZS 1,000 each	**100,000,000**	100,000,000
Issued and fully paid		
10,984,416(2018: 8,607,135) ordinary shares of TZS 1,000 each	**10,984,416**	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)

32 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 (2018: NIL).

Commitments to extend credit
At the end of the reporting period the Bank had outstanding commitments to extend credit amounting to TZS 0.3 billion (2018: TZS 0.9 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 532 million (2018: TZS 306 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.

Tax disputes
There are pending tax appeal cases in the Tax Revenue Appeals Tribunal in which Akiba Commercial Bank is contesting tax assessments which amounts TZS 2 Billion (2018: 5.3 Nil).

Capital commitments
There were no capital commitments authorized as at year end.

33 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:

NOTES (CONTINUED)

33 RELATED PARTY DISCLOSURES (CONTINUED)

(i) Loans and advances to related parties

Advances to shareholders and their related companies were as follows:	2019 TZS '000	2018 TZS 000
At start of year	938,193	393,989
Net movement during the year	(535,323)	544,2014
At end of year	402,870	938,193
Interest income earned	-	-
Advances to key management personnel were as follows:		
At start of year	287,045	428,128
Net movement during the year	94,783	(141,083)
At end of year	381,828	287,045
Interest income earned	25,429	15,861

Loans and advances to related parties were fully performing as at 31 December 2019 and 31 December 2018.

(ii) Deposits from related parties

a) Deposits received from shareholders.	2019 TZS 000	2018 TZS 000
Inter Consult Limited	24,893	22
ERNCON Holdings Limited	5,468	8,340
	30,361	8,363
At start of year	8,363	4,679,777
Net movement during the year	21,998	(4,671,548)
At end of year	30,361	8,363
Interest expense incurred	-	-
a) Deposits by Directors and key management personnel		
At start of year	183,496	235,675
Net movement during the year	81,292	(52,179)
Balance as at 31 December	264,788	183,496
Interest expense incurred	2,342	3,142
(iii) Key management compensation		
Salaries	2,083,854	1,374,848
Other short-term benefits	48,335	204,386
	2,132,189	1,579,233

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

NOTES (CONTINUED)

33 RELATED PARTY DISCLOSURES (CONTINUED)

(iv)Directors' remuneration

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

Name	2019 Directors fees TZS 000	2019 Other emoluments TZS 000	2018 Directors fees TZS 000	2018 Other emoluments TZS 000
Ernest Massawe	**16,100**	**7000**	16,145	14,250
Joseph Rugumyamheto	**11,500**	**11,500**	11,532	11,000
Jean Marie Prevost	**11,500**	**14,000**	11,532	15,000
Brian Kuwik	**11,500**	**12,000**	11,532	15,000
John Fischer	**11,500**	**6,500**	11,532	8,000
Dr. Richard Kasungu	**11,500**	**11,500**	11,532	15,000
Rukia Adam	**11,500**	**11,000**	-	-
Josephat Lotto	**11,500**	**10,500**	-	-
Valerian Mablangeti	**11,500**	**1,500**	-	-
Selestine Joseph Some	**-**	**-**	11,532	13,250
Liesbeth Soer	**-**	**-**	11,532	10,500
Travelling/Lodging	**-**	**23,400**	-	31,968
	108,100	**108,900**	96,869	133,968

34 COUNTRY OF INCORPORATION

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

35 ASSETS PLEDGED AS SECURITY

As at 31 December 2019, treasury bills amounting to TZS 13,189 Million (2018: TZS 12,066 million) had been pledged by the Bank to secure liabilities the bank will liquidate the liability before maturity.

36 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.

37 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.

Celebrating World Savings Week 2019, Mwanza Branch Manager Harriet Bujiku handling present to Ilemela District Commissionerto Hon. Dr. Severine Mathias on World Savings week peak event 2019 took place at Furahisha grounds in Mwanza

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