AZANIA BANK LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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CORPORATE INFORMATION

HEAD OFFICE

Mawasiliano Towers, 3rd Floor
Plot No 20 Sam Nujoma Road
P. O. Box 32089
Dar es Salaam
Tanzania.

REGISTERED OFFICE

Mawasiliano Towers, 3rd Floor
Plot No 20 Sam Nujoma Road
P. O. Box 32089
Dar es Salaam
Tanzania.

CORRESPONDENT BANKS

Standard Chartered Bank –New York
SCB New York –IBF
One Madison Avenue
3rd Floor
New York, NY 10010-3603, USA.

EBI SA Groupe Ecobank
Les Collines de L'Árche
Immeuble Concorde F
92057 Paris La Defense Cedex.

MAIN BANKER

Bank of Tanzania
10 Mirambo Street
P. O. Box 2939
Dar es Salaam
Tanzania.

COMPANY SECRETARY

Mr. Charles C Mugila
Mawasiliano Towers
Plot No 20 Sam Nujoma Road
P. O. Box 32089
Dar es Salaam, Tanzania.

AUDITOR

Ernst & Young
Certified Public Accountants
Tan House Tower, 4th Floor,
Plot No.34/1-Ursino South,
P. O. Box 2475
Dar es Salaam, Tanzania.

AZANIA BANK LIMITED

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors have pleasure to present this report and audited financial statements for year ended 31 December 2018, which disclose the state of financial affairs of Azania Bank Limited ("the Bank"). These financial statements can be amended by the Board of Directors and regulatory bodies if found to be misleading after they have been issued to the public. These financial statements for the year ended 31st December 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 31st March 2019.

1. INCORPORATION

The Bank is incorporated in Tanzania under the Tanzanian Companies Act, 2002 as a limited liability Company whose shares are not publicly traded. The Bank is licensed by Bank of Tanzania under the Banking and Financial Institutions Act, 2006.

2. VISION

The vision of Azania Bank Limited is 'To be a One Stop Financial Centre'.

3. MISSION

The mission of Azania Bank Limited is: 'A customer centred bank of choice availing freedom of access to a range of quality financial products and services while enhancing shareholders value using appropriate technology, competent and dedicated staff'.

4. PRINCIPAL ACTIVITIES

The principal activity of Azania Bank Limited 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 2018.

5. BOARD OF DIRECTORS

Azania Bank Limited has a board comprising of eight Non-Executive Directors and one Executive Director. The Board Vice Chairman who is also the acting Chairman and four Non-Executive members of the Board represent Institutional shareholders, two are independent directors while one director represents the minority shareholders. In addition, East African Development Bank (EADB) is entitled to appoint one non-executive director. However, ever since Ms Juliana Sweke completed her tenure as Non-Executive Director EADB has not appointed another person to replace her. Following the reform in the social security sector and establishment of Public Service Social Security Fund (PSSSF) in year 2018, representation and composition of the board was also affected and necessitated changes.

The Board meets at least four times a year. The Board delegates the day-to-day management of the business to the Managing Director assisted by executive management team. Executive management team facilitates the effective control of the bank's operational activities, acting as a medium of communication between different business units.

All directors and employees adhere to the principles of the Code of Conduct in all their dealings on behalf of the bank. The Code of Conduct sets a standard in a manner that actions of directors and employees are in the best interest of the Bank and reflect the commitment to maintain highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

During the year ended 31 December 2018, the Board held four (4) ordinary meetings and eight (8) extraordinary meetings.

The Bank is committed to the principles of effective corporate governance. The directors also recognise the importance of integrity, transparency and accountability. The Board of Directors has four sub-committees which ensure high standard of corporate governance throughout the Bank.

6. BOARD OF DIRECTORS (Continued)

The Directors of the Bank, who have served in office during the year, and to the date of this report, are as follows:

S/n	Name	Position	Age	Qualification/Discipline	Nationality	Date of appointment	Date resigned
1	Prof. Godius Kahyarara	Chairman	54	PhD-Economics	Tanzanian	21 Feb 2017	July 2018
2	Mr Eliudi B. Sanga	Vice chairman	59	M.A Economics	Tanzanian	24 June 2010	
3	Mr Julius KAM Mganga	Member	58	ADA, MSC,	Tanzanian	1 March 2017	
4	Mr Arnold B. Kilewo	Member	81	LLB,	Tanzanian	11 April 2011	
5	Mrs Assumpta M. Mallya	Member	51	MBA	Tanzanian	14 March 2014	
6	Mr. Alphonce Tikyeba	Member	56	ADA, CPA(T)	Tanzanian	4th October, 2016	
7	Mr. Luseshelo Njeje	Member	41	MBA, CPA(T)	Tanzanian	10th November 2016	
8	Mr. Charles Itembe	Member	47	MA Economics	Tanzanian	1st April, 2017	
9	Mr. Rashid K. Mchatta	Member	49	MSc.	Tanzanian	25th September, 2017	
10	Mr. Felix M. Maagi	Member	49	MBA, CPA(T)	Tanzanian	25th September, 2017	
11	Mrs. Judith Kebara	Member	50	Msc Finance	Tanzanian	4th October, 2016	

* Prof. Godius Kahyarara ended his tenure in the Board on 14th July 2018.

The Company Secretary as at 31 December 2018 was Mr Charles Mugila who is also performing legal services activities for the bank as Director of Legal Services.

7. CORPORATE GOVERNANCE

The Board is committed to the principles of good corporate governance and recognize the importance of integrity, competency, responsibility, fairness, transparency and accountability as well as the need to conduct the business in accordance with the generally accepted best business practices. 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 executive management;
- The positions of Chairman and Managing Director are held by different people;
- The Chairman of the Board of Directors is non-executive;
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and monitoring of the institution performance;
- The Board is not involved in day to day operations of the Bank the task which is vested to management team under Managing Director

The Board has formed Committees which act on behalf of the Board in specific areas to direct the Bank effectively and accelerate the decision-making process.

Board Audit Committee

The main responsibilities of the Committee are to review financial information and monitor the effectiveness of management information and internal control systems. In addition, the Committee deliberates on the significant findings arising from internal and external audit and review findings by the Financial Sector Supervision Directorate of the Bank of Tanzania. There is no member from the committee who resigned during the year. The Committee meets at least four times a year.

Members of the Committee, who served during the year, were as follows:

Name	Position	Qualifications
Mr. Felix M. Maagi	Acting Chairman	MBA, CPA(T)
Mr Arnold B. Kilewo	Member	LLB, AMP
Mr. Rashid K. Mchatta	Member	MSc.

Mr. Eliudi B. Sanga was a chairman of the Committee up to July 2018. Thereafter he left the Committee and served as Acting Chairman of the Board after resignation of Professor Godius Kahyarara. According to the regulations issued by the Bank of Tanzania restricts a person who is chairing a Board Meeting to be a member of the Audit Committee. The committee met six times in a year whereby four meetings were ordinary and two meetings were extra ordinary.

Board Credit Committee

The Committee is responsible for the review of the bank's overall lending policy, conducting independent loan reviews, review of lending limits and is responsible for the overall management of credit risk.

Members of the Credit Committee, who served during the year, were as follows:

Name	Position	Qualifications
Mrs Assumpta M. Mallya	Chairperson	MBA
Mr. Luseshelo Njeje	Member	MBA,CPA(T), CPSP
Mr. Charles Itembe	Member	MA Economics

Board Member representing EADB has not yet been appointed since Jualiana Sweke ceased to be a member. The committee met four times in a year.

8. CORPORATE GOVERNANCE (Continued)

Board Risk Management and Compliance Committee

The Committee assists the Board in fulfilling its primary responsibilities by establishing and implementing the Risk Management framework of the Bank. The Risk Management framework focuses on risk management process which involves risk identification, evaluation, measurement, monitoring and mitigation.

The committee met four (4) times during the year to discuss risk and compliance reports.

Members of the Committee, who served during the year, were as follows:

Name	Position	Qualifications
Mrs. Assumpta M. Mallya	Chairperson	MBA
Mr. Luseshelo Njeje	Member	MBA, CPA(T), CPSP
Mr. Charles Itembe	Member	MA Economics

Board Member representing EADB has not yet been appointed since Jualiana Sweke ceased to be a member.

Board Human Resources Committee

The Committee deals with all matters pertaining to employees' welfare including recruitment and remuneration. The committee met four (4) times during the year to discuss Human Resources matters and reports. There is no member from the committee who resigned during the year. However, through committees' reorganization, two members; Mr. Eliudi B. Sanga and Mr. Arnold B. Kilewo left this committee and continued serving in Board Audit Committee and subsequently Mr. Eliudi B. Sanga left the Board Audit Committee to serve in the capacity of Chairman after resignation of Professor Godius Kahyarara.

Members of the Human Resources Committee, who served during the year, were as follows:

Name	Position	Qualifications
Mr Julius KAM. Mganga	Chairman	MSC, ADA
Mr. Alphonce Tikyeba	Member	CPA(T)
Mr. Charles Itembe	Member	M.A Economics

9. REMUNERATION OF BOARD OF DIRECTORS

The Directors fee together with any other payments to the Board members is usually approved by the Annual General Meeting. During the year under review, the Directors fees paid to Board members were TZS 78 million (2017: TZS 70 million). Other expenses incurred by the Board together with management compensation are disclosed on note 41 - Related party disclosures.

10. DIRECTORS' INTEREST

Mr Arnold B. Kilewo has interest in the share capital of the bank forming part of the minority shareholding. He holds 0.04% of the ordinary share capital.

11.MANAGEMENT OF THE BANK

The Board of Directors is entrusted with supervision of the bank and the day-to-day management is under the Managing Director who is assisted by Directors. As of 31st December 2018, organisational structure of the Bank comprised of the following independent department:

Departments
- Business Development
- Treasury and Capital Market
- Credit
- Finance and Planning
- Legal services
- Operations
- Information and Communication Technology
- Internal Audit
- Risk Management and compliance

Managing Director reports to the Board of Directors and in turn all Directors reports to the Managing Director except the Director of Internal Auditor who functionally reports to the Board Audit Committee and administratively to the Managing Director. During the year the Bank maintained the organizational structure which was put in place in year 2017. This structure has increased effectives in executing strategic and operational functions which led to attainment of planned financial results.

12. SHARE HOLDERS AND CAPITAL STRUCTURE

As at 31 December 2018, the following shareholders held shares in Azania Bank Limited:

12.1 Ordinary Shares

Name of shareholder	Number of shares held	Percentage Shareholding
Public Service Social Security Fund (PSSSF)	37,706,982	62.19
National Social Security Fund (NSSF)	21,383,262	35.27
East African Development Bank (EADB)	931,812	1.54
Minority shareholders (less than 1% each)	607,899	1.00
Total	**60,629,955**	**100**

During the year ended 31st December 2018, the Bank received TZS 1,000,000,000 being a fresh capital injection from then Public Services Pension Fund. Following establishment of Public Service Social Security Fund (PSSSF) shares of then PPF Pension Fund (PPF) Public Services Pension Fund (PSPF) and the LAPF Pension Fund (LAPF) were taken by PSSSF who turned to be majority shareholder.

12.2 Preference Shares (Non-cumulative)

Name of shareholder	Number of shares held	Percentage shareholding
National Social Security Fund (NSSF)	55,555	80
Public Service Social Security Fund (PSSSF)	13,889	20
	69,444	**100**

12. SHARE HOLDERS AND CAPITAL STRUCTURE (CONTINUED)

Shareholders of these preference shares are entitled to dividend and are given first priority over holders of ordinary shares when dividend is declared and paid. These preference shares do not accumulate dividend for the year the bank has not declared or paid dividend. Shareholders receive dividend only when declared and paid. During the year 2018 preference shares held by PPF Pension Fund (PPF) were transferred to Public Service Social Security Fund (PSSSF).

12.3 Convertible Loan Stock

Name of loan stockholder	TZS'000
Public Service Social Security Fund (PSSSF)	**2,000,000**

The loan stock was issued for the purpose of raising finance to develop the operation of Azania Bank Limited and can be converted into shares at nominal value. The Bank secured a loan stock from then Government Employees Pension Fund on 19 November 2014 for the period of five years at a rate of 16.75% per annum. The loan is subordinated and the lender has an option to convert the loan into ordinary shares on maturity. This convertible loan stock was transferred to Public Service Social Security Fund (PSSSF) in year 2018.

13. ACCOUNTING POLICIES

The accounting policies used in the preparation of the accounts are set on Note 6 to the financial statements and they are in line with the International Financial Reporting Standards (IFRSs).

14. PERFORMANCE FOR THE YEAR

The Bank's results are set out on page 20 of the financial statements. The comparative is based on the 2017 financial results. During the year under review, the Bank recorded a profit before tax of TZS 6,790 million (2017: TZS 2,482 million). The Bank performance improvement was mainly attributed to the additional investments on loans and advances that led to growth of interest income. Furthermore, containment of costs of funding led to decrease in interest expenses which translated into improved interest margin.

The interest income for the year ended 31 December 2018 increased by 19.9% to close at TZS 50,228 million (2017: TZS 41,901 million). The increase was mainly attributable to growth on interest income from loans and advances that grew to TZS 39,811 million (2017: TZS 29,942 million). The improvement was a result of increased investments volumes on loans and advances during the year.

On the other hand, interest expenses decreased by 35.7% in 2018 to TZS 10,824 million (2017: TZS 16,845 million) mainly due to deliberate action of negotiating lower on interest rates on deposits taking advantage of downward trend of market interest rates in the first half of the year.

15. PERFORMANCE FOR THE YEAR (CONTINUED)

Non-interest income during the year increased to TZS 9,051 million, an increase of 10.2% as compared to TZS 8,213 million recorded in preceding year. The increase is notable on fees and commission income which closed at TZS 7,436 million, recording an increase of 12.3% when compared to TZS 6,622 million for year 2017. The increase was a result of increased volume of and amount of business transactions.

Foreign exchange income declined slightly by 3.0% to TZS 1,494 million (2017: TZS 1,539 million) whereas other income increased significantly by 132.4% to TZS 121 million (2017: TZS 52 million). The increase in other income resulted from increase of recovery charged off loan facilities.

Operating expenses increased by 27.3% to TZS 38,757 million (2017: TZS 30,443 million). Notable increases are on personnel costs by 32.6% due to recruitments made by the bank during the year where number of staff increased from 293 in 2017 to 359; premises costs grew by 15.1%, equipment maintenance costs by 24.1%, general and administrative costs increased by 25.4% mainly due to increased business operations, opening two new branches and relocation of three branches while depreciation expenses recorded an increase of 15.2% due acquisition of core banking system and other peripheral systems..

16. FINANCIAL POSITION

As at 31 December 2018 total assets were TZS 502,949 million (2017: 390,009 million) showing a growth of 29.0%. The increase in total assets is notable on loans and advance to TZS 283,569 million (2017: 186,703 million) signifying 51.9% growth as well as investment held to maturity which grew to TZS 86,000 million (2017: TZS 77,614 million) signifying 10.8% growth. Moreover, intangible assets and other assets grow by 992.5% and 29.9% to TZS 7,586 and TZS 3,572 (2017: 694 and TZS 2,751 million) respectively. The higher growth on intangible assets is due to upgrade of core banking system.

Customer deposits increased by 29.67% to TZS 350,169 (2017: TZS 271,370 million). The increase was mainly attributed to growth in corporate business and enhanced engagement with institutional depositors.

The shareholders' fund increased by 0.6% to TZS 58,213 million (2017: TZS 57,881 million). Such growth of equity was mainly attributed to profit made during the period. During the year the bank recorded a net profit of TZS 5,898 million (2017: TZS 1,808 million). The core capital and total capital ratios as at 31 December 2018 stood at 11.13% and 12.61% respectively (2017: 19.33% and 21.60% respectively), The main attributes of the decrease in capital adequacy ratios are acquisition of the core banking system and increase in the loan portfolio. The minimum regulatory requirement for core capital and total capital ratios is 10.0% % and 12.0% respectively.

17. KEY PERFORMANCE INDICATORS

Indicator	Definition and Formula	2018	2017
Return on Equity	Net Profit/Average Total Equity	10.16%	3.40%
Return on Assets	Profit Before Tax/Average Total Assets	1.32%	0.41%
Non-interest income to Gross income	Non-Interest Income/(Interest + non-interest Income)	15.27%	16.39%
Interest Expense to Interest Income	Interest Expense/Interest Income	21.55%	40.20%
Operating expenses to gross income	Operating Expenses/(interest + non-interest income)	64.35%	60.93%
Non-interest expense to gross income	Non-interest expenses (including provisions)/(Interest + non-interest income)	70.29%	61.62%
Non-performing loans to total advances	Non-Performing Loans / Gross Loans	8.40%	12.29%
Loans to total assets	Net Loans/Total Assets	60.19%	48.00%
Growth of Loans and Advances	(Current –prev. year net loans)/prev. year Net Loans	53.33%	10.30%
Growth of Assets	(Current –prev. year Total Assets)/prev. year Total Assets	25.78%	15.02%
Tier 1 Capital	Core Capital/Risk Weighted Assets (incl. Off B. sheet)	11.13%	19.33%

18. CASHFLOW AND LIQUIDITY MANAGEMENT

During the year under review the investments of the Bank were financed by shareholder's capital as well as deposits from public. The Bank mobilised deposits amounting TZS 78,799 million from the public and borrowing of TZS 35,893 million from the banks which were used for investment in various business avenues. Furthermore, the bank received fresh equity of TZS 1,000 million from institutions shareholder as stipulated in section 12 of this directors' report. Operations of the Bank were financed by proceeds collected from business investments. The cash flows of the Bank were stable to continue supporting business operations and additional investments. Liquidity management of the Bank is of high importance more details on liquidity risk management are given in note 43.

19. FUTURE DEVELOPMENT PLAN

This was a first year for the bank in implementation of its five years' strategic plan, the bank has implemented state of art core banking system in year 2018 which is the latest version re-known as Flex cube Oracle12.4 from Oracle Financial Services, this system is the state of the art technology in banking sector with enhanced core banking applications as well as Digital experience which gives Azania bank competitive advantage in banking business as well as in its Digital Transformation Journey to serving both Retail and Corporate Segments. In year 2019 the bank is expecting to launch its agency banking business which will give mileage to the bank on its strategy of financial inclusion and improvement of financial services delivery towards transforming the nation into industry economy by 2025.

20. RISK MANAGEMENT AND INTERNAL CONTROL

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

- The effectiveness and efficiency of operations;
- The safeguarding of the bank's assets;
- Compliance with applicable laws and regulations;
- The reliability of the accounting records;
- Business continuity 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 the prescribed measures. There is always a risk of non-compliance of such measures by staff. Whilst no system, of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively.

The Board assessed the internal control systems throughout the financial year ended 31 December 2018 and is of the opinion that they meet accepted criteria.

The Board carries risk and internal control assessment through the Audit and Risk committees.

21. SERIOUS JUDICIAL MATTER

As at the end of the reporting period the Bank did not have any uncertain issue warranting reporting.

22. SOLVENCY

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

23. EMPLOYEE WELFARE

Management and Employees' Relationship

There were continuous good relations between employees and management for year ended 31 December 2018. There were no unresolved complaints received by the management from employees during the year.

Employment opportunities employer

The Bank is equal opportunity employer. It gives equal access to employment 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.

24. EMPLOYEE WELFARE (CONTINUED)

Staff training

During the year ended 31 December 2018, the Bank spent TZS 494 million (2017: TZS 181 million) for staff training, an increase of 148%. To show the commitment to improve staff performance the Bank has budgeted sum of TZS 700 million for the year 2019 that will be utilized to train staff in order to improve employees' competencies and technical skills. Training programs have been and are continually being developed to ensure employees are adequately trained at all levels.

Medical facilities

All members of staff and up to maximum number of four beneficiaries (dependants) for each employee have medical insurance guaranteed by the Bank. Currently, these services are provided by AAR Insurance (T) Ltd.

Financial assistance to staff

Loans are available to all confirmed employees depending on the assessment and are issued in accordance with the Human Resources Policy. Loans provided to staff include mortgage finance, personal, car loans, and salary advances.

Employees benefit plan

The Bank pays contributions to publicly administered pension plans on mandatory basis which qualifies to be a defined contribution plan. The Bank obligations in respect of these contributions are limited to 15% of the employees' monthly basic salaries.

Workers compensation fund

This is a social security scheme established by the Government responsible for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. Under this arrangement, the bank contributes to the fund 1% of the monthly wage bill it has paid to its staff for which all the dues were settled by end of December 2018.

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.
As at 31 December 2018 the Bank had the following distribution of employees by gender.

Gender	2018	2017
Male	188	151
Female	171	142
Total	**359**	**293**

25. RELATED PARTY TRANSACTIONS

All related party transactions and balances as at 31st December 2018 are disclosed in Note 43 to the financial statements.

26. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. However, charitable donations amounting to TZS 24 million (2017: TZS 37 million) were made to various charitable organisations as part of the Bank's Corporate Social Responsibility activities.

27. CORPORATE SOCIAL RESPONSIBILITY

The Bank has been engaging in various activities to improve wellbeing of the society in which it operates. This activity demonstrates the Bank's commitments to serve the society by ensuring that the community in which the Bank operates benefits with its presence.

During the year under review the Bank donated to Songea District Council for rehabilitation of three Dispensaries by TZS 10 million as well as donation to Rishor Pre and Primary school by TZS 1 million. Furthermore, the Bank donated TZS 0.5 million to Muhimbili Hospital during tuberculosis day. The Bank has set aside fund to continue participating in social activities with aim of improving wellbeing of community in which it is operating.

28. AUDITOR

During the year, Ernst and Young were reappointed as auditor of the Bank, and have expressed their willingness to continue in office and are eligible for re-appointment. A resolution proposing the re-appointment of the external auditor of the Bank for the financial year 2019 will be put to the Annual General Meeting.

BY ORDER OF THE BOARD

Felix M. Maagi
Board Director

31st MARCH 2019

Mr. Charles Itembe
Managing Director

31st MARCH 2019

AZANIA BANK LIMITED

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

The Companies Act, 2002 requires the 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. 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.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error. The financial statements have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act, 2002. The Directors are of the opinion that the financial statements present fairly, in all material respects, the state of the financial affairs of the Bank and of its financial results in accordance with International Financial Reporting Standards the requirements of the Companies Act, 2002 and the Banking and Financial Institutions Act, 2006 of Tanzania.

The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement. To enable the Directors to meet these responsibilities they set standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Bank and all employees are required to maintain the highest ethical standards in ensuring the Bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Bank is on identifying, assessing, managing and monitoring all known risks across the Bank. While operating risk cannot be fully eliminated, the Bank endeavours to minimise it by ensuring the appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Directors are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.
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.

Approval of financial statements

The financial statements of Azania Bank Limited, as identified in the first paragraph, were approved by the Board of Directors on 31st.......day of MARCH.. 2019 and signed by:

Felix M. Maagi
Board Director

Mr. Charles Itembe
Managing Director

AZANIA BANK LIMITED

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

The National Board of Accountants and Auditors (NBAA) according to the power conferred under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the 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/Governing Board/Management 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/Governing Board as under Directors Responsibility statement on an earlier page.

I **Lyamba Julius** being the Director of Finance of Azania Bank Limited hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2018, have been prepared in compliance with applicable accounting standards and statutory requirements.

I thus confirm that the financial statements of Azania Bank Limited comply with applicable accounting standards and statutory requirements as on that date and that they have been prepared based on properly maintained financial records.

Signed by: ....

Position: **Director of Finance and Planning**

NBAA Membership No.: ACPA 3690

Date: ......31st..............**March 2019**

EY
Building a better working world

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Azania Bank Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Azania Bank Limited (the Bank) set out on pages 20 to 105, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

Key Audit Matters

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

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

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INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of Azania Bank Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

Key Audit Matters (Continued)

No.	Key audit matter	How our audit addressed the key audit matter
1.	**Credit risk and Expected Credit Losses on the financial instruments**	
	IFRS 9: Financial Instruments was effective 1 January 2018. Bank has applied IFRS 9 using a modified retrospective approach, with an adjustment to retained earnings and other reserves on 1 January 2018. Comparative periods have not been restated. The IFRS 9 Expected credit losses (ECL) approach is applicable to all financial assets at amortised cost and debt financial assets at fair value through other comprehensive income, lease receivables, contract assets, loan commitments and financial guarantee contracts. This presents a change from the scope of the IAS 39 impairment model, which excluded loan commitments and financial guarantee contracts. ECL represents management's best estimate of the losses expected to be incurred at the reporting date. The ECL allowances are significant in the context of the financial statements due to their magnitude as well as the estimation uncertainty and significant level of judgement inherent in determining the value of the allowances. The models used to determine the ECL estimate are complex and include inputs from multiple sources. Management applies adjustments to the model outputs to cater for factors not included in the model assessment, which can be highly subjective. As at 31 December 2018, the provision for impairment on financial assets was TZS 19.7 billion. This represents the estimation of expected losses at the year end. There is a risk that the provision for impairment of financial assets does not represent a complete and accurate estimate of expected losses and that the carrying value of these items is misstated. This includes the risk that the ECL model is not in compliance with IFRS 9. The accounting policy and key sources of estimation uncertainty in relation to financial asset impairment provisions are disclosed in Note 6(g) to the financial statements.	The following procedures were performed: • We undertook an assessment of the bank's new provisioning methodology and compared it with the requirements of IFRS 9. • We reviewed the application of the business model to existing portfolios and reviewed the results of the Solely Payments of Principal and Interest test for relevant financial instruments. • We evaluated the design and operating effectiveness of the bank's key controls and IT controls around credit management, ECL model and provision assessment. • We tested key controls over completeness and accuracy of data inputs to loan loss provisioning. • We assessed management's assumptions in relation to 'significant increase in credit risk' assessment as required by IFRS 9. We tested a sample of loans to test whether the Bank has appropriately considered and assessed increase in credit risk and that loans have been classified in the correct categories in accordance with the bank's methodology and IFRS 9. • We reviewed the IFRS 7 disclosures for compliance with the amendments relating to IFRS 9.

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INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of Azania Bank Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

Other Information included in the Bank's 2018 Director's Report

Other information consists of the information included in the Directors' Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

Responsibilities of the Directors for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of Azania Bank Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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INDEPENDENT AUDITOR'S REPORT (Continued)

To the shareholders of Azania Bank Limited

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS (Continued)

As required by the Banking and Financial Institutions (External Auditors) Regulations, 2015 of Tanzania, we report to you, based on our audit, that;

- In our opinion, the capital adequacy ratios as presented in Note 40 to the financial statements have been computed in accordance with the Banking and Financial Institutions Act, 2006, and the Banking and Financial Institutions (Capital Adequacy) Regulations, 2015 of Tanzania.

The engagement partner on the audit resulting in this independent auditor's report is Neema Kiure-Mssusa.

21 MAY 2019

Neema Kiure Mssusa - (FCPA 1227)
For and behalf of:
Ernst & Young
Certified Public Accountants
Dar es Salaam

Date

AZANIA BANK LIMITED

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

	NOTES	2018 TZS'000	2017 TZS'000
Interest income	7	50,228,075	41,900,918
Interest expense	8	(10,823,957)	(16,845,381)
Net interest income		**39,404,118**	**25,055,537**
Impairment charge on loans and advance	9	(3,517,670)	(344,180)
Net interest after impairment charge		**35,886,448**	**24,711,357**
Fees and commissions income	10	7,435,819	6,622,078
Foreign exchange income	11	1,493,652	1,539,082
Other income	12	121,098	52,102
Total non-interest income		**9,050,569**	**8,213,262**
Personnel expenses	13	(21,015,153)	(15,853,886)
Premises maintenance costs	14	(3,890,588)	(3,381,185)
Equipment maintenance costs	15	(1,784,474)	(1,438,182)
Depreciation and amortization	16	(2,025,705)	(1,759,057)
General and administrative expenses	17	(9,430,895)	(8,010,559)
		(38,146,815)	**(30,442,869)**
Profit before tax		**6,790,202**	**2,481,750**
Income tax expense	18	**(892,590)**	**(673,961)**
Profit for the year		**5,897,612**	**1,807,789**
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurements of defined benefit liability		-	(413,890)
Gain on fair value of available for sale financial assets		-	127,380
Income tax effect		-	85,953
Other comprehensive income, net of tax		-	**(200,557)**
Total comprehensive income for the year, net of tax		**5,897,612**	**1,607,232**

The accounting policies and Notes on pages 25 to 105 form part of, and should be read in conjunction with, these financial statements.

AZANIA BANK LIMITED
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 TZS'000	2017 TZS'000
Assets			
Cash and balances with the Bank of Tanzania	19	51,745,134	48,017,101
Loans and advances to banks	20	49,505,171	57,690,007
Financial assets - Government securities	21	85,999,794	77,614,959
Loans and advances to customers	22	283,569,514	186,703,462
Available for sale investments	23	3,391,380	3,391,380
Property and equipment	24	8,058,285	7,278,806
Intangible assets	25	7,586,062	694,351
Current tax asset	26	521,476	1,210,800
Deferred tax asset	27	8,631,515	4,657,214
Other assets	28	3,571,996	2,750,724
Total assets		**502,580,327**	**390,008,803**
Liabilities			
Loans and Advances from banks	29	74,611,737	38,718,867
Deposits from customers	30	350,168,619	271,369,531
Revolving Credit Lines	31	13,403,107	14,777,101
Convertible loan stock	32	2,039,781	2,039,781
Payables and Accruals	33	4,144,168	3,266,209
Group Endowment Scheme	34	-	1,956,459
Total liabilities		**444,367,412**	**332,127,948**
Ordinary share capital	35	60,629,954	59,629,954
Preference share capital	35	69,444	69,444
Accumulated losses		(6,454,469)	(8,892,717)
Revaluation reserve	36	364,948	364,948
Defined Benefit Scheme		-	(39,727)
Available for sale reserve		959,966	959,966
General provision reserve		2,643,072	1,693,036
Regulatory reserve	37	-	4,095,951
Total equity		**58,212,915**	**57,880,855**
Total liabilities and equity		**502,580,327**	**390,008,803**

The financial statements on pages 20 to 105 were approved for issue by the Board of Directors on 31st March 2019 and signed on its behalf by:

Mr. Felix M. Maagi
Board Director

Mr. Charles Itembe
Managing Director

AZANIA BANK LIMITED

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

	Ordinary share capital	Preference share capital	Advance share capital	Share premium	(Accumulated losses)	Available for sale reserve	Revaluation Reserve reserve	Defined Benefit Scheme	General reserve	Regulatory reserve	Total
	TZS'000			TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
As at 1 January 2018	59,629,954	69,444	-	-	(8,892,717)	959,966	364,948	(39,727)	1,693,036	4,095,951	57,880,855
Impact of adopting IFRS 9 (Refer to note 6.1)					(8,442,317)						(8,374,236)
Deferred Tax					2,532,695						2,464,614
	59,629,954	**69,444**	**-**	**-**	**(5,909,622)**	**959,966**	**364,948**	**(39,727)**	**1,693,036**	**4,095,951**	**51,971,233**
Transfer from regulatory reserve					4,095,951					(4,095,951)	-
Restated opening balance as at 1 January 2018	**59,629,954**	**69,444**	**-**		**(10,706,388)**	**959,966**	**364,948**	**(39,727)**	**1,693,036**	**-**	**51,971,233**
Additions/Transfer during the year	1,000,000	-	-	-	(39,727)		-	39,727		-	1,000,000
Profit during the year	-	-	-	-	5,897,612	-	-			-	5,897,613
Payment of Dividend					(655,930)						(655,930)
Defined benefit liability	-	-	-		-	-		-			-
Transfer to regulatory reserve	-	-	-	-	(950,036)	-	-		950,036	-	-
Realized profit on disposal of revalued assets	-	-	-		-		-				-
As at 31 December 2018	**60,629,954**	**69,444**	**-**	**-**	**(6,454,469)**	**959,966**	**364,948**	**-**	**2,643,072**	**-**	**58,212,915**

AZANIA BANK LIMITED

STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2018

	Ordinary share capital	Preference share capital	Advance share capital	Share premium	(Accumulated losses)	Available for sale reserve	Revaluation Reserve reserve	Defined Benefit Scheme	General reserve	Regulatory reserve	Total
As at 1 January 2017	23,637,594	69,444	3,028,000	6,745,860	(9,812,203)	870,800	367,890	249,996	1,503,254	3,397,430	30,058,065
Additions during the year	35,992,360	-	(3,028,000)	(6,745,860)	-		-			-	26,218,500
Profit during the year	-	-	-	-	1,807,789	89,166	-			-	1,896,955
Defined benefit liability	-	-	-		-	-		(289,723)			(289,723)
Transfer to regulatory reserve	-	-	-	-	(888,303)	-	-		189,782	698,521	-
Realized profit on disposal of revalued assets	-	-	-		-		(2,942)				(2,942)
As at 31 December 2017	**59,629,954**	**69,444**	**-**	**-**	**(8,892,717)**	**959,966**	**364,948**	**(39,727)**	**1,693,036**	**4,095,951**	**57,880,855**

The accounting policies and Notes on pages 25 to 105 form part of, and should be read in conjunction with, these financial statements.

AZANIA BANK LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTES	2018 TZS'000	2017 TZS'000
Operating activities			
(Loss)/profit before income tax		6,790,202	2,481,750
Adjustments for non-cash items:			
Impairment charges on loans and advances to customers		2,907,008	344,180
Amortization of intangible assets	25	335,588	274,516
Depreciation of property and equipment	24	1,690,117	1,484,541
Cash flows from operating activities before changes in working capital items		**11,722,915**	**4,584,987**
Decrease/ (Increase) in loans to banks maturing after 3 months		1,842,500	(816,570)
Increase in loans and advances to customers		(99,773,060)	(13,759,590)
Decrease/(Increase) in investments held to maturity maturing after 3 months		10,342,095	(9,503,922)
Increase in Statutory Minimum Reserve		(8,192,123)	(13,235,523)
Decrease in other assets		1,016,507	380,973
Increase in deposits		98,984,672	22,200,510
Increase in other liabilities		(709,111)	(1,339,831)
Tax paid		(1,893,206)	(1,363,194)
Net cash flows from/ (used in) operating activities		**13,341,189**	**(12,852,160)**
Investing activities			
Purchase of property and equipment	24	(3,576,423)	(1,616,976)
Purchase of intangible assets	25	(6,688,859)	(12,626)
Net cash used in investing activities		**(10,265,282)**	**(1,629,602)**
Financing activities			
Payments of revolving credit lines		(1,373,994)	(10,515)
Proceeds from new equity		1,000,000	26,218,500
Payment of Dividend		(655,930)	-
Net cash flows (used in)/ from financing activities		**(1,029,924)**	**26,207,985**
Net increase/(decrease) in cash and cash equivalents		**2,045,983**	**11,726,222**
Cash and cash equivalent at the beginning of the year		**94,116,396**	**82,390,173**
Cash and cash equivalent at the end of the year	38	**96,162,378**	**94,116,396**

The accounting policies and Notes on pages 25 to 105 form part of, and should be read in conjunction with, these financial statements.

1. GENERAL INFORMATION

Azania Bank Limited is a limited liability company incorporated in Tanzania under the Companies Act, 2002 and is domiciled in the United Republic of Tanzania. It is licensed to operate as a bank under the Banking and Financial Institutions Act, 2006 and is regulated by the Bank of Tanzania. The registered office of the bank is:

Mawasiliano Towers, 3rd Floor
Plot No. 20 Sam Nujoma Road
P. O. Box 32089
Dar es Salaam
Tanzania.

2. BASIS OF PREPARATION

i. Compliance statement

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and accordance with the requirements of the Companies Act, 2002.

ii. Basis of measurement.

The financial statements have been prepared on the historical cost basis except for available-for-sale financial assets which are measured at fair value.

iii. Presentation of financial statements

The presentation of financial position is broadly in order of liquidity. Information regarding recoverability or settlement after reporting period is disclosed in the notes.

3. FUNCTIONAL AND PRESENTATION CURRENCY

These financial statements are presented in Tanzania Shillings (TZS), which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

4. USE OF JUDGEMENTS AND ESTIMATES

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

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. 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.

4. USE OF JUDGEMENTS AND ESTIMATES (Continued)

(a) Fair value of financial instruments

The Bank estimates the fair value of financial instruments where no active market exists or where quoted prices are not otherwise available by using valuation techniques. In these cases, the Bank estimate the fair value of financial instruments using unobservable data and by applying appropriate assumptions. The fair value of financial instruments has been disclosed in Note 21 to the financial statements.

(b) Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a Bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future credit risk losses should depend not just on the health of the economy today, but should also take account of changes to the economic environment in the future. To capture the effect of changes to the economic environment in the future, the computation of probability of default (PD), loss given default (LGD) and so expected credit loss incorporates forward-looking information; assumptions on the path of economic variables and asset prices that are likely to have an effect on the repayment ability of the Bank's clients. Such variables include Inflation, GDP Growth, oil prices fluctuation, average electricity generation, natural gas, population, total household spending, total food sales, total public debt, Government spending in priority sector, unemployment rate, exchange rate movement.

(c) Cure rate

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

(d) Business model assessment

The business model reflects how the Bank manages its assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the asset or to collect both contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a 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.

4. USE OF JUDGEMENTS AND ESTIMATES (Continued)

(e) Significant increase of credit risk

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

(f) Establishing Groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are Grouped on the basis of shared risk characteristics. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that Group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

5. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(i) New and amended standards and interpretations that became effective during the year

The new and amended standards and interpretations that became effective during the year did not have significant impact on the accounting policies except for IFRS 9, have been discussed below;

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendment had no significant impact on the Bank.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of deductible temporary difference related to unrealized losses. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12
The amendments clarify that the disclosure requirements in IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

IFRS 9 Financial instruments
IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in Note 5 to the financial statements.

Changes in classification and measurement
To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), held-to-maturity and amortized cost) have been replaced by:

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

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

5. NEW STANDARDS, AMMENDMENTS AND INTERPRETATIONS (Continued)

(i) New and amended standards and interpretations that became effective during the year

IFRS 9 Financial instruments (Continued)

The Bank's classification of its financial assets and liabilities is explained in Notes 6. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 22.

Changes to the impairment calculation
The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. Details of the Bank's impairment method are disclosed in Note 5. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note 22 to the financial statements.

IFRS 15 Revenue from contracts with customers:
The standard is effective on 1 January 2018. The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures. However, the Bank has no significant revenue generating contracts with customers that are not within the scope IFRS 9.

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

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

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

5. NEW STANDARDS, AMMENDMENTS AND INTERPRETATIONS (Continued)

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

IFRS 16 Leases (Continued)

The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2019, the Bank will continue to assess the potential effect of IFRS 16 on its financial statements.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Recognition of interest income and expenses

Effective interest rate method

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

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

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

Interest and similar income and expenses

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets. When a financial asset becomes credit-impaired (as set out in Note 43) and is, therefore, regarded as 'Stage 3', the Bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures (as outlined in Note 6) and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

For purchased or originated credit-impaired (POCI) financial assets, the Bank calculates interest income by calculating the credit-adjusted EIR and applying that rate to the amortised cost of the asset. The credit-adjusted EIR is the interest rate that, at original recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the POCI assets.

b) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when syndication has been completed and the bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Dividend income

Dividend income is recognised when the bank's right to receive the payment is established. Dividends are presented as other operating income based on the nature of investments currently held.

d) Foreign currency translation

Foreign currency transactions are translated into Tanzanian Shillings using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated with closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition. 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 statement of profit or loss.

e) Leases

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and benefits. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between finance expense and the reductions of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of liability.

f) Employee benefits

Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Defined Pension contributions plans

The Bank operates a defined contribution plan whereby each of its employees contribute to the state managed (statutory) funds namely the Public Services Social Security Fund (PSSSF) which has replaced Parastatal Pensions Fund (PPF), Public Service Pensions Fund (PSPF), Government Employees Pension Fund (GEPF) and Local Authority Pensions Fund (LAPF), and the National Social Security Fund (NSSF). The Bank contributes 15% of basic salary for each employee while the employees contribute 5%. Apart from these monthly contributions, the bank has no further commitments or obligations to these funds. The contributions are charged to the profit or loss in the year to which they relate.

Workers Compensation Fund

This is a social security scheme established for compensating workers who suffer occupational injuries or contract occupational diseases arising out of and in the course of their employment. The Bank is required to contribute to the fund % of the monthly wage bill. The Bank remits the contributions on month to month basis and costs recognised in respective months.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Employee benefits (Continued)

Defined benefit plans

The Bank has Group endowment plan, a defined benefit plan which provide entitlement for Bank employees employed before 1 July 2014. Employees with more than 5 years in employment with the Bank are entitled for a specific percentage of basic salary for completed months of service on retirement age or voluntarily retiring at age of 55 years or retirement on restructuring and medical grounds.

The Bank's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Re-measurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income (OCI) in the period in which they occur. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan in the period the settlement occurs.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments

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

Category (As defined by IFRS 9)		Class (as determined by the Bank)	
Financial assets	Amortized cost	Loans and Advances to Banks	
		Loans and advances to Customers	Loans to individuals Loans to corporate entities Loans to SMEs Loans to Microfinance
		Investment in Debt securities	Government securities
	Fair value through profit or loss (FVPL)	Equity investment	
	Fair value through other comprehensive income(FVOCI)	Equity investment designated at FVOCI	
		Other treasury bonds held to collect contractual cash flows and sale	
Financial liabilities	Financial liabilities at amortised cost	Deposits from Banks	
		Borrowings	
		Deposits from customers	Retail customers Corporate customers

Financial assets

Accounting policies applicable in current period under IFRS 9:

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

Classification and subsequent measurement of financial assets depends on;

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 financial assets into one of the following three measurement categories.

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

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (Continued)

Accounting policies applicable in current period under IFRS 9 (Continued):

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

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

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

Securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVPL.

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

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

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (Continued)
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. Examples of equity instruments include basic ordinary shares.

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

Accounting policies applicable in prior period under IAS 39
The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Management determines the appropriate classification of its financial assets at initial recognition.

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

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

Loans and receivables are initially recognized at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method. Loans and receivables are reported in the balance sheet as loans and advances to other banks or customers, cash and balances with central Bank, some government securities or other assets. Interest on loans is included in the statement of profit or loss and is reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of profit or loss as 'loan impairment charges'.

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

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

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

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (Continued)

***Accounting policies applicable in prior period under IAS 39* (Continued)**

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

iii) Available for sale

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

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and accumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognised. Interest income is calculated using the effective interest method, and recognized in the profit and loss under interest and similar income.

Recognition of financial assets
The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the statement of financial position as 'Assets pledged as collateral', if the transferee has the right to sell or repledge them.

Financial guarantees, letters of credit and undrawn loan commitments
The bank issues financial guarantees, letters of credit and loan commitments. The bank does not recognize the financial guarantee within its financial statements. However, since it is under the scope of IFRS 9, the ECL amount is recognized in the statement of financial position within provision and the movement of such provision is recognized in the statement of profit or loss. The premium received is recognised in the statement of profit or loss in Net fees and commission income on a straight-line basis over the life of the guarantees.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, under IAS 39, a provision was made if they were an onerous contract but, from 1 January 2018, these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (Continued)

Derecognition other than for substantial modification

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

The Bank has transferred the financial asset if, and only if, either:
i) The Bank has transferred its contractual rights to receive cash flows from the financial asset Or;
ii) It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party.

A transfer only qualifies for de-recognition if either:
i) The Bank has transferred substantially all the risks and rewards of the asset Or
ii) The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Impairment of financial assets

Accounting policies applicable in current period under IFRS 9

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

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

No impairment loss is recognised on equity investments.

The 12 months' expected credit losses is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both lifetime expected credit losses and 12 months' expected credit losses are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (Continued)

Impairment of financial assets (Continued)

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

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

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

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

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

iii) **Stage 3**: Loans considered credit-impaired. The bank records an allowance for the lifetime expected credit losses.

The calculation of Expected Credit Losses
The Bank calculates expected credit losses based on four probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the expected credit losses calculations are outlined below and the key elements are, as follows:

i) **Probability of Default (PD):** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

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

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

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (Continued)

The calculation of Expected Credit Losses (Continued)

The mechanics of the Expected Credit Losses method are summarised below:

i)Stage 1: The 12-month expected credit loss is calculated as the portion of life time expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12-month expected credit loss allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast exposure at default (EAD) and multiplied by the expected loss given default (LGD) and discounted by an approximation to the original effective interest rate (EIR). This calculation is made for each of the four scenarios, as explained previously.

ii) **Stage 2:** When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the life time expected credit losses. The mechanics are similar to those explained above, including the use of multiple scenarios, but Probability of default (PD) and Loss given default (LGD) are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original effective interest rate (EIR).

iii) **Stage 3**: For loans considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the Probability of default (PD) set at 100%.

iv) **Loan commitments and letters of credit**: When estimating lifetime expected losses for undrawn loan commitments, the Bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The expected credit losses is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the four scenarios. The expected cash shortfalls are discounted at an approximation to the expected effective interest rate on the loan.

v) Financial guarantee contract: The bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement and the expected credit loss provision. For this purpose, the bank estimates the expected credit losses based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfall is discounted at the risk adjusted interest rate relevant to the exposure. The calculation is made using the probability weighting of the four scenarios. The expected credit losses related to the financial guarantee contracts are recognized within provisions.

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

Forward looking information
In the expected credit losses models, the Bank relies on a broad range of forward looking information as economic inputs such as GDP growth and unemployment rates.

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

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (Continued)

The calculation of Expected Credit Losses (Continued)

Collateral valuation
To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets. The Bank's accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same is it was under IAS 39. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of expected credit losses. It is generally assessed, at a minimum, at inception and re-assessed on at least every three years. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as recognized property valuers.

Collateral repossessed
The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. The Bank's policy is to sell the repossessed collateral and the proceeds obtained used to recover the loan outstanding.

In its normal course of business, the Bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

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

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Bank's expected credit losses calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the expected credit losses models that are considered accounting judgements and estimates include:

i) The Bank's internal credit grading model, which assigns Probability of default to the individual grades
ii) The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime expected credit losses basis and the qualitative assessment
iii) The segmentation of financial assets when their expected credit losses is assessed on a collective basis
iv) Development of Expected credit loss model, including the various formulas and the choice of inputs Determination of associations between macroeconomic scenarios and, economic inputs, such as inflation levels and collateral values, 91 days Treasury Bill rate, change in exchange rate and the effect on PDs, EADs and LGDs.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (Continued)

The calculation of Expected Credit Losses (Continued)

Definition of default

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

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

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

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date.

The Bank's write-off policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to profit or loss.

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

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Financial instruments (Continued)

The calculation of Expected Credit Losses (Continued)

Accounting policies applicable in prior period under IAS 39

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

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

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

Investment with Umoja Switch

The cost is paid once at the time of joining the Umoja Switch. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable.
The fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably because they are not listed/quoted nor can be observed from the market or compared with any other similar assets in the market
The irrevocable rights for use of ATM services ceases when the Bank terminate membership to Umoja Switch and such circumstance will lead to impairment of the rights, as no refund are provided for the impairment charges are recognised in the statement of comprehensive income through profit or loss in the expense category in the year of derecognition of the irrevocable rights of use of the Umoja Switch shared ATM services.

Gains or losses arising from de-recognition of these shares are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Government securities

The carrying amount of a financial instrument carried at amortised cost is calculated as the amount to be paid/repaid at maturity (usually the principal amount or par/face value), plus or minus any unamortized original premium or discount, net of any origination fees and transaction costs and less principal repayments. The amortisation is calculated using the effective interest method. This method calculates the rate of interest that is necessary to discount the estimated stream of principal and interest cash flows (excluding any impact of credit losses) through the expected life of the financial instrument or, when appropriate, a shorter period to equal the amount at initial recognition. That rate is then applied to the carrying amount at each reporting date to determine the interest income (assets) In this way, interest income is recognised on a level yield to maturity basis. In the determination of the effective interest rate, the estimation of the cash flows does not take into consideration any future credit losses anticipated on that instrument.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

In determining the recoverable amount, the Bank considers the higher of the fair value of the asset less costs to disposal, and value in use. In estimating value in use, the Bank is cognisant of the estimated future cash flows discounted to the present value using a pre-tax discount rate that is reflective of the current market assessment of time value of money and the risks specific to the asset itself.

Where impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but limited to the extent that, the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised.

The impairment losses are recognized in the statement of profit or loss in expenses unless it is stated otherwise. The Bank did not record any impairment related to non-financial assets during the year.

Further disclosures relating to impairment of non-financial assets are also provided in the following notes:

• Significant accounting judgements, estimates and assumptions	Note 4
• Property, plant and equipment	Note 26
• Intangible assets	Note 25

g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with the Bank of Tanzania, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less from the date of acquisition that are subject to insignificant risk of change in fair value and are used by the Bank in management of its short-term commitments.

h) Property and equipment

- **Recognition and measurement**

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other income in profit or loss.

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Property and equipment (Continued)

- **Subsequent costs**
  Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Bank. Recurrence repairs and maintenance are expensed in the period incurred.

- **Depreciation**
  Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Land is not depreciated. The estimated useful lives for the current and comparative periods are as stated:

	Years
Leasehold improvements	10
Motor vehicles	5
Office furniture and fittings	6.67
Office equipment	5
Computer equipment	5

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

i) Work in Progress

These are costs of non-financial assets which have not met criteria of being recognized under property and equipment or intangible assets. The assets are normally under construction, development or at acquisition process has not finalized to meet the requirements of Accounting standards and Policy.

j) Intangible assets

These are development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the bank. Development costs are recognized as intangible assets when the following criteria are met:

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

Directly incurred costs are capitalised as part of the software product include 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.

Costs associated with maintaining software programmes are recognised as an expense when incurred.

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

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Intangible assets (Continued)

Acquired computer software licenses 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.

Description of items	Useful lives
Computer Software	5 Years

k) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets other than the deferred tax asset and to determine whether there is any indication of impairments. If any such indications exist, then the assets' recoverable amount is estimated. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units - CGU).
The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is based on estimated future cash flows, 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 or CGU.

l) Provisions
A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

m) Taxes

Income tax expense represents the sum of the tax currently payable and the deferred tax.

Current income tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Institution's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognised in OCI or directly in equity is recognised in OCI or equity, respectively, and not in profit or loss.

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

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Taxes (Continued)

Deferred income tax (Continued)

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

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised. 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 liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantially enacted at the end of the reporting period. Deferred income tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in profit or loss, other comprehensive income or directly in equity.

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.

Value Added Tax (VAT)

The Bank pays VAT on all its taxable purchases during the course of operation (input tax). The bank also collects VAT on the fees and commissions charged on the financial services according to the prevailing laws and remits to TRA (output tax).

6.0 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues, expenses and assets are recognised net of the amount of value added tax except where the value added tax incurred on a purchase of assets or services is not recoverable from the TRA, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables that are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to tax authorities is included as part of receivables or payables in the statement of financial position.

n) Dividend on ordinary share capital and preference share capital

Dividends on ordinary shares and preference are recognized 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.

o) Ordinary Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

p) Non-Cumulative Preference share capital

This is a class of share capital which is given priority on receiving dividend over ordinary share. Holders of non-cumulative preference shares are not entitled to carry over the dividend for the year the Bank has not declared to issue dividend.

q) Regulatory reserve and General provision reserve

The reserve comprises of an amount set aside to cover provision for loan losses required to comply with the requirements of Bank of Tanzania prudential guidelines. This reserve is not available for distribution. The General provision reserve is available for the purpose of determination of regulatory total capital of the Bank.

r) Financial guarantee contracts

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

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given.

Subsequent to initial recognition, the Bank's liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the statement of financial position date, and the unamortized premium.

s) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-Statement of Financial Position transactions and disclosed as contingent liabilities.

t) Provisions

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

6.1 TRANSITION DISCLOSURES

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

a) Reconciliation of the carrying amount

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

Financial assets:	IAS 39 measurement Category	Reclassification Amount	ECL	Re-measurement Amount	IFRS 9 Category
Cash and bank balances with Bank of Tanzania	L&R**	48,017,101	-	48,017,101	Amortised cost
Loans and advances to banks	L&R**	57,690,007	(206,914)	57,483,093	Amortised cost
Loans and advances to customers	L&R**	197,273,342	(18,785,260)	178,488,082	Amortised cost
Financial investments (Government securities)	L&R**	77,614,959	(20,023)	77,594,936	Amortised cost
Equity investments	AFS***	3,391,380	-	3,391,380	*FVOCI
Total		**383,986,789**	**(19,012,197)**	**364,974,592**	
Financial liabilities:					
Deposits from banks	Amortised cost	38,718,867	-	38,718,867	Amortised cost
Deposits from customers	Amortised cost	363,571,726	-	363,571,726	Amortised cost
Total		**402,290,593**	-	**402,290,593**	

* FVOCI - Fair Value through Other Comprehensive Income
** Loans and receivables
*** AFS - Available for Sale

6.1 TRANSITION DISCLOSURES (Continued)

The following table shows the impact of the transition to IFRS 9 on reserves and retained earnings (RE) is as follows as at 01 January 2018.

Details	**Reserves and retained earnings ('TZS 000)**
Closing balance under IAS 39 (31 December 2017) - On balance sheet	**10,569,880**
Closing balance under IAS 39 (31 December 2017) – Off balance sheet	-
Reclassification adjustments in relation to adopting IFRS 9:	
Re- measurement impact of reclassifying financial assets held at FVPL to amortized costs	-
Recognition of IFRS 9 ECL - on balance sheet exposures	8,106,290
Recognition of IFRS 9 ECL - off balance sheet exposures	336,028
Re-measurement impact of reclassifying financial assets held at amortized cost to FVPL	-
Opening balance under IFRS 9 (1 January 2018) - On balance sheet	**18,676,170**
Opening balance under IFRS 9 (1 January 2018)- Off balance sheet	**336,028**
	19,012,198
Total change in equity due to adopting IFRS 9- SOCE	**8,442,318**
Total impact on the deferred tax	**2,532,695**

6.1 TRANSITION DISCLOSURES (Continued)

The following table reconciles the aggregate opening loan loss provision allowances under IAS 39 and provision for loan commitments and financial guarantee contracts in accordance with IAS 39/37 to loan provision as per IFRS 9 as at 01 January 2018:

Description TZS '000	Loan loss provision under IAS 39/37 as at 31 December 2017	Re-measurement	ECL under IFRS 9 at 01 January 2018
On balance sheet:			
Impairment allowance for:			
Loans and advances to banks		206,914	206,914
Loans and advances to customers	10,569,880	7,879,353	18,449,233
Financial investments (Government securities)	-	20,023	20,023
Equity investments	-	-	-
Off balance sheet:			
Financial guarantees	-	336,028	336,028
Letters of credit for customers	-	-	-
Total	**10,569,880**	**8,442,318**	**19,012,198**

		2018	2017
		TZS'000	TZS'000
7.	**INTEREST INCOME**		
	Loans to banks	1,828,003	2,859,393
	Investment in Government securities	8,588,744	9,099,777
	Loans and advances to customers	39,811,328	29,941,748
		50,228,075	**41,900,918**
8.	**INTEREST EXPENSE**		
	Deposits from banks	2,166,642	3,146,289
	Deposits from customers	6,604,283	11,611,050
	Revolving credit lines	2,053,032	2,088,042
		10,823,957	**16,845,381**
9.	**IMPAIRMENT CHARGES**		
	Impairment allowance:		
	ECL - Loans and advances to customers	2,907,008	344,180
	ECL - Bank of Tanzania	27,433	-
	ECL - Bank Placements	171,507	-
	ECL - Items for Clearing	10,441	-
	ECL - Government Securities	401,281	-
		3,517,670	**344,180**
10.	**FEES AND COMMISSIONS INCOME**		
	Minimum balance	63,284	48,453
	Security perfection	252,648	87,258
	Ledger fees	884,067	964,314
	Telegraphic transfers	557,056	438,163
	Guarantees indemnities	905,435	261,662
	Cheque books	33,626	33,253
	Letters of credit	454,664	153,080
	Western union	25,500	13,249
	Salary processing	57,131	51,036
	Unpaid cheques	28,050	30,954
	Statement fees	42,544	43,479
	M-Pesa/TIGO Pesa/Halopesa	735,331	763,717
	Insurance income	295,221	210,412
	Loan Arrangement Fee	1,359,117	1,315,884
	Cash withdrawal commission	984,949	1,317,207
	Dividend Income	35,118	32,017
	ATM commission	116,925	162,665
	Sundry commission & Fees	245,293	400,026
	Others	359,860	295,249
		7,435,819	**6,622,078**

	2018 TZS'000	2017 TZS'000
11. FOREIGN EXCHANGE INCOME		
Foreign Exchange Commission	1,794,468	1,674,186
Revaluation income/(loss)	(300,816)	(135,104)
	1,493,652	**1,539,082**
12. OTHER INCOME		
Recoveries from bad debts	124,507	52,102
Gains on disposal of fixed assets	(3,409)	-
	121,098	**52,102**
13. PERSONNEL EXPENSES		
Salaries and wages	13,115,213	10,849,596
Retirement benefit contribution	1,864,605	1,523,774
Skills Development levy	765,815	583,911
Workers compensation Fund	137,316	105,324
Staff medical insurance	619,712	558,110
Leave travel	1,004,738	854,632
Staff Costs-Bonus	1,160,180	-
Staff Costs- Gratuity A/C	307,684	-
Staff training	493,669	181,824
Staff endowment scheme	-	313,252
Uniforms	117,375	77,300
Staff relocation	108,102	42,961
Other costs	1,320,744	763,202
	21,015,153	**15,853,886**
14. PREMISES AND MAINTENANCE COSTS		
Office rent	2,532,973	2,444,686
Water, Fuel, Electricity & Telephone	1,065,784	706,146
Office cleaning	189,334	167,005
Office parking	56,465	37,777
Repair and maintenance	46,032	25,571
	3,890,588	**3,381,185**

15. EQUIPMENT MAINTENANCE COSTS

	2018 TZS'000	2017 TZS'000
Generators	66,313	110,181
Motor vehicles	119,747	163,884
Computer equipment	806,192	553,047
Other office equipment & furniture	792,222	611,070
	1,784,474	**1,438,182**

16. DEPRECIATION AND AMORTISATION

	2018 TZS'000	2017 TZS'000
Depreciation of property and equipment (Note 24)	1,690,117	1,484,541
Amortization of intangible assets (Note 25)	335,588	274,516
	2,025,705	**1,759,057**

17. GENERAL AND ADMINISTRATIVE EXPENSES

	2018 TZS'000	2017 TZS'000
Auditors 'remuneration	130,881	202,620
Consumables	80,465	91,461
Burial support	25,453	16,202
Subscription	43,876	45,380
Insurance costs	302,834	383,070
Deposit Insurance Fund	431,413	419,472
Directors fees	76,195	70,494
Stationary & Printing	346,364	358,717
Advertising costs	880,648	385,212
Security costs	940,749	1,058,463
Loans fair value benefits	470,468	1,507,482
Swift expenses	41,391	19,640
Communication and postage	698,050	783,805
Travel costs	826,640	624,545
ATM expenses	603,910	560,897
Tax consultancy fee	264,670	25,931
Legal and other professional fees	282,047	181,700
Business engagements	35,937	56,468
Bank charges	97,739	85,799
Banking license	13,776	14,540
VAT Expense Cost	548,655	-
City service levy	101,962	34,231
Write offs	778,071	29,697
Fixed Assets writ off	443,657	-
Provisions for other assets losses	69,868	542,267
ECL-Bank Of Tanzania	27,433	-
ECL-Bank Placements	171,507	-
ECL-Items for Clearing	10,441	-
ECL-Government Securities	401,281	-
Other costs	895,176	512,466
	10,041,557	**8,010,559**

	2018 TZS'000	2017 TZS'000
18. TAXATION		
Income tax charge:		
-relating to current year	2,582,530	904,509
-relating to prior years		150,104
Deferred income tax:		
-relating to current year	(1,689,940)	(380,652)
	892,590	**673,961**

The tax on the bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit /(loss) before tax	**6,790,202**	**2,481,750**
Tax calculated at a tax rate of 30%	2,037,061	744,525
Tax effect of:		
Depreciation on non- qualifying assets	-	138,975
Expenditure permanently disallowed	(1,144,471)	213,910
Current income tax – prior years	-	180,875
Deferred income tax – Interest in Suspense	-	(604,324)
	892,590	**673,961**

19. CASH AND BALANCE WITH BANK OF TANZANIA

Cash in hand	18,396,270	26,180,583
Balances with Bank of Tanzania		
- Statutory Minimum Reserve (SMR)	26,174,938	17,982,815
- Current account	7,201,359	3,853,703
	51,772,567	**48,017,101**
Less: Expected credit loss allowance	(27,433)	-
	51,745,134	**48,017,101**

Impairment allowance movement is as follows:		
Balance as at 1 January	-	-
Addition within the year	27,433	-
Balance as at 31 December	**27,433**	-

The bank is required to maintain a minimum cash reserve on deposits with Bank of Tanzania (Statutory Minimum Reserve-SMR). The SMR deposit is not available to finance the bank's day-to-day operations, thus excluded from cash and cash equivalents for the purpose of the cash flow statement.

20. LOANS AND ADVANCES TO BANKS

	2018 TZS'000	2017 TZS'000
Items in course of collection	4,475,626	3,790,166
Nostro balances	9,014,229	11,199,460
Investments with banks	36,158,569	42,331,387
Accrued interest receivable	245,609	368,994
Gross loans and advances to banks	**49,894,033**	**57,690,007**
Less: Expected credit loss allowance	(388,862)	-
	49,505,171	**57,690,007**
Maturity Analysis		
Maturities within 3 months	48,347,671	54,690,007
Maturities after 3 months	1,157,500	3,000,000
	49,505,171	**57,690,007**

Placements with other banks are not secured and earn interest on normal market interest rates. As at 31 December 2018, placements with other banks earned an average of 4% for local currency and 2% for USD placements (2017: 12% and 3.9%)

20. LOANS AND ADVANCES TO BANKS (Continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 6 and policies about whether ECL allowances calculation are set out in Note 6:

	Stage1	Stage2	Stage3	Total
Internal rating grade				
Performing:	49,894,033	-	-	**49,894,033**
Current category	-	-	-	-
Especially mentioned category	-	-	-	-
	-	-	-	-
Non-performing:	-	-	-	-
Substandard category	-	-	-	-
Doubtful category	-	-	-	-
Loss category	-	-	-	-
Total	**49,894,033**	-	-	**49,894,033**

An analysis of changes in the gross carrying amount is as follows;

Descriptions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount as at 1 January 2018	57,190,007	-	-	**57,190,007**
New assets originated or purchased		-	-	-
Assets derecognized or repaid (excluding write offs)	(7,295,974)	-	-	(7,295,974)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
At 31 December 2018	**49,894,033**	-	-	**49,894,033**

20. LOANS AND ADVANCES TO BANKS (Continued)

The table below shows the analysis of changes in ECL allowance amount of the Loans and Advances to banks as at 31 December 2018:

Descriptions	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at amount as at 1 January 2018	206,914	-	-	206,914
New assets originated or purchased	181,948	-	-	181,948
Assets derecognized or repaid (excluding write offs)	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Impact of year end ECL charges(releases) during the year.	-	-	-	-
At 31 December 2018	**388,862**	-	-	**388,862**

	2018 TZS'000	2017 TZS'000
21. FINANCIAL ASSETS/GOVERNMENT SECURITIES		
Treasury bills	42,219,220	45,306,827
Treasury Bonds	41,005,800	30,027,100
Corporate Bond*	3,000,000	-
Unearned discount	(1,967,911)	(1,685,059)
Interest receivable	2,163,989	3,966,091
	86,421,098	-
Less: Allowance for ECL	(421,304)	-
	85,999,794	**77,614,959**
Maturity analysis:		
Treasury bills and bonds maturing within 3 months	22,217,078	3,290,644
Treasury bills and bonds maturing after 3 months	63,782,716	74,324,315
	85,999,794	**77,614,959**
Movement of ECL allowance during the year.		
Balance as at 01st January	20,023	-
Addition during the year	401,281	-
Charge off within the year		
Balance as at 41st December	**421,304**	-

*-The Bank is holding a 5-year Corporate Bond since June 2018 with Tanzania Mortgage Refinancing Company with a coupon rate of 11.56% per annum

21. FINANCIAL ASSETS/GOVERNMENT SECURITIES (Continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 6 and policies about whether ECL allowances calculation are set out in Note 6:

	Stage1	Stage2	Stage3	Total
Internal rating grade				
Performing:	86,421,098	-	-	**86,421,098**
Current category	-	-	-	-
Especially mentioned category	-	-	-	-
	-	-	-	-
Non-performing:	-	-	-	-
Substandard category	-	-	-	-
Doubtful category	-	-	-	-
Loss category	-	-	-	-
Total	**86,421,098**	-	-	**86,421,098**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows;

Descriptions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross amount as at 1 January 2018	77,614,959	-	-	77,614,959
New assets originated or purchased	8,806,139	-	-	8,806,139
Assets derecognized or repaid (excluding write offs)	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Impact of year-end ECL charges (releases) during the year.	-	-	-	-
At 31 December 2018	**86,421,098**	-	-	**86,421,098**

21. FINANCIAL ASSETS/GOVERNMENT SECURITIES (Continued)

The table below shows the analysis of changes in ECL allowance amount of the financial assets at fair value through OCI as at 31 December 2018:

Descriptions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at amount as at 1 January 2018	20,023	-	-	20,023
New assets originated or purchased	401,281	-	-	401,281
Assets derecognized or repaid (excluding write offs)	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Impact of year end ECL charges(releases) during the year.	-	-	-	-
Recoveries	-	-	-	-
At 31 December 2018	**421,304**	-	-	**421,304**

22. LOANS AND ADVANCES TO CUSTOMERS

	2018 TZS'000	2017 TZS'000
Individual loans:		
-Overdrafts	11,395,722	10,222,939
-Personal loans	15,184,380	10,004,556
-Consumer loans	57,091,287	65,250,432
-Mortgage	34,079,584	29,594,048
Project Finance	435,857	-
	118,186,830	**115,071,975**
Corporate / SMEs:		
-Overdrafts	54,874,520	24,376,639
-Term loans	102,870,310	39,926,651
	157,744,830	**64,303,290**
Other:		
Staff loans	15,440,194	13,661,350
Interest receivable	16,972,403	10,956,124
Interest in suspense*	(5,862,807)	(6,719,397)
	26,549,790	**17,898,077**
Total loans and advances	**302,481,450**	**197,273,342**
Less: Allowance for ECL	(18,911,936)	(10,569,880)
Net loans and advances to customers	**283,569,514**	**186,703,462**

*The interest in suspense relates to impairment amount of the interest accrued on impaired loans. Movements in provisions for impairment of loans and advances during the year is as follows:

	Specific impairment TZS'000	**Portfolio impairment** TZS'000	**Total impairment** TZS'000
31 December 2018:			
As at January	9,891,582	678,298	10,569,880
Impact of adopting IFRS 9 (SCE)	8,215,380	-	8,215,380
Adj. Opening Balance as at January 2018	**18,106,962**	**678,298**	**18,785,260**
Impairment charge during the year	2,907,008	-	2,907,008
Write off during the year	(2,780,332)	-	(2,780,332)
As at 31 December	**18,233,638**	**678,298**	**18,911,936**
31 December 2017:			
As at January	9,602,879	622,821	10,225,700
Increase during the year	288,703	55,477	344,180
As at 31 December	**9,891,582**	**678,298**	**10,569,880**

22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances. Details of the Bank's internal grading system are explained in Note 6 and policies about whether ECL allowances calculation are set out in Note 6:

	Stage 1	Stage 2	Stage 3	Total
Internal rating grade				
Performing:				
Current category	232,271,451 -		-	232,271,451
Especially mentioned category	-	17,440,305	-	17,440,305
	-	-	-	-
Non-performing:	-	-	-	-
Substandard category	-	-	39,256,609	39,256,609
Doubtful category	-	-	6,363,256	6,363,256
Loss category	-	-	7,171,444	7,171,444
Total	**232,271,451**	**17,440,305**	**52,791,309**	**302,503,065**

An analysis of changes in the gross carrying amount is as follows;

Descriptions	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	146,649,946	20,511,864	25,049,016	192,210,826
New assets originated or purchased	151,826,901	14,224,807	41,056,747	207,108,455
Assets derecognized or repaid (excluding write offs)	(69,686,697)	(4,796,277)	(19,552,910)	(94,035,884)
Transfers to Stage 1	(4,676,144)	487,454	4,188,691	-
Transfers to Stage 2	3,323,296	(8,314,267)	4,990,971	-
Transfers to Stage 3	86,214	75,944	(162,158)	-
Amounts written off	-	-	(2,780,332)	(2,780,332)
At 31 December 2018	**227,523,516**	**22,189,525**	**52,790,025**	**302,503,065**

22. LOANS AND ADVANCES TO CUSTOMERS (Continued)

The table below shows the analysis of changes in ECL allowance amount of the loans and advance to customers recorded in the statement of profit or loss and other comprehensive income during the year:

Descriptions	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at amount as at 1 January 2018	2,687,558	6,849,691	9,248,011	18,785,260
New assets originated or purchased	3,867,458	(3,255,390)	485,390	1,097,458
Assets derecognized or repaid (excluding write offs)	-	-	(970,782)	(970,782)
Transfer to stage 1	(1,931,402)	11,399	1,920,004	-
Transfer to stage 2	54,258	(2,589,509)	2,535,251	-
Transfer to stage 3	-	50	(50)	-
Impact of year-end ECL charges (releases) during the year.	-	-	-	
Recoveries		-	-	-
At 31 December 2018	**4,677,872**	**1,016,241**	**13,217,822**	**18,911,936**

23. AVAILABLE FOR SALEINVESTMENTS

TMRC Investment*	3,371,380	3,244,000
Gain on share valuation (net)	-	127,380
Umoja Switch	20,000	20,000
	3,391,380	**3,391,380**

*-Tanzania Mortgage Refinance Company (TMRC) is a specialized financial institution that provides long term funding to financial institutions for the purposes of mortgage lending. TMRC has the objective of supporting financial institutions to do mortgage lending by refinancing the primary mortgage lenders' (PMLs) mortgage portfolio. Azania Bank Limited, one of the founding member, subscribed and injected TZS 2,000 million as ordinary shares at TZS 1,000 per share.

24. PROPERTY AND EQUIPMENT

	Leasehold improvement TZS'000	Motor Vehicles TZS'000	Office furniture & equipment TZS'000	Office Computers TZS'000	Capital work in progress TZS'000	Total TZS'000
Cost:						
As at 1 January 2018	4,961,585	1,339,578	3,160,185	1,036,620	1,627,247	12,125,215
Additions	1,226,330	658,458	731,895	231,067	737,862	3,585,613
Adjustment	-	-	-	-	5,450	5,450
Transfer *	760,420	-	-	-	(1,298,859)	(538,439)
Disposals	-	(75,000)	(39,020)	(3,935)	-	(117,955)
Write offs* *	(240,000)	-	-	-	(333,839)	(573,839)
As at 31 December 2018	**6,708,335**	**1,923,036**	**3,853,060**	**1,263,752**	**737,862**	**14,486,045**
Accumulated depreciation:				-		
As at 1 January 2018	(1,790,646)	(626,353)	(1,866,119)	(563,291)	-	(4,846,409)
Charge for the year	(531,518)	(292,988)	(642,652)	(222,959)	-	(1,690,117)
Disposals	-	63,363	39,922	5,481	-	108,766
Write offs*	108,451	-	-	-	-	108,451
As at 31 December 2018	**(2,213,713)**	**(855,978)**	**(2,468,849)**	**(780,769)**	**-**	**(6,427,760)**
Net book value as at 31 December 2018	**4,494,622**	**1,067,058**	**1,384,211**	**482,983**	**737,862**	**8,058,285**

*-TZS 1,299 was transferred from work in progress account where TZS 760 million was accounted to lease hold improvement and TZS 538 million was accounted to intangible assets.

**- The write-off of the lease hold and capital work in progress relates to Bank's decision to move three of its branches to strategic premises in terms of business and space. These branches were Kariakoo in Dar Es Salaam, Nkrumah in Mwanza and Moshi in Kilimanjaro.

24. PROPERTY AND EQUIPMENT (Continued)

Cost:						
As at 1 January 2017	4,916,188	1,008,072	2,945,393	925,526	718,310	10,513,489
Additions	45,397	331,506	214,792	111,094	914,187	1,616,976
Transfer to Intangible assets	-	-	-	-	(5,250)	(5,250)
As at 31 December 2017	**4,961,585**	**1,339,578**	**3,160,185**	**1,036,620**	**1,627,247**	**12,125,215**
Accumulated depreciation:						
As at 1 January 2017	(1,292,677)	(407,664)	(1,296,781)	(364,746)	-	(3,361,868)
Charge for the year	(497,969)	(218,689)	(569,338)	(198,545)	-	(1,484,541)
As at 31 December 2017	**(1,790,646)**	**(626,353)**	**(1,866,119)**	**(563,291)**	**-**	**(4,846,409)**
Net book value as at 31 December 2017	**3,170,939**	**713,225**	**1,294,066**	**473,329**	**1,627,247**	**7,278,806**

25. INTANGIBLE ASSETS

	TZS 000	TZS 000
Cost:	**2018**	**2017**
As at 1 January 2018	2,971,835	2,953,960
Addition	6,688,859	12,626
Transfers from WIP (Note 24)	538,440	5,250
As at 31 December 2018	**10,199,134**	**2,971,835**
Accumulated amortization:		
As at 1 January 2018	2,277,484	2,002,969
Charge for the year	335,588	274,515
As at 31 December 2018	**2,613,072**	**2,277,484**
Net book value as at 31 December 2018	**7,586,062**	**694,351**

26. CURRENT TAX ASSET

Opening balance	(1,210,800)	(1,151,266)
Current year	2,582,530	904,509
Payments during the year	(1,893,206)	(964,043)
Closing balance	**(521,476)**	**(1,210,800)**

27. DEFERRED TAX

Deferred tax is calculated using the enacted tax rate of 30% except for capital gains, for which enacted rate is of 5% is used (2017: 30% and 5%).

Deferred tax assets and liabilities, and the deferred tax charge/(credit) in the profit and loss account and the comprehensive income are attributable to the following items:

27. DEFERRED TAX (Continued)

Year ended 31st December 2018	At 1st January 2018 TZS 000	Current Adjustment TZS 000	(Credited)/charged to profit or loss TZS 000	Charge to other comprehensive income TZS 000	At 31st December 2018 TZS 000
Deferred income tax asset					
Property and equipment	(417,819)	-	122,918	-	80,591
General provisions	(318,413)	-	(82,156)	-	(400,569)
Provision for loan losses	(3,170,964)	(2,464,614)	(221,200.95)	-	(5,856,779)
ECL-Government Securities, Placements, Other financial assets	-	(68,081)	(58,310.10)	-	(126,391)
Increase/Decrease in Int. In Suspense	-	-	(1,758,842)	-	(1,758,842)
ECL-Items in Course of Collection	-	-	(54,584)	-	(54,584)
Increase/Decrease in ECL-Bank of Tanzania	-	-	(8,230)	-	(8,230)
Management gratuity	-	-	(92,305)	-	(92,305)
Defined benefit liability	(462,771)	-	462,771	-	-
	(4,369,967)	**(2,532,695)**	**(1,689,940)**	-	**(8,217,110)**
Other comprehensive income					
Group Endowment	(124,167)	-	-	124,167	-
Available for sale Investment	(163,080)	-	(248,334)	-	(411,414)
Total from OCI	**(287,247)**		**(248,334)**	**124,167**	**(411,414)**
Net deferred tax liability/(asset)	**(4,657,214)**	**(2,532,695)**	**(1,938,274)**	**124,167**	**(8,631,515)**

Deferred tax is calculated using the enacted tax rate of 30% except for capital gains, for which enacted rate is of 5% is used (2016: 30% and 5%). Deferred tax assets and liabilities, and the deferred tax charge/(credit) in the profit and loss account and the comprehensive income (restated) are attributable to the following items:

27. DEFERRED TAX (Continued)

Year ended 31st December 2017	At 1st January 2017	Restructured	(Credited)/charged to profit or loss	(Credited)/charged to other comprehensive income	At 31st December 2017
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Deferred income tax asset					
Property, plant and equipment	(369,551)	-	(48,268)	-	(417819)
General provisions	(880,109)	(729,876)	(168,180)	-	(318413)
Provision for loan losses	(2,827,900)	239,810	(103,254)	-	(3170964)
Defined benefit liability	(132,748)	236,047	(93,976)	-	(462771)
	(4,210,308)	**(254,019)**	**(413,678)**	-	**(4,369,967)**
Other comprehensive income					
Group Endowment	(373,200)	-	-	85,953	(287,247)
Available for sale Investment	(373,200)	-	-	85,953	(287,247)
Net deferred tax liability/(asset)	**(4,583,508)**	-	**(413,678)**	-	**(4,657,214)**

	2018 TZS'000	2017 TZS'000

28. OTHER ASSETS

	2018 TZS'000	2017 TZS'000
Sundry receivable*	1,369,843	1,516,227
Prepaid expenses	2,704,001	1,669,115
Collection account	1,755	94,044
Interbank Accounts	2,287	(27,872)
	4,077,886	**3,251,514**
Less: Provision for Tach Receivable**	(505,891)	(500,790)
	3,571,995	**2,750,724**

*-Sundry receivable is made of claims the Bank is expecting to receive proceeds in the course of business as well deposits the bank puts forward as it enters in agreement with service providers.
** - The provision for Tach receivables has been arrived through the BOT regulations for management of risk assets rather than the IFRS 9 impairment standard. The regulation requires that all receivables other than interest receivable shall be provided as per BOT guideline.

29. LOANS FROM BANKS

	2018 TZS'000	2017 TZS'000
Principal	74,426,875	38,556,059
Accrued interest	184,862	162,808
	74,611,737	**38,718,867**
Maturity analysis:		
To be settled within 12 months	**74,611,737**	**38,718,867**
	74,611,737	**38,718,867**

30. DEPOSITS FROM CUSTOMER

	2018 TZS'000	2017 TZS'000
Current accounts	187,745,277	107,491,147
Savings accounts	86,368,274	85,144,614
Term deposits	70,950,228	72,290,468
Other deposits	5,104,840	6,443,302
	350,168,619	**271,369,531**
Maturity analysis:		
To be settled within 12 months	171,998,005	146349949
To be settled after 12 months	178,170,613	125019581
	350,168,619	**271,369,531**

31. REVOLVING CREDIT LINES

	2018 TZS'000	2017 TZS'000
Tanzania Mortgage Refinancing Company (TMRC)	10,500,000	12,000,000
Government Employees Pension Fund (PSSSF)	2,500,000	2,500,000
Accrued interest	403,107	277,101
	13,403,107	**14,777,101**

The Bank is holding deposits in form of revolving credit lines from TMRC amounting to TZS 10.5 billion at an interest rate of 11.5% per annum; the purpose of the facility is to finance residential mortgages and TZS 2.5 billion from GEPF out of it TZS 1.5 billion at 14.5% and TZS 1 billion at 15.75%. Among the balance TZS 8 billion will mature in 2019, TZS 2.5 billion will mature in 2020 and finally TZS 2.5 in 2021. The revolving contracts have a rollover and top up options.

32. CONVERTIBLE LOAN STOCK

	2018 TZS'000	2017 TZS'000
Government Employees Pension Fund	2,000,000	2,000,000
Accrued interest	39,781	**39,781**
	2,039,781	**2,039,781**

The loan stock was issued for the purpose of raising finance to develop the operation of Azania Bank Limited and can be converted into shares at nominal value. The bank secured a loan stock from Government Employees Fund on 19 November 2014 for the period of five years at a rate of 16.75% per annum. The loan is subordinated and the lender has an option to convert the loan into ordinary shares on maturity.

33. PAYABLES AND ACCRUALS

	2018 TZS'000	2017 TZS'000
Accrued expenses	339,555	679,001
Staff bonus and gratuity	1,472,114	-
Other liabilities	2,332,499	2,587,208
	4,144,168	**3,266,209**

34. GROUP ENDOWNMENT SCHEME

	2018 TZS'000	2017 TZS'000
Provision – Group staff endowment scheme	-	**1,956,459**

During the year 2018, the staff group endowment scheme was terminated and the available amount as at 31st December 2018 was liquidated. The scheme was established with motive of retention strategy. The dynamics in business environment necessitated the bank to bring the fund to an end. The corresponding past service credit was recognised in the profit and loss for year 2018.

	2018 TZS'000	2017 TZS'000
Balance as at 1 January	1,956,459	1,229,317
Included in profit and loss;	-	
- Current service -cost	-	120,157
- Interest cost	-	193,095
Total charge to profit and loss	-	442,493
Included in other comprehensive income		
- Loss arising in actuarial valuation	-	413,890
Payments during the year	(1,956,459)	-
Balance as at 31 December	**-**	**1,956,459**

35. SHARE CAPITAL

AUTHORISED SHARE CAPITAL

	2018 TZS'000	2017 TZS'000
100,000,000 ordinary shares @ TZS 1,000	100,000,000	100,000,000
15,000,000 Convertible loan stock @ TZS 1,000	15,000,000	15,000,000
1,000,000 Non-cumulative Irredeemable preference shares @ TZS 1,000	1,000,000	1,000,000
	116,000,000	**116,000,000**

35. ISSUED SHARE CAPITAL

	2018 TZS'000	2017 TZS'000
60,629,954 ordinary shares @ 1,000	60,629,954	59,629,954
69,444 Non-cumulative irredeemable shares @ 1,000	69,444	69,444
	60,699,398	**59,699,398**

36. REVALUATION RESERVE

	2018 TZS'000	2017 TZS'000
As at 1 January	364,948	367,890
Realized gain on disposal of revalued assets	-	(2,942)
	364,948	**364,948**

37. REGULATORY RESERVE

	Specific TZS'000	General TZS'000	Total TZS'000
As at 1 January 2018	4,095,951	1,693,036	5,788,987
Appropriation from /(to) retained earnings	(4,095,951)	950,036	(3,145,915)
As at 31 December 2018	-	**2,643,072**	**2,643,072**
As at 1 January 2017	3,397,430	1,503,254	4,900,684
Appropriation from /(to) retained earnings	698,521	189,782	888,303
As at 31 December 2017	**4,095,951**	**1,693,036**	**5,788,987**

Regulatory reserve represents an amount set aside to cover additional provisions for loan losses required to comply with the requirements of Bank of Tanzania's prudential guidelines. This amount is not available for distribution and not part of the bank's core capital.

38. CASH AND CASH EQUIVALENT

	2018 TZS'000	2017 TZS'000
Cash balances	18,539,016	25,962,159
Foreign Exchange gains or losses	(142,746)	218,424
Balances with Bank of Tanzania	7,201,359	3,853,703
Balances with other banks (maturities of 3 months or less)	48,347,671	41,428,268
Treasury bills maturing less than 3 months	22,217,078	22,653,841
	96,162,378	**94,116,396**

39. CAPITAL MANAGEMENT

The Bank's objectives on managing capital go beyond the concept of equity. These objectives are:

- To comply with the capital requirements set by the Regulator of the banking industry in which the Bank operates;
- 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, while 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 quarterly basis.

The BOT requires each bank or banking group to:

(a) Hold the minimum level of the regulatory capital of TZS 15,000 million
(b) Maintain a ratio of core capital to the risk-weighted asset (the 'Basel ratio') and total capital to risk weighted assets at or above 10% as 12% respectively.

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

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings, other than reserves established to cushion the anticipated loss resulted from non-performing loans. Prepaid expenses, intangible assets and deferred charges are deducted in arriving at Tier 1 capital; and

- Tier 2 capital: qualifying subordinated loan capital and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized in addition to recognizing the need to maintain a balance between the higher returns and that may be possible with greater gearing and the advantages and security afforded by sound capital position

39. CAPITAL MANAGEMENT (Continued)

The table below summarises the composition of regulatory capital and the ratios of the bank for the year ended 31 December 2018 and year ended 31 December 2017. During the year under review, the Bank complied with the capital adequacy ratio, and the single borrowers limit.

	2018 TZS'000	2017 TZS'000
Ordinary share capital	60,629,954	59,629,954
Preference share capital	69,444	69,444
Accumulated losses	(6,454,468)	(8,892,717)
	54,244,930	**50,806,681**
Less:		
Prepayments	(2,704,001)	(1,669,115)
Intangible assets	(7,586,062)	(694,351)
Deferred charges	(8,631,516)	(4,657,214)
Total core capital	**35,323,351**	**43,786,001**
Subordinated debts	2,039,781	2,039,781
General provisions	2,643,072	1,693,036
Tier 2 capital	**4,682,853**	**3,732,817**
Total capital	**40,006,204**	**56,833,246**
Total risk weighted assets	**317,375,852**	**226,469,994**
Core capital ratio	**11.13%**	**19.33%**
Total capital ratio	**12.61%**	**20.98%**

40. RELATED PARTY TRANSACTIONS

The shareholders of the Bank are disclosed in the directors' report. A number of banking transactions such as loans and deposits are entered into with related parties in the normal course of business. The volumes of related party transactions and outstanding balances at the year-end are as follows:

	2018 TZS'000	2017 TZS'000
Deposits from Shareholders		
National Social Security Fund (NSSF)	85,898,206	50,125,562
Public Services Social Security Fund (PSSSF)	858,986	3,911,918
	86,757,191	54,037,480
Sub-ordinated debt from shareholders		
Public Services Social Security Fund(PSSSF)	2,000,000	2,000,000
	2,000,000	**2,000,000**
Loans to key management personnel:		
As at 1 January	1,200,098	549,684
New loans issued during the year	2,129,946	906,924.
Repayments during the year	(1,247,902)	(256,510)
	2,082,142	**1,200,098**
Salaries and other short-term benefits	1,597,893	1,328,456
Directors' fees	76,195	70,494
	1,674,088	**1,398,950**

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. All related party transactions were at arm's length and in a normal course of business, and on terms and conditions similar to those applicable to other customers except for staff loans whose interest rate was 5%. Exception is on Education loans which are interest free.

41. FAIR VALUE MEASUREMENTS

Valuation methodology

The Bank establishes fair value for held to maturity financial assets using valuation technique that takes into account discount and interest earned at the reporting date. The current market information is available on the Bank of Tanzania website for market interest rates on loans and advances, deposits and borrowings.

The Bank establishes fair value of available for sale financial assets based on the share prices of unquoted equity shares available from the issuer of the equity instrument at the reporting date. Fair values of held for trading financial assets are established based on prices/market information of such instrument available on Dar es Salaam Stock Exchange website at the reporting date.

Fair value hierarchy

IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. This level includes listed equity securities and debt instruments on exchanges;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices, interest and yield curves) or indirectly (that is, derived from prices Central Bank Auction prices for Government securities); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs to valuation techniques).

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments not measured at fair value. The carrying amounts of financial assets and financial liabilities not measured at fair value are a reasonable approximation of fair values because of the short-term nature of the financial assets and financial liabilities or they re-priced in the short run.

41. FAIR VALUE MEASUREMENTS (CONTINUED)

	Held to maturity	Loans and receivables	Other amortised cost	Total carrying amount	Level 1	Level 2	Level 3	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS'000	TZS '000	TZS '000
At 31 December 2018								
Financial assets								
Available for sale investments	3,391,380			3,391,380		3,391,380		3,391,380
Investments Held to maturity	85,999,794	-	-	85,999,794	-	85,999,794	-	85,999,794
Total financial assets	**89,391,174**	**-**	**-**	**89,391,174**	**-**	**89,391,174**	**-**	**89,391,174**

41. FAIR VALUE MEASUREMENTS (CONTINUED)

	Held to maturity TZS '000	Loans and receivables TZS '000	Other amortised cost TZS '000	Total carrying amount TZS '000	Level 1 TZS '000	Level 2 TZS'000	Level 3 TZS '000	Total TZS '000
At 31 December 2017								
Financial assets:								
Available for sale investments	3391380	-	-	3,391,380	-	3,391,380	-	3,391,380
Investments Held to maturity	77,614,959	-	-	77,614,959	-	77,614,959	-	77,614,959
Total financial assets	**81,006,339**			**81,006,339**	-	**81,006,339**	-	**81,006,339**

42. FINANCIAL RISK MANAGEMENT

The Bank's activities expose it to a variety of financial risks including credit risk, liquidity risk, market and operational risks. The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management frame work. The Board is ultimately responsible for all risks taken by the Bank. Furthermore, the Board puts in place written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important risks include;

- Credit risk,
- Market risk
- Liquidity risk and
- Operational risk.

These risks are explained in the following paragraphs.

42.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

Credit risk is the single largest risk for the Bank's business; the directors therefore carefully manage the exposure to credit risk. Having clear understanding of the credit risk the Bank manages at management level by having subcommittee responsible to manage loan portfolio of the Bank. Furthermore, the Board of Directors has specific committee for overseeing all credit process.

42.1.1 Credit risk measurement

In measuring credit risk of loans and advances to customers and to banks at a counterparty level, the Bank reflect two components (i) the 'probability of default' by the client or counterparty on its contractual obligations and (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'. These credit risk measurements, which reflect expected loss (the 'expected credit loss model'), are embedded in the daily operational management and are in line with IFRS 9.

The Bank uses reasonable and supportable forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. External and internal information is used to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Bank applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Bank for strategic planning and budgeting. The key drivers of credit risks and credit losses for each portfolio of financial instruments were identified and documented, and using a statistical analysis of historical data to estimate relationships between macro-economic variables and credit risk and credit losses.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.1 Credit risk measurement (Continued)

Bank's rating	Staging	Description of the grade
1	Stage 1	Current
2	Stage 1	Especially Mentioned
3	Stage 2	Sub-standard
4	Stage 2	Doubtful
5	Stage 3	Loss

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

	Stage 1 (performing loans)	Stage 2 (non-performing loans)	Stage 3 (non-performing loans)
Credit risk	Financial instruments with low credit risk at the reporting date or which have not had SICR	Financial instruments which have had a significant increase in credit risk since initial recognition but do not have objective evidence of a credit loss event.	Financial assets that have objective evidence of impairment at the reporting date
Recognition of expected credit losses	12 Month expected credit losses are recognized.	Lifetime expected credit losses are recognised.	Lifetime expected credit losses are recognized.
Recognition of interest	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated on the gross carrying amount of the asset.	Interest revenue is calculated based on the amortized cost net of the loss provision, (net carrying amount).

Significant increase in credit risk

The Bank considers a debt instrument asset, loan commitments and financial guarantee contracts to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.1 Credit risk measurement (Continued)

Loans and advances to customers

i)Quantitative criteria

Based on quantitative review for the purpose of the expected credit losses calculations, loans and advances, loan commitments and financial guarantees shall be classified as follows;

1. **0 – 30 days to be classified as Stage 1**; Loans and advances, loan commitments and financial guarantees which are performing according to contracted terms and conditions with low credit risk at the reporting date with 12-month expected credit losses being recognised.
2. **31 – 90 days to be classified as Stage 2;** Loans and advances, loan commitments and financial guarantees which have had significant increase in credit risk since initial recognition but do not have objective evidence of credit loss event with lifetime expected credit losses being recognised.
3. **91 days or more to be classified as Stage 3;** Loans and advances, loan commitments and financial guarantees which have objective evidence of impairment at the reporting date with lifetime expected credit losses being recognized (credit-impaired assets).

ii) Qualitative criteria

For Personal Loans, if the borrower meets one or more of the following criteria:

- Short-term forbearance or restructuring.
- Adverse changes of external data from credit references agencies.

For Corporate and SME portfolios, if the borrower is on the Watch list and/or the instrument meets one or more of the following criteria:

- 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 which is expected to increase risk of default.
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans.
- Significant adversely changes in political, regulatory and technological environment of the borrowers or in its business activities.

Balances due from other banks

Below are qualitative factors considered as indicators of significant increase in credit risk;

- Significant counterparty management restructuring due to continues bad performance of the company.
- Significant adverse change in the regulatory, economic or technology of the borrower that results in a significant change in the borrower's ability to meet its debt obligations.
- Significant reductions in financial support from a parent company that resulted to significant adverse change of operating results of the counterparty.

The Bank manage limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties, groups, and industries. The Bank structure the levels of credit risk they undertake 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.

42.1 Credit risk (Continued)

42.1.1 Credit risk measurement (Continued)

42.1 Credit risk (Continued)

Loans and advances to customers

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 weekly 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 employ 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 implement guidelines on the acceptability of specific classes of collateral or credit risk mitigation.

The principal collateral types for loans and advances are:
- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

In order to minimise the credit loss, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

(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 on behalf of a customer authorising a third party to draw drafts on a 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 authorization to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank are potentially exposed to loss in amounts 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 monitor the term to maturity of credit commitments because longer-term commitments generally have more credit risk than shorter-term commitments.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified and in particular, to individual counter parties 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. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors.

The exposure to any one borrower including Banks is further restricted by sub-limits covering on- and off-Statement of Financial Position exposures and daily delivery risk limits in relation to trading items. 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 holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral are as follows:
- Mortgages over properties;
- Charges over business assets such as premises inventory and accounts receivables; and
- Guarantees by directors and related companies.

(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.

42.1.3 Impairment and provisioning policies

The Expected Credit Loss allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss. The Bank's policies for determining if there has been a significant increase in credit risk are set out

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.3 Impairment and provisioning policies (Continued)

The impairment allowance recognised in the statement of financial position at year-end is driven from each of the five internal rating grades. However, the impairment allowance is composed largely of the bottom two grades, which are doubtful, and loss.

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

The table below shows the percentage of the bank's loans and advances and the associated impairment allowance for each of the bank's internal rating categories.

	31-Dec-18		31-Dec-17	
Bank's rating	**Credit risk exposure**	**Impairment Allowance**	**Credit risk exposure**	**Impairment Allowance**
1. Current	90.71%	1.30%	82.61%	0.00%
2. Special monitoring	3.15%	0.56%	5.82%	0.35%
3. Sub-standard	1.84%	1.92%	4.11%	1.72%
4. Doubtful	2.15%	1.04%	2.95%	1.04%
5. Loss	2.15%	1.43%	4.52%	1.93%
	100%	**6.25%**	**100%**	**5.04%**

The directors are confident to have the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities in the foreseeable future. Basing on the available credit risk grading criteria, actual results as at 31st December 2018 were as follows:

- 87.29% of the loans and advances portfolio was categorised in the top two grades of the internal rating system (2017: 86.90%); and
- 82.22% of the loans and advances to customers are considered to be performing which are neither past due nor impaired (2017: 81.92%).

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

42.1.3 Impairment and provisioning policies (Continued)

The tables below summarise the loans and advances grading and the respective provision.

	2018		2017
	Loan and Advances to Customers	Loan and Advances to Banks	Loan and Advances to Customers
Neither past due nor impaired	263,033,151	50,399,581	164,084,959
Past due but not impaired	19,288,119	-	8,851,945
Impaired	20,160,179	-	25,079,129
Gross loans and advances	**302,481,450**	**50,399,581**	**198,016,033**
Less: allowance for impairment	(18,911,936)	(894,410)	(10,569,880)
Net loans and advances	**283,569,513**	**49,505,171**	**187,446,153**
Portfolio allowance	-	-	678,298
Individually impaired	18,911,936	894,410	9,891,582
Total	**18,911,936**	**894,410**	**10,569,880**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

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

Loans and advances to customers (TZS'000)

	Individual (retail) customers		Corporate entities		Total loans and advances to customers	Total loans and advances to Banks
31 December 2018:	**Overdraft**	**Term loans**	**Overdraft**	**Term loan**		
Internal grading:						
Standard (current)	13,316,330	112,142,860	15,275,982	22,286,215	163,021,387	57,690,007
Especially mentioned	266,228	7,416,805	421,695	1,068,094	9,172,823	-
Total	**13,582,558**	**119,559,665**	**15,697,677**	**23,354,309**	**172,194,210**	**57,690,007**
31 December 2017:						
Standard (current)	8,428,557	76,757,763	14,351,327	47,216,833	146,754,480	51,862,039
Especially mentioned	356,636	9,382,027	607,245	1,739,606	9,085,514	-
Total	**8,785,193**	**86,139,790**	**14,958,572**	**48,956,439**	**155,839,994**	**51,862,039**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

	Individual /retails		Corporate entities		
	Overdrafts	Term loans	Overdrafts	Term loans	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
31 December 2018:					
Past due up to 30 days	222,952	1,646,293	-	-	1,869,245
Past due 30 - 60 days	580,582	51,483	421,695	1,068,094	2,121,855
Past due 60 - 90 days	-	4,860,845	-	-	4,860,845
Total	**803,534**	**6,558,622**	**421,695**	**1,068,094**	**8,851,945**
31 December 2017:					
Past due up to 30 days	209,003	400,013	323,455	978,822	1,911,293
Past due 30 - 60 days	123,098	2,329,526	182,112	1,314,422	3,949,158
Past due 60 - 90 days	24,535	6,652,488	101,678	446,362	3,225,063
Total	**356,636**	**9,382,027**	**607,245**	**2,739,606**	**9,085,514**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

Concentration of risks of financial assets with credit risk exposure

(a) ***Geographical sectors***

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

	Tanzania TZS '000	Europe TZS '000	America TZS '000	Others TZS '000	Total TZS '000
Cash and balances with the Bank of Tanzania	51,745,134	-	-	-	51,745,134
Amounts due from banks	39,738,948	6,241,664	3,506,572	17,987	49,505,171
Held to Maturity Investments	85,999,794	-	-	-	85,999,794
Loans and advances to customers:					-
Loans to individuals: - Overdrafts	11,395,722	-	-	-	11,395,722
Loans to individuals: - Term loans	121,795,445	-	-	-	121,795,445
Loans to corporate entities - Overdraft	54,874,520	-	-	-	54,874,520
Loans to corporate entities - Term loans	95,503,827	-	-	-	95,503,827
Available for Sale Investments	3,391,380				3,391,380
Other assets	28,738,724	-	-	-	28,738,724
As at 31 December 2018	**493,183,494**	**6,241,664**	**3,506,572**	**17,987**	**502,949,717**

*Other assets include non-financial instruments

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (Continued)

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

(a) Geographical sectors (Continued)

	Tanzania TZS '000	Europe TZS '000	America TZS '000	Others TZS '000	Total TZS '000
Cash and balances with the Bank of Tanzania	48,017,101	-	-	-	48,017,101
Amounts due from banks	54,113,708	936,425	2,621,887	17,987	57,690,007
Held to Maturity Investments	77,614,959	-	-	-	77,614,959
Loans and advances to customers:					
Loans to individuals - Overdrafts	10,222,939	-	-	-	10,222,939
Loans to individuals- Term loans	118,510,386	-	-	-	118,510,386
Loans to corporate entities- Overdraft	24,376,639	-	-	-	24,376,639
Loans to corporate entities- Term loans	39,926,651	-	-	-	39,926,651
Available for Sale Investments	3,391,380				3,391,380
Other assets	16,591,895	-	-	-	16,591,895
As at 31 December 2017	**392,765,658**	**936,425**	**2,621,887**	**17,987**	**396,341,957**

42. FINANCIAL RISK MANAGEMENT

42.1 Credit risk (continued)

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

(b) Industry sector (Continued)

	Financial institutions TZS'000	Manufacturing TZS'000	Trading and commercial TZS'000	Transport and communication TZS'000	Government TZS'000	Individuals TZS'000	Others TZS'000	Total TZS'000
Loans and advances to banks	49,505,171	-	-	-	-	-	-	49,505,171
Investments Held to maturity	3,000,000	-	-	-	82,999,794	-	-	85,999,794
Loans to Individuals -Overdrafts	-	-	-	-	-	11,395,722	-	11,395,722
Loans to Individuals -Term loans	-	-	-	-	-	121,795,445	-	121,795,445
Loans to Corporate entities - Overdrafts	-	-	54,874,520	-	-	-	-	54,874,520
Loans to Corporate entities -Term loans	-	6,516,453	83,570,210	5,073,494		-	343,670	95,503,827
Available for Sale Investments	3,391,380	-	-	-	-	-	-	3,391,380
Other assets	-	-	-	-	-	-	29,546,264	29,546,264
As at 31 December 2018	**55,896,551**	**6,516,453**	**138,444,730**	**5,073,494**	**82,999,794**	**133,191,167**	**29,889,934**	**452,012,122**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.1 Credit risk (continued)

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

c) Industry sectors

The following table breaks down the bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counter parties.

Sectorial classification-2018:

	Financial institutions	Manufacturing	Trading and commercial	Transport and communication	Government	Individuals	Others	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Loans to banks	57,690,007	-	-	-		-	-	57,690,007
Government Investments Held to Maturity		-	-	-	77,614,959	-	-	77,614,959
Loans to Individuals					-	-		-
-Overdrafts	-	-	-	-	-	10,222,939	-	10,222,939
-Term loans	-	-	-	-	-	118,510,386	-	118,510,386
Loans to Corporate entities								
-Overdrafts	-	-	24,376,639	-	-	-	-	24,376,639
-Term loans	-	6,516,453	27,993,034	5,073,494	-	-	343,670	39,926,651
Available for Sale Investments	3,391,380	-	-	-	-	-		3,391,380
Other assets	-	-	-	-	-	-	16,591,895	16,591,895
								-
At 31 December 2017	**61,081,387**	**6,516,453**	**52,369,673**	**5,073,494**	**77,614,959**	**128,733,325**	**16,935,565**	**348,324,856**

42. INANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk

Market risk is the risk where the changes in market prices – e.g. interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) – will affect the Bank's income or the value of its holdings of financial instruments. 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. The objective of the bank's market risk management is to manage and control market risk exposures within acceptable parameters to ensure the bank's solvency while optimising the return on risk. 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 monitory regularly in the bank's treasury and capital market department. The Bank has Assets and Liabilities Management Committees that is entrusted with mandate to manage market risk with at least quarterly t reports being submitted to the Board of Directors for deliberation and guidance.

42.2.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (Continued)

42.2.1 Foreign exchange risk (Continued)

At 31 December 2018	TZS	USD	GBP	EURO	Others	Total
Assets						
Cash and balances with Bank of Tanzania	30,949,821	20,154,722	98,772	541,819	-	51,745,134
Loans and advances to banks	35,928,166	7,458,525	291,541	5,825,857	1,082	49,505,171
Investments Held to maturity	85,999,794	-	-	-	-	85,999,794
Loans and advances to customers	232,107,471	51,437,502	-	24,541	-	283,569,514
Available for Sale Investments	3,391,380	-	-	-	-	3,391,380
Other assets	28,309,326	429,375	33	(10)	-	28,738,724
Total assets	**416,685,958**	**79,480,124**	**390,346**	**6,392,207**	**1,082**	**502,949,717**
Liabilities						
Deposits from banks	57,904,463	16,707,274	-	-	-	74,611,737
Deposits from customers	288,679,071	59,413,288	146,553	1,929,705	2	350,168,619
Revolving credit lines	13,403,107	-	-	-	-	13,403,107
Convertible loan stock	2,039,781	-	-	-	-	2,039,781
Other liabilities	(433,319)	4,899,696	5,498	41,682	-	4,513,557
Total liabilities	**361,593,103**	**81,020,258**	**152,051**	**1,971,387**	**2**	**444,736,801**
Net balance sheet position	**55,092,855**	**(1,540,134)**	**238,295**	**4,420,820**	**1,080**	**58,212,917**
Credit commitments*	**51,543,525**	-	-	-	-	**51,543,525**

*-Credit commitments are composed of off-balance sheet items such as Letter of guarantees and letter of credit

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

42. FINANCIAL RISK MANAGEMENT (CONTINUED)
42.2 Market risk (Continued)
42.2.1 Foreign exchange risk (Continued)

At 31 December 2017	TZS	USD	GBP	EURO	Others	Total
Assets						
Cash and balances with Bank of Tanzania	33,548,795	14,199,172	13,025	255,839	270	48,017,101
Loans and advances to banks	29,491,293	24,995,018	556,812	2,586,946	59,938	57,690,007
Government Investments Held to maturity	77,614,959	-	-	-	-	77,614,959
Loans and advances to customers	171,949,553	14,665,466	-	88,443	-	186,703,462
Available for Sale Investments	3,391,380	-	-	-	-	3,391,380
Other assets	9,061,048	154,248	171	349	-	9,215,816
Total assets	**325,057,028**	**54,013,904**	**570,008**	**2,931,577**	**60,208**	**382,632,725**
Liabilities						
Deposits from banks	14,713,566	22,617,158	451,718	936,425	-	38,718,867
Deposits from customers	14,713,566	22,617,158	451,718	936,425	-	38,718,867
Revolving credit lines	240,137,771	29,016,063	92,656	2,123,039	2	271,369,531
Convertible loan stock	14,777,101	-	-	-	-	14,777,101
Other liabilities	2,039,781	-	-	-	-	2,039,781
Total liabilities	**272,966,897**	**55,510,335**	**548,175**	**3,061,283**	**41,258**	**332,127,948**
Net balance sheet position	**52,090,131**	**(1,496,431)**	**21,833**	**(129,706)**	**18,950**	**50,504,777**
Credit commitments	**15,861,309**	-	-	-	-	**15,861,309**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (Continued)

42.2.1 Foreign exchange risk (Continued)

1

Sensitivity analysis
As at 31 December 2018, the Bank had significant exposures on United States dollars and Euro.

	2018		2017	
	TZS '000		TZS '000	
DESCRIPTION	**USD**	**EUR**	**USD**	**EUR**
Exchange rate at 31 December	2,241	2,676	2,183	2,282
Assets	24,098	1,096	24,253	1,852
Liabilities	24,777	1,144	24,619	1,800
Net balance sheet position	(679)	(48)	(366)	52
Rate depreciated by 10%	224	268	218	228
Profit/(Loss)-TZS	(152,253)	(12,971)	(79,991)	11,880
Rate appreciated by 10%	(224)	(268)	(218)	(228)
Profit/(Loss)-TZS	152,253	12,971	79,991	(11,880)

If Tanzanian Shillings had weakened/strengthened by 10% against United States dollar with all variables held constant, the pre-tax profit would have been higher/lower by TZS 152 million (2017: loss of TZS 80 million).

If Tanzanian Shillings had weakened/strengthened by 10% against EURO, with all variables held constant, the pre-tax profit would have been lower/higher by TZS 13 million (2017: profit higher/lower by TZS 12 million).

42.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by 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 any interest rate risk on off Statement of Financial Position items.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (Continued)

42.2.1 Interest rate risk (continued)

At 31 December 2018	Up to 1 month TZS'000	1 –3 months TZS'000	3– 12 months TZS'000	1 –5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
Assets						
Cash and balances with Bank of Tanzania	-	-	-	-	51,745,134	51,745,134
Loans to banks	5,583,540	2,291,770	1,157,500	-	40,472,361	49,505,171
Government Investments Held to Maturity	12,889,414	26,630,961	44,831,273	1,648,146	-	85,999,794
Loans and advances to customers	27,900,335	16,050,710	63,195,255	153,582,974	22,840,240	283,569,514
Available for sale investments					3,391,380	3,391,380
Other assets	-	-	-	-	28,738,724	28,738,724
Total assets	**46,373,289**	**44,973,441**	**109,184,028**	**155,231,121**	**147,187,839**	**502,949,717**
Liabilities						
Deposits from banks	67,555,155	2,002,000	1,146,290	-	3,908,292	74,611,737
Deposits from customers	126,471,767	13,989,472	35,374,141	167,734,035	6,599,205	350,168,619
Revolving credit lines	-	14,500,000	-	-	(1,096,893)	13,403,107
Convertible loan stock	-	-	-	2,000,000	39,781	2,039,781
Accounts payable and accruals	-	-	-	-	4,513,557	4,513,557
Total liabilities	194,026,922	30,491,472	36,520,431	169,734,035	13,963,941	444,736,801
Interest repricing gap	**(147,653,634)**	**14,481,969**	**72,663,597**	**(14,502,914)**	**133,223,897**	**58,212,916**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (Continued)

42.2.2 Interest rate risk (continued)

At 31 December 2017	Up to 1 month TZS'000	1 –3 months TZS'000	3– 12 months TZS'000	1 –5 years TZS'000	Non-interest bearing TZS'000	Total TZS'000
Assets:						
Cash and balances with Bank of Tanzania	-	-	-	-	48,017,101	48,017,101
Loans to banks	28,829,454	11,001,933	3,000,000	-	14,858,620	57,690,007
Government Investments Held to Maturity	2,296,832	25,357,009	24,392,986	21,267,058	4,301,074	77,614,959
Loans and advances to customers	21,658,955	3,943,290	45,519,613	92,741,364	22,840,240	186,703,462
Available for sale investments	-	-	-	-	3,391,380	3,391,380
Other assets	-	-	-	-	16,494,622	16,494,622
Total assets	**52,785,241**	**40,302,232**	**72,912,599**	**114,008,422**	**110,000,310**	**390,008,804**
Liabilities:						
Deposits from banks	14,817,339	15,997,257	7,741,463	-	368,994	38,718,867
Deposits from customers	199,879,360	23,633,866	39,326,211	8,530,095	-	271,369,531
Revolving credit lines	-	14,500,000	-	-	277,101	14,777,101
Convertible loan stock	39,781	-	-	2,000,000	-	2,039,781
Accounts payable and accruals	-	-	-	-	5,222,668	5,222,668
Total liabilities	**214,696,699**	**54,131,123**	**47,067,673**	**10,548,780**	**5,908,544**	**332,127,948**
Interest repricing gap	**(161,911,458)**	**(13,828,891)**	**25,844,926**	**103,459,649**	**104,091,766**	**57,880,856**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.2 Market risk (continued)

42.2.3 Interest rate risk (continued)

• Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, if there was an increase of interest rates by 2% the bank's profitability would be reduced by TZS 623 million (2017: TZS 40 million) due to increase in annual interest expenses. The impact of this increase on capital of the bank is reduction by TZS 436 million (2017: TZS 28 million). However, with the core capital of TZS 43,786 million (see note 40) the amounts are not expected to significantly impair the ability of the Bank to operate profitably.

	2018 TZS000	2017 TZS000
Assets re-pricing after 6 months	80,286,350	81,259,447
Liabilities re-pricing after 6 months	142,571,209	85,251,089
Interest rate Gap	**(62,284,859)**	**(3,991,642)**
Impact of interest rate rise by additional 2%	(622,849)	(39,916)
Impact in Capital	(435,994)	(27,941)

42.3 Liquidity risk

Liquidity risk' is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

42.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate Treasury and Capital Market team, 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 liquidity ratios against internal and regulatory requirements; and

- Managing the concentration and profile of debt maturities.

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Liquidity risk (Continued)

Monitoring and reporting normally 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.

The Bank also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

42.3.2 Funding approach

Sources of liquidity are regularly reviewed by a separate Bank Treasury team to maintain a wide diversification by currency, geography, fund provider, product and term.

The table below summarises the assets and liabilities according to when they are expected to be recovered.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Liquidity risk (Continued)

42.3.2 Funding approach (Continued)

At 31 December 2018	1-3 months	3-6 months	6- 12 months	1-5 years	More than 5 years	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets						
Cash and balances with Bank of Tanzania	25,597,629	-		26,174,938	(27,433)	51,745,134
Loans and advances to banks	5,583,540	2,291,770	1,157,500	-	40,472,361	49,505,171
Loans and advances to customers	27,900,335	16,050,710	63,195,255	153,582,974	22,840,240	283,569,514
Investments Held to maturity	12,889,414	26,630,961	44,831,273	1,648,146	-	85,999,794
Available for sale investments					3,391,380	3,391,380
Other assets	1,369,843	-	-	-	27,368,881	28,738,724
Total financial assets	**73,340,761**	**44,973,441**	**109,184,028**	**181,406,058**	**94,045,429**	**502,949,717**
Deposits from banks	67,555,155	2,002,000	-	-	-	74,611,737
Deposits from customers	126,471,767	13,989,472	35,374,141	167,734,035	6,599,205	350,168,619
Revolving credit lines	-	14,500,000	-	-	(1,096,893)	13,403,107
Convertible loan stock	-	-	-	2,000,000	39,781	2,039,781
Other liabilities	-	-	-	4,513,557	-	4,513,557
Total financial liabilities	**194,026,922**	**30,491,472**	**35,374,141**	**174,247,592**	**5,542,093**	**444,736,801**
Net liquidity gap	**(120,686,161)**	**14,481,969**	**73,809,887**	**7,158,467**	**88,503,336**	**58,212,916**

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

42.3 Liquidity risk (continued)

At 31 December 2017	1-3 months	3-6 months	6-12 months	1-5 years	More than 5 years	Total
	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000	TZS'000
Assets						
Cash and balances with Bank of Tanzania	30,034,286	-		17,982,815	-	48,017,101
Loans and advances to banks	28,829,454	11,001,933	3,000,000	-	14,858,620	57,690,007
Loans and advances to customers	21,658,955	3,943,290	45,519,613	92,741,364	22,840,240	186,703,462
Investments	2,296,832	25,357,009	24,392,986	21,267,058	4,301,074	77,614,959
Other assets	1,505,110	-	-	-	15,086,785	16,591,895
Total financial assets	**84,324,637**	**40,302,232**	**72,912,599**	**131,991,237**	**57,086,719**	**386,617,424**
Deposits from banks	14,817,339	15,997,257	-	-	-	38,718,867
Deposits from customers	199,879,360	23,633,866	39,326,211	8,530,095	-	271,369,531
Revolving credit lines	-	14,500,000	-	-	277,101	14,777,101
Convertible loan stock	39,781	-	-	2,000,000	-	2,039,781
Accounts payables and Accruals	-	-	-	-	1,956,459	1,956,459
Total financial liabilities	**214,736,480**	**54,131,123**	**39,326,211**	**10,530,095**	**2,233,560**	**328,861,739**
Net liquidity gap	**(130,411,842)**	**(13,828,891)**	**33,586,389**	**121,442,457**	**54,832,063**	**57,755,685**

43. CONTINGENT LIABILITIES AND COMMITMENTS

To meet the financial needs of the customers, the bank enters into various irrevocable commitments and contingent liabilities. This comprises of financial guarantees, letters of credit (LCs) and commitments to lend. These obligations are not recognized on the statement of financial position; they contain the credit risk and, therefore form part of the overall risk of the bank.

Letters of credit and guarantee (including standby letters of credit) commit the bank to make payments on behalf of customers in the event of specific act and generally related to the import or export of goods. Guarantees and letters of credit carry a similar credit risk to loans and advances. The nominal values of such commitments are listed below:

a) Loan commitment, guarantees and other facilities

At 31 December 2018, the Bank had the contractual amount of the off Statement of Financial Position financial instruments that commit it to extend credit to customers, guarantees and letters of credit as follows:

As at 31 December 2018	No later than 1 year TZS 000	1-5 years TZS 000	Over 5 years TZS 000	Total TZS 000
Loan commitments	6,108,993	-	-	6,108,993
Letters of credit and guarantees	9,001,502	-	-	9,001,502
Total	**15,110,495**	**-**	**-**	**15,110,495**
As at 31 December 2017				
Loan commitments	6,440,367	-	-	6,440,367
Letters of credit and guarantees	5,593,344	-	-	5,593,344
Total	**12,033,711**	**-**	**-**	**12,033,711**

Letter of credit and guarantees have zero impairment charges following the cash covers that secured the exposure on default.

i) Undrawn commitments

The table below shows the credit quality and maximum exposure to credit risk based on the bank's internal credit rating system and year end stage classification of undrawn commitments.

Descriptions (TZS'000)	2018				2017
	Stage 1	Stage	Stage 3	Total	Total
Performing:					
Current category	5,236,897	3,273,853	-	8,510,750	-
Especially Mentioned Category	-	-	-	-	-
Non- performing:	-	-	-	-	-
Substandard Category	-	-	-	-	-
Doubtful Category	-	-	-	-	-
Loss Category	-	-	-	-	-
	5,236,897	**3,273,853**		**8,510,750**	**-**

43. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

i) Undrawn commitments (Continued)

The table below shows the analysis of changes in gross amount of undrawn commitments during the year:

Descriptions (TZS'000)	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	6,780,246	1,075,880	-	7,856,126
New assets originated or purchased		2,197,973	-	2,197,973
Exposures derecognized/ matured	(1,543,34)	-	-	(1,543,349)
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
At 31 December 2018	**5,236,897**	**3,273,853**		**8,510,750**

The table below shows the analysis of changes in ECL allowance amount of undrawn commitments recorded in the statement of profit or loss and other comprehensive income during the year:

Descriptions (TZS'000)	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at amount as at 1 January 2018	698,253	1,558,160	-	2,256,414
New assets originated or purchased	52,104	235,140	-	287,244
Assets derecognized or repaid (excluding write offs)	-	-	-	-
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
At 31 December 2018	**52,104**	**235,140**	-	**287,244**

b) Contingencies

Legal claims

As at 31 December 2018, the Bank was a defendant in several law suits. The plaintiffs are claiming damages and interest thereon for the alleged loss caused by the Bank due to breach of contracts and loss of business. The Directors are of the opinion that no significant liabilities will arise from these claims.

Taxation

The normal procedure for agreeing final income tax liabilities in Tanzania involves the Company filing its final income tax self-assessment return with the Tanzania Revenue Authority (TRA) followed by TRA performing its review and/or of the Bank's submissions and issuing notice of final income tax assessment to the Bank. The TRA final income tax assessment as may be determined after the TRA review and/or audit may differ from the Company's self-assessment. The Tanzania tax laws stipulate the tax assessment objection and appeal procedures that the Company may follow in case of disagreement with the TRA assessments. It is possible that the timeframe between the Company's self-assessment and TRA issuing its notice of final tax assessment may be several months or years.

The Bank duly submitted the final income tax self-assessment returns for all the prior years. TRA has done tax audits up to the 2016 financial year. The Bank objected to open tax assessments amounting to TZS 5.4 billion for which the directors have assessed, based on advice by the Bank's tax consultant and lawyers, that the Bank may be required to pay some amounts upon further deliberations with the TRA, and therefore may be material to the financial statements.

43. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

c) Operating lease commitments

The Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
	TZS'000	TZS'000
No later than one year	2,166,158	2,431,833
Later than one year and no later than five years	5,109,954	9,726,532
Later than five years	974,543	9,726,532
	8,250,655	**14,838,305**

d) Capital commitments

	2018	2017
	TZS '000	TZS 000
Authorised but not contracted	2,150,000	1,360,000

The capital commitments relate to ongoing activities being contracted and approved.

44. EVENTS AFTER REPORTING DATE

On 2nd August 2018 the Bank of Tanzania put Bank M Tanzania Plc ('Bank M') under statutory management due to liquidity problem. On 02nd January 2019 the Bank of Tanzania resolved to transfer assets and liabilities of Bank M to Azania Bank Limited and became into effect on 15th March 2019 when the agreement was signed by ABL, and the Bank of Tanzania.

The following are key information regarding the transfer:

- That transfer relates to taking over of all assets and liabilities of Bank M Tanzania Plc including but not limited to the fixed assets, financial assets, business intellectual property rights and employees upon the completion date after the signing of the agreement and consequently, Bank M will not be a subsidiary of Azania Bank Limited.
- Withdraw of deposits of former Bank M Tanzania Plc customers are subjected to certain conditions as stipulated within an agreement for purpose of liquidity management.
- ABL will be free to review, negotiate to vary terms or terminate any agreement entered by Bank M Tanzania Plc at any time subject to the requirements of the law or conditions prescribed in the agreement.
- To support the transfer of assets and liabilities, existing shareholders (PSSSF, NSSF, NHIF and Workers Compensation Fund) of Azania Bank Limited will inject new ordinary share capital to Azania.
- To support liquidity of the Bank after the transfer, ABL shareholders and prospective shareholders shall deposit funds as a revolving fund for four consecutive years at an interest rate that will be agreed with ABL.

45. COMPARATIVES

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.