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

We are on your side

WE EXIST BECAUSE OF YOU.

Our mission is to be partners of growth for all stakeholders. we seek to support you in your life's journey, by providing innovative, market driven and customized financial solutions.
We believe that this forms the foundation for long-term shareholder value and sustainable societal development.

WE ARE ON YOUR SIDE.

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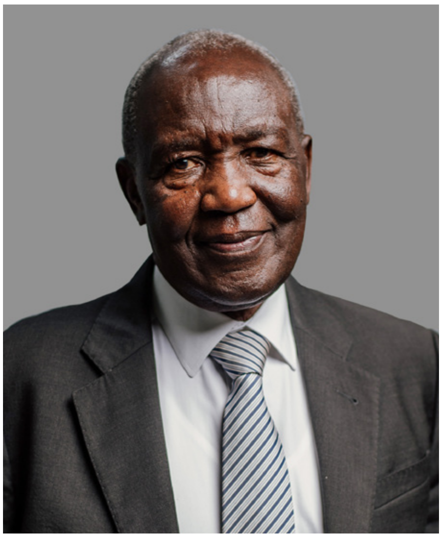
OUR BOARD OF DIRECTORS

Mr. Sarit Shah
Board Chairman



Mr. Michael N. Shirima
Director

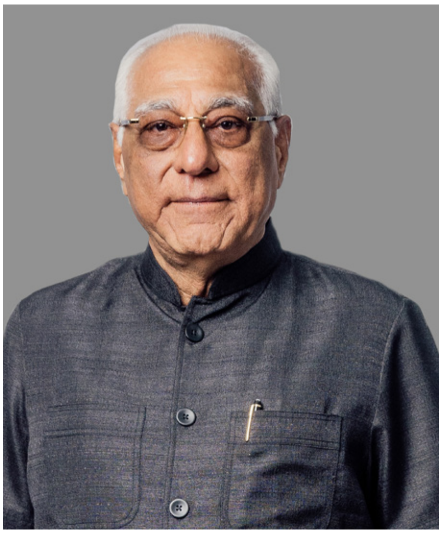
Mr. Thiery Hugnin
Director

Mr. Pratul H. Shah
Director

Mr. Shameer Patel
Director

Mr. Alan Mchaki
Director

Amb. Bertha E. Semu-Somi
Director



Mr. Bharat K. Ruperelia
Director

OUR SENIOR MANAGEMENT

Baseer Mohammed
CEO

Lilian Kidee Mtali
Head of Retail Banking

Krishnan Ramachandran
Head of Corporate Banking

Patrick Richard Kapella
Head of Treasury

Don Mate
Head of Operations

Amulike Essau Kamwela
Head of Finance

OUR SENIOR MANAGEMENT (CONTINUED)

Emmanuel Wilson
Head of Risk and Compliance

Alan Mbangula
Head of ICT

Clement John Kagoye
Ag. Head of Credit

Aimtonga Adolph
Head of Internal Audit

OUR GOVERNANCE

CHAIRMAN'S STATEMENT

Mr. Sarit Shah
Board Chairman

It gives me great pleasure to present you the Bank's Annual Report and Financial Statements for the year ending 31st December, 2019.

Economy Overview

The Tanzania economy continued to record steady growth averaging 6.9% same as in the corresponding period in 2018. The performance was supported by scaling up of public investment and steady private sector activity, stable consumption expenditure and export growth. The exchange rate remained stable, bolstered by prudent monetary and fiscal policies, moderate current account deficit and subdued oil prices in the world market. In addition, measures implemented by the Bank of Tanzania to ensure transparency and orderly market for foreign exchange operations contributed to the stability of the shilling. The Interest rates continued to remain lower on the back of accommodative monetary and fiscal policies by the government.

Banking Industry

The banking sector registered an improved performance coupled with reduced impairment levels due to various accommodative and supportive policies of Bank of Tanzania to strengthen the banking system in the industry. The Liquidity remained disproportionately skewed towards tier I banks prompting the Central Bank to invoke a range of monetary policy measures in a bid to shore up depositor confidence. The total assets in the Banking industry grew by 5.68% from TZS 31.7 trillion in the year 2018 to TZS 33.5 trillion in the year 2019. The overall deposits reported an increase of 6.33% from TZS 22.1 trillion to TZS 23.5 trillion. Credit growth registered a decent recovery following a pick-up in lending activity with a net increase of 9.68% from TZS 15.5 trillion in 2018 to TZS 17.0 trillion in 2019. The key statutory and regulatory changes including the implementation of IFRS 16, reduction of statutory minimum reserve ratio, abolishment of 1% general provisions for loans categorized as current and exclusion of investment in computer software in computation of regulatory capital provided stimulus to the industry.

I&M Bank (T) Ltd Performance in 2019

Despite tight liquidity conditions in the market, I'm pleased to state that the Bank has demonstrated stability in performance during the year 2019. The balance sheet growth remained subdued at TZS 510 billion in 2019 as there was emphasis on recovery of non-performing assets and growth of the selective high quality assets. On a gross basis, the Bank registered a modest credit growth of 0.8% from TZS 362 billion to TZS 365 billion. Likewise, there was significant improvement in non-performing assets leading to reduction in the Gross NPA ratio to 11.66% as at 31st December 2019 compared to 13.41% as at 31st December 2018 mainly driven by recovery of non-performing loans. There was a slim increase in total deposits of 1.8% from TZS 348 billion to TZS 354 billion as the Bank continued to create a stable and cost-effective deposit base. Notwithstanding the challenging macro-economic conditions especially impacting the private sector which remains the key segment of the Bank, the Bank demonstrated consistency in remaining profitable reporting a Profit before Tax of TZS 8.84 billion, albeit marginally lower than TZS 9.01 billion reported in the previous year.

CHAIRMAN'S STATEMENT (CONTINUED)

Medium Term Strategy - Progress

The Bank has developed a comprehensive Medium Term Strategy with an aspiration to be "the banking power house for medium to large businesses and premium clients in the country" and progressed well on various initiatives towards enhancing the market share, brand positioning and driving the growth in corporate and retail banking through developing capabilities and enhancing various suite of products and services to the customers. The key focus areas for investments would continue to be redesigning the customer experience through the digitization of various systems and processes with an objective of improving the end to end customer journey.

Organizational Restructuring & Key Management Changes

In terms of the strategy, two business verticals were established by introducing Retail and Corporate Departments to given additional focused impetus to drive growth. The Bank has put in place an experienced management team from diverse banking backgrounds and skill sets to propel the growth of the Bank in the country.

Other Key HR Initiatives

In order to drive the performance culture, nurture talent and build capacities various initiatives were implemented during the year. The Balance Score Card framework was further entrenched to drive performance management with alignment to the strategy. With a view to bench-mark the compensation structure to the industry and to streamline the grades and skill levels, the Bank had successfully implemented the recommendations from the bench-marking during the year which helped in the alignment of the organization structure and enhancing the motivation levels significantly at the Bank. In its efforts to monitor the pulse of the organization, the Bank repeated the Organization Health Index (OHI) survey and the high results of the survey demonstrated the consistency in its endeavor of maintaining the good practices and a healthy work environment.
The Bank continued the various Capacity Building Initiatives during the year by conducting extensive functional and technical trainings through internal and external programs.

Product Development

Through a strategic alliance with BLOCK BONDS, the Bank introduced an e-wallet payment solution termed SPENN that helps making payments between users at free of cost through the advanced features based on QR codes and an innovative geo-location interface. The Bank also introduced Custodial & Investment Services to assist investors in managing and tapping investments across the East African region in equities and bond markets. The Bank also partnered with Western Union to offer a quick money transfer solution where clients can easily transfer money across the globe. Moreover, in recognition of the entities involved in welfare and socio-economic development of communities like Embassies, Clubs, Societies, Associations and NGOs, the Bank introduced a purposed offering called Noble Account specific for those entities.

The Bank is continuing to enhance its presence in the market by leveraging on the digital technologies in order to streamline customer acquisition process whereby the Bank introduced a product named IMExpress Account that is supported with a Fintech partnership with BankGenie. To enhance our digital solutions the Bank entered into a strategic partnership with SELCOM Tanzania for the introduction of Agency Banking into the market during the year 2020. This alliance would enhance the Bank's distribution network through a cost effective manner.
In terms of providing value to the customer the Bank is in the process of introducing Premium Banking to cater to the premium customers with an exceptional value proposition.

Technology

To strengthen the technology backbone and meet the dynamic needs of introducing innovative banking products and services, the Bank made a significant capital investment to upgrade its core banking system "Finacle" from version 7 to a higher advanced version 10 during the year. This investment in technology supports the Bank's various strategic objectives and has simplified integration with third party systems, making it easier for the Bank to introduce various solutions to improve its operations. In order to offer more convenience to our customers the Bank also introduced enhanced internet banking and mobile banking experiences during the year.

CHAIRMAN'S STATEMENT (CONTINUED)

Marketing and Customer Engagements

The Bank continued conducting its marketing campaigns to increase customer acquisitons and brand visibility. The campaign was successfully run by increasing the intensity on Brand building and deposit mobilization through Print, Radio and Digital media. During the campaign there has been significant visibility created through social media. There were also special customer events and celebrations culminating to the International customer service week in the month of October 2019.

Corporate Social Investment and Sustainability

During the year the Bank partnered with Kisarawe District Commissioner, Hon. Jokate Mwegelo, in the fundraising dinner with a motive to raise funds for construction of a Library for a new Girl's only Secondary School at Kisarawe District in the initiative of Tokomeza Zero (End Zero). The Bank also donated funds to Jakaya Kikwete Cardiac Institute to sponsor needy children who required to undergo heart surgery. Similarly, the Bank also visited EATV and supported their initiative dubbed "Keep the young girls to school" by offering sanitary pads. As part of engaging with our customers during the International Customer service week, the Bank visited and donated various items to The Ocean Road Cancer Institute. The Bank continues to support Cornel Ngaleku Children's Centre through direct contributions and through the collections in Donation Boxes placed at all the branches.

Outlook for 2020

The macroeconomic indicators of the country continue to show positive direction with the focus of the government on the ambitious investments in large infrastructure projects. It is our belief that these projects will stimulate further economic activities across the country and hence contribute to the growth of banking industry.
Nevertheless, there remains a key risk arising from the impact of the worldwide spread of COVID-19 and its resultant effect on the global arena including Tanzania. The Bank has put in place adequate measures to mitigate the impact from an operational and business continuity perspective and will continue to keep a close watch and review of the likely impact to our customers and resultant performance of the Bank going forward as the global incident develops. The Bank will strive to maintain the momentum of growth by leveraging on digital solutions, enhance transaction banking business and refreshing of the value propositions to meet the dynamic requirements of customers of today and the future.

Acknowledgements

On behalf of the Board, I would like to take this opportunity in expressing our gratitude to each and every Customer of our Bank for supporting the growth of the Bank. I wish to thank the Management and all the employees of the Bank for their commitment and dedicated efforts in meeting the objectives of building a resilient institution in the country.
I remain extremely grateful to all our business partners and the regulators especially Bank of Tanzania who continue to provide their guidance and invaluable support to the Bank.

Last but not the least I would like to express my gratitude to my fellow directors on the Board for their unwavering support and involvement in providing timely guidance and wisdom during the year.

Thank You!

MR. SARIT SHAH
CHAIRMAN

CORPORATE SOCIAL INVESTMENT AND SUSTAINABILITY INITIATIVES

CORPORATE SOCIAL INVESTMENT AND SUSTAINABILITY

Relationships: **We are On Your Side, Our Communities**

GIVING BACK TO THE LOCAL COMMUNITIES

Raising Money for Education, Tanzania

On 30th March 2019, I&M Bank (T) Limited took part in a fundraising dinner organized by the Kisarawe District Commissioner, Hon. Jokate Mwegelo at Mlimani City Hall, Dar es Salaam. The dinner aimed to raise funds for the construction of a new girls only secondary school in Kisarawe District, 18 Km North East of Dar es Salaam.

At the dinner, the Bank pledged TZS 20 million to construct a library for the school. This pledge was presented by Ambassador Bertha Semu Somi, Board Member, I&M Bank (T) Limited. The fundraising dinner was graced by the Minister of Education, Science, Technology and Vocational Training and other senior government officials including the Minister of State in the President's Office and Minister of Tourism. The Bank fulfilled its promise in September 2019 and the construction began towards end of 2019.

I&M Bank (T) Limited CEO, Mr. Baseer Mohammed pledging TZS. 20 million on fundraising dinner organized by the Kisarawe District Commissioner, Hon. Jokate Mwegelo at Mlimani City Hall, Dar es Salaam for a library construction.

CORPORATE SOCIAL INVESTMENT AND SUSTAINABILITY (CONTINUED)

I&M Bank (T) Joining Hands in Namthamini Campaign

As part of I&M Bank (T) Limited giving back initiative for 2019, the bank partnered with East African Television in supporting “NAMTHAMINI CAMPAIGN” sanitary pads donation to 100 girls to ensure a conducive and supportive learning environment.

The campaign successfully achieved its goal by significantly reducing absenteeism amongst female students especially in the country’s rural regions. The Bank has been participating in this initiative since its inception three years ago.

Some I&M Bank (T) Limited staff donate sanitary pads to the East Africa TV presenter who championed the ‘NAMTHAMINI’ campaign.

CORPORATE SOCIAL INVESTMENT AND SUSTAINABILITY (CONTINUED)

I&M Bank (T) Support for Breast Cancer Awareness

During the global Customer Service Week celebrations in October, which is also mark Breast Cancer Awareness Month globally, I&M Bank (T) Limited organized a visit to the Ocean Road Cancer Institute. The Bank staff led by Bank Board Member, Ambassador Bertha Semu-Somi and Head of Retail Banking, Ms. Lilian Mtali visited the hospital and donated Khangas and refreshments to 100 women battling breast cancer.

Ambassador Bertha Semu-Somi, Board Member and Lilian Mtali, Head of Retail Banking at I&M Bank (T) Limited, present khangas and refreshments to a nurse at the Ocean Road Cancer Institute during the International Customer Service week.

CORPORATE SOCIAL INVESTMENT AND SUSTAINABILITY (CONTINUED)

Donation at Jakaya Kikwete Cardiac Institute

In December, 2019 the Bank donated TZS 10,000,000/= to the Jakaya Kikwete Cardiac Institute this donation was to pay for heart surgery for children in need. The donation was handed to Hon. Paul Makonda the Regional Commissioner for Dar es Salaam mobilizing the exercise of raising funds to help around 500 children in need.

Ambassador Bertha Semu-Somi, Board Member (right) and Lilian Mtali, Head of Retail Banking at I&M Bank (T) Limited (standing behind) Ambassador Bertha Semu-Somi, listening to a pediatric surgeon at Jakaya Kikwete cardiac institute after the donation of TZS.10,000,000/= to support pediatric surgery.

CORPORATE SOCIAL INVESTMENT AND SUSTAINABILITY (CONTINUED)

School Desk Donation at Mrisho Gambo Secondary School

As part of the 10 years anniversary celebrations, I&M Bank Tanzania handed over a donation of 100 desks and chairs to Mrisho Gambo Secondary School in Arusha. The handing over event was held in Arusha on January 16th, 2020 and graced by Minister of Education, Science, Technology and Vocational Training, Hon Prof. Joyce Ndalichako in the presence of Arusha Regional Commissioner, Hon. Mrisho Gambo and other regional leaders.

Speaking at the handing over event, I&M Bank Tanzania CEO, Mr. Baseer Mohammed said that the donation of 100 desks and chairs worth TZS 10 Million is a clear testament to the Bank's continued determination as an institution not only in delivering convenient and reliable services but also ensure that it contributes in the welfare of the society in the markets that it operates.

As part of 10 Years celebration, I&M Bank CEO, Mr. Baseer Mohammed, and Head of Retail Banking, Lilian Mtali donating 100 desks to and chairs to Mrisho Gambo Secondary School in Arusha. The event was grace by Arusha Regional Commissioner, Hon. Mrisho Gambo and Minister of Education, Science, Technology and Vocational Training, Hon Prof. Joyce Ndalichako.

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

HEAD OFFICE

Maktaba Square,
Maktaba Street,
PO Box 1509,
Dar es Salaam, Tanzania.

REGISTERED OFFICE

Maktaba Square,
Maktaba Street,
PO Box 1509,
Dar es Salaam, Tanzania.

CORRESPONDENT BANKS

I&M Bank Limited,
PO Box 30238,
00100 Nairobi,
Kenya.
00100 Nairobi, Kenya.

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

ICICI Bank Limited,
ICICI Bank Towers,
Bandra – Kurla Complex,
Mumbai 400 051, India.

I&M Bank (Rwanda) Ltd,
PO Box 354,
Kigali, Rwanda.

Citibank Limited,
Citibank N.A,
Upper Hill Road,
PO Box 30711-00100, USA.

BHF Bank Aktiengesellschaft,
60323 frankfurt am main,
Frankfurt Germany.

BANK'S SECRETARY

Ms. Hamida Sheikh,
M/s Sheikh's Chambers of Advocates,
Advocates, Notaries Public & Commissioners for Oath,
PO Box 6225,
Dar es Salaam, Tanzania.

LEGAL ADVISORS

Kesaria and Company Advocates,
PO Box 729,
Dar es Salaam, Tanzania.

Locus Attorney,
Peugeot House,
36 Ali Hassan Mwinyi Road,
PO Box 4110,
Dar es Salaam, Tanzania.

M/s K&M Advocates,
PO Box 71394,
Dar es Salaam, Tanzania.

AUDITOR

KPMG,
The Luminary,
Plot No.574, Haile Selassie Road,
Msasani Peninsula Area,
PO Box 1160,
Dar es Salaam, Tanzania.

CORPORATE INFORMATION (CONTINUED)

ABBREVIATIONS

In this document we have used the following abbreviations;

EAD	Exposure at default
ECL	Expected credit losses
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit and loss
IAS	International Accounting Standards
IFRSs	International Financial Reporting Standards
LGD	Loss given default
PBT	Profit before tax
PD	Probability of default
SPPI	Solely payments of principal and interest
SICR	Significant increase in credit risk

CORPORATE PROFILE

I&M Bank part of I&M Bank Holdings is one of the leading commercial banks in East Africa, with a growing regional presence currently extending to Kenya, Tanzania, Rwanda and Mauritius. Since its inception in 1974, the Bank has evolved from a community financial institution to a regional commercial bank offering a full range of services from Corporate, Business, Premier, Personal Banking, Custodial investment services and the newly introduced BancAssurance.

I&M Bank (T) Ltd came into operation in 2010 after acquiring CF Union Bank which had been operating in Tanzania since 2001. Currently the Bank has presence in four regions of Tanzania that include Dar es Salaam, Mwanza, Arusha and Kilimanjaro. I&M Bank pride itself on its strong values and key strengths of innovative service and strong customer relationships.

BUSINESS AT GLANCE

WHAT DRIVES US

Our Vision

To become a company where the best people want to work. The first choice where customers want to do business, and where shareholders are happy with their investment.

Our Mission

To be partners of growth for all our stakeholders

Our Strategic Aspiration

To become a banking powerhouse in East Africa for medium to large businesses and premium clients.

Our Culture

To “nurture a culture of fairness to our partners” with respect to three key relationships:
Employee Employer I Customer Bank I Shareholders Bank

We strive to achieve this through:

Our Core Values

- Meeting our customers’ expectations
- Motivating and developing every employee
- Enriching shareholder value
- Mutual Respect
- Fairness
- Innovativeness

OUR FINANCIALS

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2019

1. INTRODUCTION

The Directors submit their report and the audited financial statements for the year ended 31 December 2019 which disclose the state of affairs of I&M Bank (T) Limited ("the Bank").

2. INCORPORATION

The Bank is incorporated in Tanzania under Companies Act, 2002, domiciled in Tanzania as a private limited company and whose shares are not publicly traded.

3. MISSION AND VISION

Vision Statement:

To become a company where the best people want to work, the first choice where customers want to do business, and where shareholders are satisfied with their investment.

Mission Statement:

To be partners of growth for all our stakeholders through:

- Meeting our Customers' expectations.
- Motivating & developing every employee.
- Enhancing shareholder value.

4. PRINCIPAL ACTIVITIES

The principal activity of I&M Bank (T) 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 2019.

5. REVIEW OF BUSINESS PERFORMANCE

The Bank's results are set out on page 22 of these financial statements. During the year under review, the Bank recorded a profit before tax of TZS 8,843 million compared to TZS 9,011 million in the previous year, representing a marginal drop of 1.9%.

Interest Income

Interest income during the year amounted to TZS 49,157 million compared to TZS 44,283 million in the previous year, representing an increase of 11.0%.

Interest expense

Interest expense during the year amounted to TZS 19,863 million, as compared to TZS 18,928 million in the prior year, representing an increase of 4.9%.

Net interest income

Net interest income (interest income less interest expense) during the year amounted to TZS 29,293 million, as compared to TZS 25,355 million in prior year, representing an increase of 15.5%.

Non - interest Income

Non-interest income amounted to TZS 8,818 million compared to TZS 9,423 million in the previous year, showing annual drop by 6.4%. Non-interest income mainly includes fee and commission income, foreign exchange income and other operating income.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

Non - interest expenses

Non- interest expenses amounted to TZS 22,942 million as compared to TZS 19,851 million in prior year, implying an increase of 15.6%.

Income tax expense

Income tax expense amounted to TZS 2,841 million (2018: TZS 2,814 million).

Key performance ratios

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

	2019	2018
Return on average assets	1.18%	1.30%
Return on average equity	7.70%	9.36%
Non-interest income to net interest income	30.10%	37.17%
Operating expenses to average assets	2.97%	2.67%
Non-interest expenses before tax to operating income	60.01%	56.77%

6. REVIEW OF FINANCIAL POSITION

The Bank's financial position is set out on page 23 of these financial statements. Major movements are as explained in the table below:

Item	2019	2018	Increase / (Decrease)	
	TZS' 000	TZS ' 000	TZS ' 000	%
Cash and balances with Bank of Tanzania	30,774,304	42,423,289	(11,648,985)	-27%
Loans and advances to banks	-	7,838,743	(7,838,743)	-100%
Cheques and items for clearance	135,006	22,900	112,106	490%
Financial assets measured at fair value through other comprehensive income (FVOCI)	1,013,750	811,000	202,750	25%
Investment securities	105,440,405	98,884,257	6,556,148	7%
Loans and advances to customers	345,355,129	345,398,232	(43,103)	0%
Deferred tax asset	5,620,807	4,894,725	726,082	15%
Property and equipment	7,991,456	4,378,431	3,613,025	83%
Intangible assets	6,510,857	3,357,199	3,153,658	94%
Other assets	5,213,826	1,933,743	3,280,083	170%
Deposits	362,672,889	365,431,485	(2,758,596)	-1%
Other liabilities	11,105,834	5,020,056	6,085,778	121%
Long term borrowing	56,015,767	64,044,015	(8,028,248)	-13%

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

Deposits

There is a net increase in total deposits by 1.8%. The net increase has been lower mainly due to large withdrawals of Parastatal deposits in view of consolidation of these trusts during the year.

Loans and advances

There has been net decrease in loans and advances by TZS 43 million mainly on account of recoveries during the year.

Government securities

There has been an increase in investment in government securities by TZS 6,556 million (6.6%) during the year.

Long term borrowing

Long term borrowing has decrease by TZS 7,778 million (17.17%) which was attributed by certain principal repayments to DFIs as well as full repayment of PROPARCO loan.

Key efficiency ratios

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

	2019	2018
Shareholders fund to total assets	15.68%	14.85%
Non-performing loans to total advances	11.66%	13.21%
Gross loans to total deposits	100.62%	99.09%
Loans to total assets	71.51%	70.86%
Liquidity ratio	27.40%	30.30%

7. GOING CONCERN AND SOLVENCY EVALUATION

The Bank has complied with the Bank of Tanzania liquidity and capital adequacy ratios. 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. The Directors consider the Bank to be solvent within the meaning ascribed by the Tanzanian Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

8. ACCOUNTING POLICIES

The annual financial statements are prepared on the underlying assumption of a going concern. The Bank's accounting policies, which are laid out on pages 27 to 103 are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

9. ACQUISITIONS AND DISPOSALS

During the period under review the bank has invested TZS 3,919 million towards upgrading the Finacle version 10.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

10. FUTURE DEVELOPMENTS

The Bank endeavours to be the most innovative player in the industry by providing customized banking products and solutions. The focus areas would be:-

- Introduction of new products and services to meet the unique demands of the industry
- Digitisation of the Bank focusing on solutions to enhance customer service delivery
- Introduction of custodial services and BancAssurance

11. DIVIDEND

Ordinary B Class Shares

The Directors propose a final Dividend at an annualized rate of 16.88% for the year 2019 [2018: 16.88%] in respect of Ordinary B Class Shares.

Ordinary A Class Shares

The Directors propose a final Dividend of TZS 49,200 per share to Ordinary A Class shares - for the year 2019, [2018: TZS 48,400 per share]

12. MANAGEMENT OF THE BANK

The Bank is under the supervision of the Board of Directors and the day to day management is entrusted to the Chief Executive Officer supported by the Executive management team.

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

The organization structure of the Bank comprises the following Departments:-

- Corporate Banking
- Retail Banking
- Operations
- Treasury
- Finance
- Human Resource
- Information Technology
- Credit
- Risk Management (Reporting directly to Board Risk Committee)
- Internal Audit (Reporting directly to Board Audit Committee)

The Chief Executive Officer reports to the Board and is supported by Head of Corporate Banking, Head of Retail Banking for business and other Heads of Departments for various functions.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

13. COMPOSITION OF THE BOARD OF DIRECTORS

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

Name	Position	Nationality	Qualifications	Date of appointment
Mr. Sarit S Raja Shah	Chairman	Kenyan	BSc Economics, MSc (Internal Audit & Management)	14^{th} January 2010
Mr. Michael N Shirima	Member	Tanzanian	Businessman	14^{th} January 2010
Mr. Thierry Hugnin	Member	Mauritian	Chartered Accountant,(ACA England & Wales)	14^{th} January 2010
Mr. Pratul H Shah	Member	Kenyan	Fellow of the ACCA, CPA, CPA (K),CPS (K)	10^{th} February 2010
Mr. Shameer Patel	Member	Kenyan	Bachelor of Arts – Joint Honours – in Economics & Geography	11^{th} September 2013
Ambassador Bertha Ernestine Semu-Somi	Member	Tanzanian	Post graduate studies in Diplomacy ,BA(Hons) International relations & French	6^{th} September 2016
Mr. Alan Mchaki	Member	Tanzanian	Fellow of the Association of Chartered Certified Accountants, CPA (T), Associated member ,Swaziland Institute of Accountant	26^{th} September 2016
Mr. Arun S Mathur *	Alternate Director to Mr. Shameer Patel	Kenyan	B. Tech (Hons.) Diploma in Statistical Methods	14^{th} January 2010
Mr. Bharat K Ruparelia	Member	British	Businessman	16^{th} August 2017

* Alternate Member to Mr Shameer Patel

The Directors of the Bank are all Non-Executive. The Company secretary as at the date of this report, who served in this capacity since 1 January 2019 is Ms. Hamida Sheikh of M/S Sheikh Chambers Advocates.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

14. DIRECTORS' INTEREST

Mr. Michael N. Shirima has direct interest in the share capital of the Bank as disclosed in note 17 below. He holds 4.98% of the Ordinary A Class share capital, as well as 4.98% of the Ordinary B Class share capital reported as at 31 December 2019.

15. DIRECTORS' REMUNERATION

The remuneration for services rendered by the non-executive Directors of the Bank in 2019 was TZS 141 million (2018: TZS 144 million).

16. CAPITAL STRUCTURE AND SHAREHOLDING

	2019			
	Ordinary A Class Shares		Ordinary B Class Shares	
	Number of shares	TZS '000	Number of shares	TZS '000
Authorized (TZS 1,000,000/- each)	50,000	50,000,000	50,000	50,000,000
Issued, Subscribed & Fully Paid (TZS 1,000,000/- each)	2,792	2,792,000	13,410	13,410,000

	2018			
	Ordinary A Class Shares		Ordinary B Class Shares	
	Number of shares	TZS '000	Number of shares	TZS '000
Authorized (TZS 1,000,000/- each)	50,000	50,000,000	50,000	50,000,000
Issued, Subscribed & Fully Paid (TZS 1,000,000/- each)	2,792	2,792,000	13,410	13,410,000

17. SHAREHOLDING

As at 31 December 2019, the following shareholders held shares in I&M Bank (T) Limited:

Name of shareholders	2019			
	Ordinary A Class Shares		Ordinary B Class Shares	
	Number of shares held	%	Number of shares held	%
I&M Bank Limited	1,965	70.38	9,437	70.38
Microfinance East Africa Limited	559	20.02	2,685	20.02
Proparco	129	4.62	620	4.62
Mr. Michael N. Shirima	139	4.98	668	4.98
	2,792	100.00	13,410	100.00

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

There are two classes of shares, i.e Ordinary A Class shares and Ordinary B Class shares (2018: Ordinary A Class shares and Ordinary B Class shares).

Name of shareholders	2018			
	Ordinary A Class Shares		**Ordinary B Class Shares**	
	Number of shares held	**%**	**Number of shares held**	**%**
I&M Bank Limited	1,965	70.38	9,437	70.38
Microfinance East Africa Limited	559	20.02	2,685	20.02
Proparco	129	4.62	620	4.62
Mr. Michael N. Shirima	139	4.98	668	4.98
	2,792	100.00	13,410	100.00

18. CAPITAL ADEQUACY

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania as described in Note 4(d) to the financial statements.

19. CORPORATE GOVERNANCE

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 ensures that all actions are in the overall best interests of the Bank and reflects the commitment to maintain the highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

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

- The Board of Directors met regularly throughout the year;
- They retain full and effective control over the Bank and monitor executive management;
- The positions of Chairman and Chief Executive Officer are held by different individuals;
- The Chairman of the Board of Directors is non-executive; and
- The Board accepts and exercises responsibility for strategic and policy decisions, the approval of budgets and the monitoring of performance.

In addition, the Board has constituted the following Board committees:

Board Audit Committee

This Committee assists the Board in fulfilling its responsibilities by reviewing the financial condition of the Bank, its internal controls, ensuring compliance with applicable legislation and the requirements of regulatory authorities, reviewing reports and following up on matters raised by the external auditors, internal auditors and Bank of Tanzania. The Committee meets at least four times in a year. The Board Audit Committee members who served the Committee during 2019 were:

Name	Position
Mr. Pratul H. Shah	Chairman
Mr. Shameer Patel	Member
Mr. Michael N. Shirima	Member
Mr. Alan Mchaki	Member

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

Board Credit Committee

This Committee assists the Board in fulfilling its primary responsibilities in reviewing the Bank's overall lending policy, conducting independent loan reviews, delegation and review of lending limits and is overall responsible for the management of Credit Risk. The Committee meets a minimum of four times in a year. The Board Credit Committee members who served the Committee during 2019 were:

Name	Position
Mr. Shameer Patel	Chairman
Mr. Michael N. Shirima	Member
Mr. Bharat K Ruparelia	Member

Board Risk Committee

This Committee assists the Board in fulfilling its primary responsibilities by establishing and implementing the Risk Management process of the Bank in line with the Central Bank Guidelines as well as risk identification, evaluation, measurement and monitoring of the Risk Management process. The Committee meets a minimum of four times in a year. The members of the Committee are:

Name	Position
Mr. Alan Mchaki	Chairman
Mr. Shameer Patel	Member
Mr. Pratul H Shah	Member

Board of Remuneration Committee

This committee has been delegated with the responsibility from the Board to undertake structured assessment of candidates for membership of the Executive Management, consider and review the human resources management and remuneration policies. The Committee meets at least once in a year. The members of the Committee are:

Name	Position
Mr. Michael N Shirima	Chairman
Mr. Shameer Patel	Member
Mr. Pratul H Shah	Member
Ambassador Bertha Ernestine Semu-Somi	Member

20. EMPLOYEE WELFARE

Relationship between management and employees

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

Training

The Bank offers sponsorship to its employees in both short and long term courses within and outside the country in various disciplines depending on the corporate needs and financial resources available as well as in - house training & development focusing on technical banking areas.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

Staff loans and advances

The Bank provides housing, personal and car loans to staff as well as salary advances to enable them to meet their financial requirements and promote economic development. Staff loans and advances are based on specific terms and conditions approved by the Board of Directors.

Medical facilities

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

Financial assistance

The Bank operates a scheme to assist in the event of death of an employee or immediate family dependant.

Retirement benefits

The Bank makes contributions in respect of staff retirement benefits to National Social Security Fund. The total number of employees, at the year end, was 183 (2018:183).

21. DISABLED PERSONS

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

22. GENDER PARITY

The Bank is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties. As at 31 December 2019, the Bank had 93 male and 90 female employees (2018: 95 male and 88 female employees).

23. RELATED PARTY TRANSACTIONS

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

24. POLITICAL AND CHARITABLE DONATIONS

The Bank did not make any political donations during the year. Donations made to charitable organizations during the year amounted to TZS 31.5 million (2018: TZS 31 million).

25. CORPORATE SOCIAL RESPONSIBILITY

The Bank participates actively in community activities and development programmes throughout the country. The areas being given priority are health, education, and support to orphaned children, victims of natural disasters, disabled persons, and security.

26. ENVIRONMENTAL & SOCIAL MANAGEMENT SYSTEM

The Bank is aware that Environmental and Social risks are critical and require systems to monitor and control in line with regulatory requirements (IFC performance standards and ILO standards); thus its commitment to the use of an Environmental and Social Management System (ESMS). The ESMS ensures that these risks are sufficiently managed as stipulated in the Bank's Environmental and Social Management policy. The ESMS is integrated within the overall credit risk management framework and is reviewed periodically to ensure it remains compliant with the regulatory and the internal risk management framework.

27. SUBSEQUENT EVENTS

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic due to its rapid spread across the globe. As at the date of the financial statements, there is no sufficient data to quantify the effects of the pandemic however, based on preliminary assessment the directors and management believe the effect of the pandemic does not have a material impact on the financial statements as at 31 December 2019 based on the current information and does not amount to a material uncertainty over the bank's ability to continue as a going concern.

28. AUDITOR

The auditor, KPMG, have expressed their willingness to continue in office and are eligible for re-appointment subject to completion of the regulatory process.

Mr. Sarit S Raja Shah
Chairman

Mr. Pratul H Shah
Director

Date: 30 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and fair presentation of the financial statements of I&M Bank (T) Limited comprising the statement of financial position at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report, in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 as well as the Banking and Financial Institutions Act, 2006.

The Directors are also responsible 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, and for maintaining adequate accounting records and an effective system of risk management. The Auditors are responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework. The Directors have made an assessment of the ability of the Bank to continue as going concern and have no reason to believe that the business will not be a going concern in the year ahead.

Approval of financial statements

The financial statements of I&M Bank (T) Limited, as identified above, were approved and authorised for issue by the board of Directors on 30th March 2020.

Mr. Sarit S Raja Shah	**Mr. Pratul H Shah**
Chairman	**Director**

Date: 30 March 2020

DECLARATION OF THE HEAD OF FINANCE

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 Statement of Declaration issued by the Head of Finance responsible for the preparation of financial statements of the entity concerned.

It is the duty of a professional accountant to assist the Board of Directors to discharge the responsibility of preparing financial statements of an entity showing true and fair view position of the entity in accordance with international accounting standards and statutory reporting requirements. Full legal responsibility for financial statements rests with the Board of Directors as under Directors Responsibility statement on an earlier page.

I, ACPA Amulike Essau Kamwela, being the Head of Finance of I&M Bank (T) Limited, hereby acknowledge my responsibility of ensuring that financial statements for the year ended 31 December 2019 have been prepared in compliance with applicable accounting standards and statutory requirements. I, thus confirm that the financial statements comply with applicable accounting standards and statutory requirement as on that date and that they have been prepared based on properly maintained financial records.

Signed by:

Position: Head of Finance

NBAA Membership No.: ACPA 3648

Date: 21st Feb. **2020**

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF I&M BANK (T) LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of I&M Bank (T) Limited ("the Bank") set out on pages 46 to 113, which comprise the statement of financial position as at 31 December 2019, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the I&M Bank (T) Limited as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006.

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with 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.

Other matters

The impact of uncertainties due to the Covid-19 on our audit

As disclosed in note 36 to the financial statements, Covid-19 affects the Bank and results in certain uncertainties for the future financial position and performance of the Bank. Uncertainties related to the potential effects of Covid-19 are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Bank, the related disclosures and the appropriateness of the going concern assumption in the financial statements.

The appropriateness of the going concern assumption depends on assessment of the future economic environment and the Bank's future prospects and performance. The Covid-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of this report its effects are subject to levels of uncertainty. An audit cannot predict the unknowable factors or all possible future implications for a Bank and this is particularly the case in relation to Covid 19.

Key audit matter

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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF I&M BANK (T) LIMITED (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matter (continued)

Impairment on loans and advances to customers – Refer to note 4(a) and note 19.

The key matter	The key matter
Loans and advances to customers amounted to TZS 364,913 million as at 31 December 2019 and the total impairment allowance for the Bank amounted to TZS 19,558 million as at 31 December 2019. Measurement of impairment losses on loans and advances to customers is deemed a key audit matter as the determination of expected credit losses is highly subjective as it involves significant level of judgement applied by management and is a significant estimate. The key areas where we identified significant levels of management judgement and therefore increased levels of audit focus on the Bank's impairment charge on loans and advances to customers are: - Quantitative and qualitative criteria used in determining criteria for significant increase in credit risk and default for classification of loans and advances to customers; - Choosing appropriate models and assumptions for the determination of probabilities of default (PD), exposures at default (EAD) and loss given default (LGD) and ultimately measurement of Expected Credit Loss ("ECL"); - Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated impact on ECL; - Estimation of cash flows from collateral realisation for secured facilities used in the determination of loss given default; and - Establishing groups of similar financial assets based on the shared risk characteristics for the purposes of measuring general ECL.	*Our audit procedures in this area, included, among others:* - Testing of controls over the compilation and review of the credit watch list, credit review processes, approval of external collateral valuation vendors and review of controls over the approval of impairment; - Testing of reasonableness and reliability of data used for estimating probability of default and loss given default; - Challenging management's basis of establishing the correlation between forward looking variables and the Banks non-performing book; - Evaluating management model for establishing Stage 3 impairment amounts. This includes challenging reasonability of management assumptions through among others performing retrospective review of prior year assumptions; - Selecting a sample from the Bank's loan book and carry out tests to establish whether significant facilities are correctly staged/classified and valued based on IFRS 9 as well as regulatory considerations; - Testing on a sample basis key assumptions impacting ECL calculations to assess accuracy and the reasonableness; and - Evaluating management method of determining groups of similar financial assets for purposes of measuring ECL to confirm that assets are properly stratified based on shared credit risk.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF I&M BANK (T) LIMITED (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Key audit matter (Continued)

2) Information Technology (IT) systems and controls	
The key matter	**How the matter was addressed in our audit**
The calculation, recording and financial reporting of transactions and balances related to loans and advances, interest income and expenses, fees and commissions, investments in securities and customers deposits are significantly dependent on IT automated systems and processes. We therefore identified the Bank's IT systems as an area of focus to support our ability to rely on controls for the purpose of this report, as the Bank's financial accounting and reporting systems are heavily dependent on complex systems. We considered IT systems and controls to be a key audit matter because of the significant audit effort spent in the audit of the systems following a system upgrade that happened in the year and there potential risk for data integrity during a system upgrade.	*Our audit procedures in this area, included, among others:* - Evaluating program development and program change controls to cover project management, application configurations and data integrity; Evaluating the IT systems to unearth exceptions within operational and financial environments using IT tools available; - Evaluating both the Bank's General IT Controls (GITC) as well as application controls to cover data security and integrity, access controls, segregation of duties, change management and backup processes; and, - Evaluating application level controls including system walkthroughs and interfaces for the critical applications.

Other information

The directors are responsible for the other information. The other information *comprises the Corporate Information, Report of the Directors, Statement of Directors' responsibilities and Declaration of the Head of Finance.* The other information does not include the financial statements and our auditors' report thereon. 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. We have nothing to report in this regard.

Responsibilities of Directors for the financial statements

As stated on page 15, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Companies Act, 2002 and Banking and Financial Institutions Act, 2006, and for such internal control as 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, 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 directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so. Directors are responsible for overseeing the Bank's financial reporting process.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF I&M BANK (T) LIMITED (CONTINUED)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Auditors' 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 auditors' 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 International Standards on Auditing ("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 scepticism throughout the audit. We also:

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

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

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

- Conclude on the appropriateness of 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 auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

Auditors' responsibilities for the audit of the financial statements (continued)

- 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF I&M BANK (T) LIMITED (CONTINUED)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- proper records have been kept by I&M Bank (T) Limited;
- the individual accounts are in agreement with the accounting records of the Bank; and
- we obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

As required by Banking and Financial Institutions Act, 2006 and its regulations, we report that:

Based on our audit, that, nothing has come to our attention that causes us to believe that the Bank has not complied with the Banking and Financial Institutions Act, 2006 and its Regulations including computation of its capital position.

KPMG
Certified Public Accountants (T)

KPMG
....
Signed by: CPA Vincent Onjala (TACPA 2722)
Dar es Salaam

31 - 03 - 2020

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

	Note	2019 TZS '000	2018 TZS '000
Interest income	7	49,157,140	44,283,263
Interest expense	8	(19,863,251)	(18,928,187)
Net interest income		**29,293,889**	**25,355,076**
Fee and commission income	**9**	**5,485,141**	**6,104,152**
Fee and commission expense	9	(179,550)	(250,641)
Net fee and commission income		**5,305,591**	**5,853,511**
Revenue		**34,599,480**	**31,208,587**
Net trading income	10	3,120,982	3,007,307
Other operating income	11	203,884	303,155
Dividend income	12	8,620	8,780
Net operating income before change in expected credit losses and other credit impairment charges		**37,932,966**	**34,527,829**
Net impairment charge on loans and advances	19 (b)	(6,327,016)	(5,916,177)
Net operating income		**31,605,950**	**28,611,652**
Staff costs	13	(11,064,634)	(9,438,340)
Premises and equipment costs	13	(764,647)	(1,599,366)
General administrative expenses	13	(8,378,755)	(6,977,565)
Depreciation and amortisation	13	(2,554,441)	(1,584,631)
Operating expenses		**(22,762,477)**	**(19,599,902)**
Profit before income tax	**14**	**8,843,474**	**9,011,750**
Income tax expense	15(a)	(2,841,351)	(2,814,033)
Net profit for the year after tax		**6,002,123**	**6,197,717**
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Net change in fair value of available-for-sale financial assets	20(b)	44,625	-
Deferred tax on fair value of available-for -sale financial assets	23	(13,387)	-
Total other comprehensive income for the year		**31,238**	**-**
Total comprehensive income for the year		**6,033,361**	**6,197,717**

The notes set out on pages 46 to 113 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	2019 TZS '000	2018 TZS '000
ASSETS			
Cash and balances with Bank of Tanzania	16	30,774,304	42,423,289
Items in the course of collection	17	135,006	22,900
Loans and advances to banks	18	-	7,838,743
Loans and advances to customers	19	345,355,129	345,398,232
Financial assets measured at fair value through other comprehensive income (FVOCI)	20(a)	1,013,750	811,000
Other financial assets at amortised cost	20(b)	105,440,405	98,884,257
Property and equipment	21	7,991,456	4,378,431
Intangible assets - software	22	6,510,857	3,357,199
Deferred tax asset	23	5,620,807	4,894,725
Due from group companies	33(c)	2,252,955	1,084,577
Other assets	24	5,213,826	1,933,743
TOTAL ASSETS		**510,308,495**	**511,027,096**
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Deposits from banks	25	45,387,981	19,028,983
Deposits from customers	26	308,948,413	329,067,170
Due to group companies	33(c)	8,336,495	17,335,332
Other liabilities	27	11,105,834	5,020,056
Tax payable	15(c)	518,944	710,645
Long term debt	28	37,532,750	45,311,446
Subordinated debt	29	18,483,017	18,732,569
		430,313,434	**435,206,201**
Shareholders' equity			
Share capital	30(b)	16,202,000	16,202,000
Share premium	30(b)	18,090,228	18,090,228
Retained earnings		37,303,341	34,024,365
General provisions		-	2,727,744
Statutory reserve		8,150,554	4,558,858
Fair value reserve		248,938	217,700
		79,995,061	**75,820,895**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**510,308,495**	**511,027,096**

The financial statements set out on pages 46 to 113 were approved and authorised for issue by the Board of Directors on 30 March 2020 and were signed on its behalf by:

Mr. Sarit S Raja Shah
Chairman

Mr. Pratul H Shah
Director

The notes set out on pages 46 to 113 form an integral part of these financial statements.

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

2019:	Share capital TZS '000	Share premium TZS '000	Retained earnings TZS '000	General Provisions TZS '000	Statutory reserve TZS '000	Fair value reserve TZS '000	Total TZS '000
At 1 January 2019	**16,202,000**	**18,090,228**	**34,024,365**	**2,727,744**	**4,558,858**	**217,700**	**75,820,895**
Total comprehensive income for the year							**-**
Net Profit after tax	-	-	6,002,123	-	-	-	6,002,123
	-	**-**	**6,002,123**	**-**	**-**	**-**	**6,002,123**
Other comprehensive income							
Statutory credit reserve	-	-	(863,952)	(2,727,744)	3,591,696	-	-
Revaluation - available for sale reserve	-	-	-	-	-	44,625	44,625
Deferred tax - available for sale	-	-	-	-	-	(13,387)	(13,387)
Fair value through the other comprehensive income	-	-	-	-	-	-	-
Total other comprehensive income	**-**	**-**	**(863,952)**	**(2,727,744)**	**3,591,696**	**31,238**	**31,238**
Total comprehensive income	**-**	**-**	**5,138,171**	**(2,727,744)**	**3,591,696**	**31,238**	**6,033,361**
Transactions with owners recorded directly in equity							
Allocation of shares	-	-	-	-	-	-	-
Interim dividend paid - related to 2018	-	-	(1,859,195)	-	-	-	(1,859,195)
Total transactions with owners for the year	**-**	**-**	**(1,859,195)**	**-**	**-**	**-**	**(1,859,195)**
Balance as at 31 December 2019	**16,202,000**	**18,090,228**	**37,303,341**	**-**	**8,150,554**	**248,938**	**79,995,061**

The notes set out on pages 46 to 113 form an integral part of these financial statements.

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

2018:	Share capital TZS '000	Share premium TZS '000	Retained earnings TZS '000	General Provisions TZS '000	Statutory reserve TZS '000	Fair value reserve TZS '000	Total TZS '000
At 1 January 2018	**2,792,000**	**17,995,751**	**32,592,393**	**2,520,857**	**-**	**217,700**	**56,118,701**
Total comprehensive income for the year							
Net Profit after tax	-	-	6,197,717	-	-	-	6,197,717
	-	**-**	**6,197,717**	**-**	**-**	**-**	**6,197,717**
Other comprehensive income							
Statutory credit reserve			(4,765,745)	206,887	4,558,858	-	-
Total other comprehensive income	**-**	**-**	**(4,765,745)**	**206,887**	**4,558,858**	**-**	**-**
Total comprehensive income	**-**	**-**	**1,431,972**	**206,887**	**4,558,858**	**-**	**6,197,717**
Transactions with owners recorded directly in equity							
Allocation of shares	13,410,000	94,477	-	-	-	-	13,504,477
Total transactions with owners for the year	**13,410,000**	**94,477**	**-**	**-**	**-**	**-**	**13,504,477**
Balance as at 31 December 2018	**16,202,000**	**18,090,228**	**34,024,365**	**2,727,744**	**4,558,858**	**217,700**	**75,820,895**

The notes set out on pages 46 to 113 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 TZS '000	2018 TZS '000
Net cash flows used in operating activities	**31(a)**	**(28,503,326)**	**(5,404,192)**
Cash outflows from investing activities			
Purchase of property and equipment	21	(5,401,856)	(608,595)
Purchase of intangible assets	22	(3,919,268)	(3,237,972)
Proceeds from disposal of property and equipment		-	10,637
Purchase on non-dealing securities (TMRC)		(171,512)	-
Dividends received	12	8,620	8,780
Net cash used in investing activities		**(9,484,016)**	**(3,827,150)**
Cash inflows/(outflows) from financing activities			
Issue of shares		-	13,410,000
Payment of lease liabilities		(915,333)	-
Dividend paid		(1,859,195)	-
Net cash (outflows)/inflows from financing activities		**(2,774,528)**	**13,410,000**
Net (decrease)/increase in cash and cash equivalents	**31(b)**	**(40,761,870)**	**4,178,658**
Cash and cash equivalents at start of the year	**31(b)**	**5,227,527**	**1,048,869**
Cash and cash equivalents at end of the year	**31(b)**	**(35,534,343)**	**5,227,527**

The notes set out on pages 46 to 113 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. REPORTING ENTITY

I&M Bank (T) Limited ('the Bank') is a limited liability company incorporated and domiciled in Tanzania. The Bank's shares are not publicly traded. The address of its registered office and place of business is:

Maktaba Square,
Maktaba Street,
PO Box 1509,
Dar es Salaam,
Tanzania.

The financial statements of I&M Bank (T) Limited for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Directors on 11th March 2020 and were signed on their behalf as shown in the statement of financial position.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Bank's statements for the year 2019 have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the regulatory bodies is included.

This is the first set of the Bank's annual financial statements in which IFRS 16 Leases have been applied. Changes to significant accounting policies are described in Note 3 (s)(i).

(b) Basis of measurement

These financial statements have been prepared under the historical cost basis of accounting except for the financial assets classified as Fair Value through Profit or Loss (FVTPL) and Fair Value through Other Comprehensive Income (FVOCI) which are measured at fair value.

(c) Functional and presentation currency

These financial statements are presented in Tanzania Shillings (TShs), which is also the Bank's functional currency. All financial information presented in TShs has been rounded to the nearest thousand except where otherwise stated.

(d) Use of estimates and judgments

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to estimates are recognised prospectively.

In particular information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 5.

The classification of financial assets includes the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. See Note 3(f)(ii).

The impairment of financial instruments includes the assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses (ECL). See Notes 3(f)(iii) and 5(a).

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Foreign currency

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognised in profit or loss.

(b) Income recognition

Income is derived substantially, from banking business and related activities and comprises net interest income and fee and commission income. Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of FVOCI financial assets, other than foreign exchange gains or losses from monetary items, are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

(i) Net interest income

Effective interest rate and amortised cost

Interest income and expense are recognised in profit or loss using the effective interest method. The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset; or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the bank estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 3(f)(iii).

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on debt instruments measured at FVOCI calculated on an effective interest basis;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income. Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

(ii) Net fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate. Other fee and commission income – including account servicing fees and sales commissions – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Income recognition (continued)

(ii) Net fee and commission income (continued)

A contract with a customer that results in a recognised financial instrument in the bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(iii) Net trading income and net income on financial assets at fair value through profit or loss

'Net trading income and net income on financial assets at fair value through profit or loss' comprises gains less losses related to trading assets and liabilities, and includes all fair value changes, interest, dividends and foreign exchange differences. Income is derived substantially, from banking business and related activities and comprises net interest income and fee and commission income. Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains or losses from monetary items, are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

(i) Net interest income

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost is recognised in profit or loss using the effective interest method.

When calculating the effective interest rate, the bank estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received, between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income and expense on all trading assets and liabilities are considered to be incidental to the bank's trading operations are presented in net interest income.

(ii) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Other operating income

Other operating income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences. It also includes rental income and gain on disposal of property and equipment.

(d) Dividend income

Dividend income is recognised when the right to receive income is established. Dividends are reflected as a component of operating income.

(e) Income tax expense

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised in equity or in other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- Temporary differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit
- Temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities

(i) Recognition

The bank initially recognises loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit or loss) are initially recognised on the trade date on which the bank becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method.

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis. All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Classification - continued

Business model assessment

The bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the bank's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are Solely Payments of Principal and Interest (SPPI Test)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the bank considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Classification - continued

The bank holds a portfolio of long-term fixed rate loans for which the bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The bank has determined that the contractual cash flows of these loans are solely payments of principal and interest because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Debt instruments measured at amortised cost

Debt instruments are measured at amortized cost if they are held within a business model whose objective is to hold for collection of contractual cash flows where those cash flows represent solely payments of principal and interest. After initial measurement, debt instruments in this category are carried at amortized cost. Interest income on these instruments is recognized in interest income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset to the gross carrying amount of a financial asset. Amortized cost is calculated by taking into account any discount or premium on acquisition, transaction costs and fees that are an integral part of the effective interest rate.

Impairment on debt instruments measured at amortized cost is calculated using the expected credit loss approach. Loans and debt securities measured at amortized cost are presented net of the allowance for credit losses (ACL) in the statement of financial position.

Debt instruments measured at FVOCI

Debt instruments are measured at FVOCI if they are held within a business model whose objective is to hold for collection of contractual cash flows and for selling financial assets, where the assets' cash flows represent payments that are solely payments of principal and interest. Subsequent to initial recognition, unrealized gains and losses on debt instruments measured at FVOCI are recorded in other comprehensive income (OCI), unless the instrument is designated in a fair value hedge relationship. When designated in a fair value hedge relationship, any changes in fair value due to changes in the hedged risk are recognized in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income. Upon derecognition, realized gains and losses are reclassified from OCI and recorded in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income on an average cost basis. Foreign exchange gains and losses that relate to the amortized cost of the debt instrument are recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Premiums, discounts and related transaction costs are amortized over the expected life of the instrument to Interest income in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest rate method.

Impairment on debt instruments measured at FVOCI is calculated using the expected credit loss approach. The ACL on debt instruments measured at FVOCI does not reduce the carrying amount of the asset in the Statement of Financial Position, which remains at its fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI with a corresponding charge to Provision for credit losses in the Statement of Profit or Loss and Other Comprehensive Income. The accumulated allowance recognised in OCI is recycled to the Statement of Profit or Loss and Other Comprehensive Income upon derecognition of the debt instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(ii) Classification - continued

Debt instruments measured at FVTPL

Debt instruments are measured at FVTPL if assets:

(i) Are held for trading purposes;
(ii) Are held as part of a portfolio managed on a fair value basis; or
(iii) Whose cash flows do not represent payments that are solely payments of principal and interest.

These instruments are measured at fair value in the Statement of Financial Position, with transaction costs recognized immediately in the Statement of Profit or Loss and Other Comprehensive Income as part of Non-interest income. Realized and unrealized gains and losses are recognized as part of Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Debt instruments designated at FVTPL

Financial assets classified in this category are those that have been designated by the Bank upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets for which a reliable estimate of fair value can be obtained. Financial assets are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Financial assets designated at FVTPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in Non-interest income in the Statement of Profit or Loss and Other Comprehensive Income.

Equity instruments

The bank has elected at initial recognition to irrevocably designate an equity investment, held for purposes other than trading, at FVOCI. The fair value changes, including any associated foreign exchange gains or losses, are recognized in OCI and are not subsequently reclassified in the Statement of Profit or Loss and Other Comprehensive Income, including upon disposal. Realized gains and losses are transferred directly to retained earnings upon disposal. Consequently, there is no review required for impairment. Dividends will normally be recognized in the Statement of Profit or Loss.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the bank changes its business model for managing financial assets.

Financial liabilities

The bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(iii) Impairment

The bank recognises loss allowances for Expected Credit Losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments (amortised cost and FVOCI) including loans and advances;
- Lease receivables (rental income collected from Investment properties);
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

The bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date i.e. balances held with central banks, domestic government bills and bonds, and loans and advances to banks; and
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition i.e. stage 1 (see Note 4(a)(iii).

The bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'. Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as Stage 2 financial instruments'.

Significant Increase in Credit Risk

The bank's criteria for assessing significant increase in credit risk are defined at the appropriate product or portfolio level and vary based on the exposure's credit risk at origination. These are largely determined by the Prudential Guidelines Classification. The criteria include relative changes in PD and delinquency backstop when contractual payments are more than 30 days past due. Credit risk has increased significantly since initial recognition when one of the criteria is met.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date(stage 1 and 2): as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the bank expects to receive);
- Financial assets that are credit-impaired at the reporting date (stage 3): as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the bank if the commitment is drawn down and the cash flows that the bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the bank expects to recover. See also Note 5(a).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(iii) Impairment - continued

Restructured financial assets

- If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised (see note 3(f)(iv)) and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as stage 3 financial assets). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the bank on terms that the bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

A loan that is overdue for 90 days or more is considered impaired. In addition, a loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

Government securities

In making an assessment of whether an investment in sovereign debt (Government Bills and bonds, Balances due from central banks) is credit-impaired, the Bank considers the following factors;

- The country's ability to access own local capital markets for new debt issuance.
- The respective government ability to maintain sovereignty on its currency
- The intentions and capacity, reflected in public statements, of governments and agencies honor these commitments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(iii) Impairment - continued

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets at both amortised and FVOCI are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the bank's procedures for recovery of amounts due.

(iv) De-recognition

Financial assets

The bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the bank is recognised as a separate asset or liability.

The bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the bank retains all or substantially all of the risks and rewards of ownership of such assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(iv) De-recognition

In transactions in which the bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

(v) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the bank recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income. The impact of modifications of financial assets on the expected credit loss calculation is discussed in Note 3(f) (iii).

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

(vi) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

(g) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or liability measure at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolio of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of net exposure to either market or credit risk are measure on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank measure fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included in level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.
- Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models.
- Assumptions and inputs used in valuation techniques include risk-free and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates and correlations.
- The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows in the financial statements, cash and cash equivalents' include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(i) Property and equipment

Items of property and equipment are measured at cost or valuation less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the asset. Subsequent expenditure is capitalised only when it is probable that future economic benefits of the expenditure will flow to the Bank. On-going repairs and maintenance are expensed as incurred. Depreciation is charged on a straight line basis to allocate the cost of each asset, to its residual value over its estimated useful life as follows:

Description	Annual Depreciation Rate
Motor vehicles	25.00%
Furniture, fixtures and fittings	12.50%
Office equipment	12.50%
Computer equipment	20.00%
Residential furniture	33.33%
Leasehold improvements	12.50% or over the period of lease if shorter than 8 years

Depreciation is recognised in profit or loss. The assets' residual values and useful lives are reviewed and adjusted as appropriate, at each reporting date.

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

(j) Intangible assets

(i) Computer software

The costs incurred to acquire and bring to use specific computer software licences are capitalised. Software is measure at cost less accumulated amortisation and accumulated impairment from the date it is available for use. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding five years. Amortization period has been extended to five years effective from 01st August 2019. Costs associated with maintaining software are recognised as an expense as incurred.

Amortisation methods, residual values and useful lives are reviewed and adjusted as appropriate, at each reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and group. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(l) Employee benefits

(i) Defined contribution plan

The Bank and its employees contribute to National Social Security Fund on a mandatory basis. These are defined contribution schemes. Employees contribute 10% while the Bank contributes 10% to the scheme. A defined contribution scheme is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Bank's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

(ii) Leave accrual

The monetary value of the unutilised leave by staff as at year end is recognised within accruals and the movement in the year is debited/credited to the profit or loss.

(m) Share capital and share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of an equity instrument are deducted from initial measurement of the equity instruments.

(n) Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

(o) Contingent liabilities

Letters of credit, acceptances and guarantees are not recognised and are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date the financial statements are approved for issue by the directors
Any expected loss is charged to profit or loss.

(p) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Comparative information

Where necessary, comparative figures have been restated to conform with changes in presentation in the current year.

(r) Financial Guarantees

In the ordinary course of business, the Bank issues financial guarantees, consisting of payment guarantees, performance guarantee and bid guarantees and all these guarantees are cash secured. Financial guarantees are off-balance sheet instruments therefore not recognised in the financial statements but disclosed separately. Bank's liability under each guarantee is measured at the higher of the amount on face value of the guarantee and the value of cash deposits against that particular guarantee. All guarantees are fully secured with no exposure to the bank.

(s) New standards, amendments and interpretations

(I) New standards, amendments and interpretations effective and adopted during the year

The Bank has adopted the following new standards and amendments during the year ended 31 December 2019, including consequential amendments to other standards with the date of initial application by the Bank being 1 January 2019. The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
— IFRS 16 Leases	1 January 2019
— IFRIC 23 Uncertainty over income tax treatments	1 January 2019
— IFRS 9 Prepayment Features with Negative Compensation	1 January 2019

IFRS 16: Leases

The Bank applied IFRS 16 using the modified retrospective approach and therefore the comparative information presented for 2018 has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

- Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4.
- Determining whether an Arrangement contains a Lease.

The Bank now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Bank applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year - continued

IFRS 16: Leases – continued

The Bank acting as a lessee

As a lessee, the Bank leases office premises. The Bank previously classified these leases as operating leases under IAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Bank. Under IFRS 16, the Bank recognises right-of-use assets and lease liabilities for leases of branch and office premises – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Bank's incremental borrowing rate as at 1 January 2019 Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Bank used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Bank:

- Relied on its assessment of whether leases are onerous under IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- Did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Did not recognise right-of-use assets and liabilities for leases of low-value assets (i.e. offices);
- Dxcluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- Used hindsight when determining the lease term.

Impact on financial statements

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities

As at 1 January 2019	2019 TZS '000
Right of use assets (Note 21)*	4,057,725
Lease liabilities (Note 27)	3,807,747

Right of use assets day 1 adjustment included prepaid rent of TZS 250 million.

When measuring lease liabilities for leases that were classified as operating leases, the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019.

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year - continued

IFRS 16: Leases – continued

Policy applicable from 1 January 2019

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered (or changed) on or after 1 January 2019.

Bank acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand- alone price.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its bank borrowings and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:
- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year - continued

IFRS 16: Leases – continued

Bank acting as a lessee - continued

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Bank presents right-of-use assets in ‘property and equipment’ and lease liabilities in ‘other liabilities’ in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Policy applicable before 1 January 2019

For contracts entered before 1 January 2019, the Bank determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

The Bank did not have any finance leases under IAS 17. Assets held under other leases were classified as operating leases and were not recognised in the Bank’s statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

Right-of-use assets

Right-of-use assets relate to leased office premises that are presented within property and equipment (Note 21).

	2019 TZS ‘000
Balance at January 2019	4,057,725
Additions	-
Depreciation charge for the year	(720,832)
Balance at 31 December 2019	**3,336,893**

At 31 December 2019, the future minimum lease payments under non-cancellable operating leases were payable as follows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New standards, amendments and interpretations (continued)

(i) New standards, amendments and interpretations effective and adopted during the year - continued

IFRS 16: Leases – continued

Maturity analysis – Contractual undiscounted cash flows

	2019 TZS '000
Total comprehensive income	
Less than one year	-
Between one and five years	2,174,381
More than five years	987,116
Total undiscounted lease liabilities at 31 December	**3,161,498**

Lease liabilities

Included in other liabilities (Note 27) are lease liabilities as at 31 December 2019 amounting to TZS 3,130 million

Amounts recognised in profit or loss

2019 - Leases under IFRS 16

	2019 TZS '000
Interest expense on lease liabilities (Note 8)	269,084
Expenses relating to short-term leases	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	190,175
	459,259

2018 - Operating leases under IAS 17

Lease expense	1,292,087
Contingent expense	-
	1,292,087

Amounts recognised in statement of cash flows

Interest on lease liabilities	269,084
Payment of lease liabilities	915,333
Total cash outflow for leases	**1,184,417**

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019

IFRS 16: Leases – continued

Some leases of office premises contain extension options exercisable by the Bank up to one year before the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Bank and not by the lessors. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

The Bank has estimated the potential future lease payments, based on the renewal options, which resulted in an increase in lease liability of TZS 2,681 million.

(iii) IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;
(b) assumptions and other estimates used; and
(c) potential impact of uncertainties not reflected.

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

(iv) Prepayment Features with Negative Compensation (Amendments to IFRS 9)

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9. The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted. The adoption of these amendments will not have an impact on the financial statements of the Bank, with exception of IFRS 16.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New standards, amendments and interpretations (continued)

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2019

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, and have not been applied in preparing these financial statements.

The Bank does not plan to adopt these standards early. These are summarised below:

New standards or amendments	Effective for annual period beginning or after
IFRS 3 Definition of a Business	1 January 2020
— Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
— Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020
— IFRS 17 Insurance contracts	1 January 2022
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

4. FINANCIAL RISK MANAGEMENT

This section provides details of the bank's exposure to risk and describes the methods used by management to control risk.

Financial risk

The more significant types of risk to which the bank is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk and interest rate risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

The Board of Directors of the Bank has delegated responsibility of the management of credit risk to the Board Credit Committee. Further, the Bank has its own Credit Risk Management Committee that reports to the Board Credit Committee. The Bank's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an on-going basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life. To manage the level of credit risk, the Bank deals with counter parties of good credit standing wherever possible and when appropriate, obtains collateral.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

An assessment of the extent to which fair values of collaterals cover existing credit risk exposure on loans and advances to customers is highlighted below. The Bank also monitors concentrations of credit risk that arise by industry and type of customer in relation to group loans and advances to customers by carrying a balanced portfolio. The Bank has no significant exposure to any individual customer or counter-party. To determine impairment of loans and advances, the Bank assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

(i) Credit quality analysis

(a) The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. See accounting policy on Note 3(f) (iii) for the explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired.

2019

Risk classification	12 month ECL TZS' 000	Lifetime ECL Not Credit Impaired TZS' 000	Lifetime ECL Credit Impaired TZS' 000	Total 31 December 2019 TZS' 000
Loans and advances to Customers at amortised cost				
Stage 1	286,317,450	-	-	286,317,450
Stage 2	-	36,033,145	-	36,033,145
Stage 3	-	-	42,562,606	42,562,606
Gross carrying amount	**286,317,450**	**36,033,145**	**42,562,606**	**364,913,201**
Expected Credit Loss	(92,827)	(177,582)	(19,287,663)	(19,558,072)
Carrying amount	**286,224,623**	**35,855,563**	**23,274,943**	**345,355,129**

2018:

Risk classification	12 month ECL TZS' 000	Lifetime ECL Not Credit Impaired TZS' 000	Lifetime ECL Credit Impaired TZS' 000	Total 31 December 2018 TZS' 000
Loans and advances to Customers at amortised cost				
Stage 1	272,854,841	-	-	272,854,841
Stage 2	-	41,413,530	-	41,413,530
Stage 3	-	-	47,838,377	47,838,377
Gross carrying amount	**272,854,841**	**41,413,530**	**47,838,377**	**362,106,748**
Expected Credit Loss	(516,388)	(401,066)	(15,791,062)	(16,708,516)
Carrying amount	**272,338,453**	**41,012,464**	**32,047,315**	**345,398,232**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(i) Credit quality analysis

The Company has estimated that the ECL for the following financial assets was not significant as at 31 December 2019. These financial assets have been assessed to be in Stage 1 (low credit risk).

	2019 TZS '000	2018 TZS '000
Balances with central banks	24,480,124	35,003,525
Items in the course of collection	135,006	22,900
Loans and advances to banks	-	7,838,743
Financial assets at fair value through other comprehensive income (FVOCI)	1,013,750	811,000
Other financial assets at amortised cost	105,440,405	98,884,257
Due from group companies	2,252,955	1,084,577
	133,322,240	**143,645,002**

The following shows the grading of loans and advances to customers in line with local prudential guidelines

Loans and advances to customers	2019 TZS '000	2018 TZS '000
Identified impairment:		
Grade 3: Substandard	14,793,900	25,179,072
Grade 4: Doubtful	10,328,678	14,090,437
Grade 5: Loss	17,440,028	8,568,868
	42,562,606	**47,838,377**
Specific allowance for impairment	(19,287,663)	(15,791,062)
Carrying amounts	**23,274,943**	**32,047,315**
Unidentified impairment:		
Grade 2: Watch	36,033,145	41,413,530
Grade 1: Normal	286,317,450	272,854,841
	322,350,595	**314,268,371**
Portfolio impairment provision	(270,409)	(917,454)
Carrying amounts	**322,080,186**	**313,350,917**
Total carrying amounts	**345,355,129**	**345,398,232**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(i) Credit quality analysis-continued

	Gross TZS '000	Net TZS '000
Identified impairment:		
31 December 2019		
Grade 3: Substandard	14,793,900	11,223,817
Grade 4: Doubtful	10,328,678	4,774,470
Grade 5: Loss	17,440,028	7,276,656
	42,562,606	**23,274,943**
31 December 2018		
Grade 3: Substandard	25,179,072	19,837,019
Grade 4: Doubtful	14,090,437	8,079,240
Grade 5: Loss	8,568,868	4,131,056
	47,838,377	**32,047,315**
Unidentified impairment:		
31 December 2019		
Grade 1: Normal	286,317,450	286,224,623
Grade 2: Watch	36,033,145	35,855,563
	322,350,595	**322,080,186**
31 December 2018		
Grade 1: Normal	272,854,841	272,338,453
Grade 2: Watch	41,413,530	41,012,464
	314,268,371	**313,350,917**

Impaired loans and securities

Impaired loans and securities are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 3 (Substandard) to 5 (Loss) in the Bank's internal credit risk and grading system.

Neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed with reference to the bank's internal rating system. All such loans must be performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by their current sound net worth and paying capacity of the borrower. These loans and advances are categorised as normal in line with BOT prudential guidelines.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank. These loans are stage 2 (Watch) in the Bank's internal credit risk and grading system.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(ii) Collateral and other security enhancements

The Bank holds collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimate of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowings activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2019 or 2018.

An estimate of the fair value of collateral held against impaired loans is shown below:

	2019 TZS '000	2018 TZS '000
Fair value of collateral held – against impaired loans	**25,728,830**	**32,381,511**

(iii) Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy in Note 3(f) (iii).

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information an analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grading

Other than for loans and advances to banks and investment securities where the Bank relies on internal credit rating models, the Bank relies substantially on the prudential guidelines applicable in the market it operates in for credit risk grading that reflect its assessment of the probability of default of individual counterparties.

In addition, the prudential guidelines are supplemented

- By Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures.
- External data such as credit bureau scoring information on individual borrowers.
- Expert judgement from the Credit Risk Officer to be fed into the final credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

The following are additional considerations for each type of portfolio held by the Bank:

Customer loans and advances

After the date of initial recognition, the payment behaviour of the borrower is monitored on a periodic basis to develop a behavioural score. Any other known information about the borrower which impacts their creditworthiness.
In addition, a relationship manager will incorporate any updated or new information/credit assessments into the credit system on an ongoing basis.

Loans and advances to banks

The model relies on published financials and market information.

Inputs, assumptions and techniques used for estimating impairment

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction [country] and borrower and type of product as well as by credit risk grading. The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and exchange rate.

Based on advice from the Risk Committees and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than [a predetermined percentage/ range].

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Determining whether credit risk has increased significantly (continued)

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that 5an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- The criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- The criteria do not align with the point in time when an asset becomes 30 days past due; and
- There is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(f)(iv).

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Modified financial assets (continued)

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/ in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Definition of default

The Bank considers a financial asset to be in default when:

- The borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- The borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank considers indicators that are:

- Qualitative – e.g. breaches of covenant;
- Quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- Based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Assets and Liabilities Committee (ALCO) and consideration of a variety of external actual and forecast information, the Bank formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the International Monetary Fund (IMF), World Bank and selected private-sector and academic forecasters

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Modified financial assets (continued)

Incorporation of forward-looking information (continued)

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables, credit risk and credit losses. The economic scenarios used as at 31 December 2020 included the following ranges of key indicators;

		2020		
		Base	Upside	Downside
Macro-Economic Variable	**Coefficient/Sensitivity**	%	%	%
Weighting		**90.00%**	**5.00%**	**5.00%**
91 days T-bills	(1.2583)	5.13%	7.25%	3.00%
Saving	(3.7504)	2.34%	2.69%	1.99%
GDP	(0.4041)	6.00%	6.78%	5.22%
Currency Exchange Rate	(0.6149)	1.17%	1.69%	1.17%
Public debt to GDP	0.5920	38.00%	39.37%	36.63%
Constant	0.0727	-	-	-

The correlation of the above factors with the Banking Industry non-performing loans (NPL%) were also used to determine whether these factors should be lagged. Based on this analysis, Public debt to GDP ratio was lagged by 6 months and Saving rate was lagged by 3 months.

The Banking Industry non-performing loans (NPL%) was a reasonable approximation to the Bank's default risk. The correlation between the Banking Industry non-performing loans (NPL%) with the above macroeconomic factors was then inferred to the Bank's predicated Probabilities of Default.

The forecasted predictions were only applicable to the commercial portfolio that comprises of 96% of the total loan book due to the significant correlations established with the Banking Industry non-performing loans (NPL%). Further, in determining the economic scenarios to be applied, each of the economic variable was adjusted either upside or downside using the historical standard deviation.

In determining the likelihood of each of the three macroeconomic scenarios, a weighting of 90% (base case), 5% (upside case) and 5% (downside case) was applied.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

Inputs, assumptions and techniques used for estimating impairment (continued)

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets were developed based on analysing historical data over the past 3 to 5 years.

The economic scenarios used as at 31 December 2019 included the following ranges of key indicators;

		2019		
Macro-Economic variable	Coefficient/ Sensitivity	Base %	Upside %	Downside %
Weighting		**90.00%**	**5.00%**	**5.00%**
Savings Rate	0.9253	4.83%	5.71%	3.94%
Lending Rates	(3.0236)	2.75%	3.04%	2.46%
Housing Price Index	0.4493	18.11%	18.91%	17.32%
Public Debt to GDP	0.4459	37.40%	48.40%	26.40%
Constant	(0.0880)	-	-	-

The correlation of the above factors with the Banking Industry non-performing loans (NPL%) were also used to determine whether these factors should be lagged.Based on this analysis, Lending rate was lagged by 1month and Public debt to GDP ratio was lagged by 24 months.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD)

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PDs are estimates at a certain date, which are calculated based on statistical models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for loans and advances to banks and investment securities.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based mainly on the counterparties' collateral and also on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Segment type; and
- Credit risk quality

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 3(f)(iii)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Loans and advances to customers at amortised cost

2019:	Provisions (ECL allowance) 12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total	Exposure (Gross balance) 12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Lifetime ECL credit impaired (Stage 3)	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Balance at 1 January 2019	**516,388**	**401,066**	**15,791,062**	**16,708,516**	**272,854,841**	**41,413,530**	**47,838,377**	**362,106,748**
Transfer to 12 months ECL (Stage 1)	(4,980)	4,980	-	-	(6,695,304)	6,695,304	-	-
Transfer to Lifetime ECL not credit impaired (Stage 2)	380,468	(380,468)	-	-	12,434,569	(12,434,569)	-	-
Transfer to Lifetime ECL credit impaired (Stage 3)	-	54,529	(54,529)	-	-	122,332	(122,332)	-
Net remeasurement of loss allowance	(737,238)	97,636	6,903,636	6,264,034	3,094,692	364,368	1,882,474	5,341,534
New financial assets originated or purchased	14,931	-	-	14,931	20,600,907	95,735	-	20,696,642
Financial assets derecognised	(76,743)	(160)	(3,352,506)	(3,429,409)	(15,972,255)	(223,555)	(7,035,913)	(23,231,723)
Name Change	-	-	-	-	-	-	-	-
Balance at 31 December 2019	**92,826**	**177,583**	**19,287,663**	**19,558,072**	**286,317,450**	**36,033,145**	**42,562,606**	**364,913,201**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Loans and advances to customers at amortised cost

	Provisions (ECL allowance)				Exposure (Gross balance)			
2018:	**12 month ECL (Stage 1)**	**Lifetime ECL not credit impaired (Stage 2)**	**Lifetime ECL credit impaired (Stage 3)**	**Total**	**12 month ECL (Stage 1)**	**Lifetime ECL not credit impaired (Stage 2)**	**Lifetime ECL credit impaired (Stage 3)**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Balance at 1 January 2018	**2,364,333**	**423,929**	**9,836,795**	**12,625,057**	**252,161,780**	**45,213,088**	**27,507,225**	**324,882,093**
Day one transition adjustment	311,122	142,089	-	453,211	-	-	-	-
Adjusted balance at 1 January 2018	**2,675,455**	**566,018**	**9,836,795**	**13,078,268**	**252,161,780**	**45,213,088**	**27,507,225**	**324,882,093**
Transfer to 12 months ECL (Stage 1)	407,432	(241,813)	(165,619)	-	(23,924,443)	19,349,761	4,574,682	-
Transfer to Lifetime ECL not credit impaired (Stage 2)	(156,760)	235,422	(78,662)	-	7,343,942	(21,069,487)	13,725,545	-
Transfer to Lifetime ECL credit impaired (Stage 3)	(28,863)	(51,127)	79,990	-	567,828	164,532	(732,360)	-
Net remeasurement of loss allowance	(2,411,569)	(139,986)	8,263,607	**5,712,052**	23,724,227	(1,836,108)	6,943,234	**28,831,353**
New financial assets originated or purchased	30,693	32,552	117,606	**180,851**	46,787,259	830,061	389,806	**48,007,126**
Financial assets derecognised	-	-	(2,262,655)	**(2,262,655)**	(33,805,752)	(1,238,317)	(3,735,461)	**(38,779,530)**
Balance at 31 December 2018	**516,388**	**401,066**	**15,791,062**	**16,708,516**	**272,854,841**	**41,413,530**	**48,672,671**	**362,941,042**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Loan commitments and financial guarantee contracts

	Provisions (ECL allowance)			Exposure		
2019	**12 month ECL (Stage 1)**	**Lifetime ECL not credit impaired (Stage 2)**	**Total**	**12 month ECL (Stage 1)**	**Lifetime ECL not credit impaired (Stage 2)**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Balance at 1 January 2019	**183,965**	**23,820**	**207,785**	**72,660,132**	**711,428**	**73,371,560**
Transfer from 12 months ECL (Stage 1)	-	-	-	28,954	(28,954)	-
Transfer from Lifetime ECL not credit impaired (Stage 2)	24	(24)	-	(711,428)	711,428	-
Net remeasurement of loss allowance	(159,892)	207,933	**48,041**	(12,367,250)	682,648	**(11,684,602)**
New financial assets originated or purchased	10	-	**10**	9,874	40,917,451	**40,927,325**
Financial assets derecognised	(6)	(207,779)	**(207,785)**	(6,337)	(7,157,393)	**(7,163,730)**
Balance at 31 December 2019	**24,101**	**23,950**	**48,051**	**59,613,945**	**35,836,608**	**95,450,553**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial risk (continued)

(a) Credit risk (continued)

Loan commitments and financial guarantee contracts

2018	Provisions (ECL allowance)			Exposure (Gross balance)		
	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Total	12 month ECL (Stage 1)	Lifetime ECL not credit impaired (Stage 2)	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Balance at 1 January 2018	**-**	**-**	**-**	**60,141,417**	-	**60,141,417**
IFRS 9 adjustment	184,511	-	**184,511**	-	-	**-**
Adjusted balance at 1 January 2018	**184,511**	**-**	**184,511**	**60,141,417**	-	**60,141,417**
Transfer from 12 months ECL (Stage 1)	(3,041)	3,041	-	(623,599)	623,599	**-**
Net remeasurement of loss allowance	(10,752)	20,779	10,027	(21,571,658)	87,829	**(21,483,829)**
New financial assets originated or purchased	13,247	-	13,247	34,713,972	-	**34,713,972**
Balance at 31 December 2018	**183,965**	**23,820**	**207,785**	**72,660,132**	**711,428**	**73,371,560**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk

Liquidity risk includes the risk of being unable to meet financial obligations as they fall due because of inability to liquidate assets at a reasonable price and in an appropriate timeframe.

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

	2019	2018
At 31 December	27%	30%
Average for the period	29%	31%
Highest for the period	32%	37%
Lowest for the period	26%	25%

Deposits from customers represent transactional accounts, savings accounts, call and fixed deposit balances, which past experience has shown to be stable. The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2019 and 2018 to the contractual maturity date:

31 December 2019	Within 1 month	Due within 1-3 months	Due between 3-12 months	Due between 1-5 years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
LIABILITIES					
Deposits from banks	-	45,797,608	-	-	**45,797,608**
Deposits from customers	103,455,083	51,730,528	135,530,947	26,177,045	**316,893,603**
Due to group companies	8,358,725	-	-	-	**8,358,725**
Other liabilities	3,589,592	-	-	4,354,744	**7,944,336**
Long term debt	-	246,960	-	45,023,929	**45,270,889**
Subordinated debt	-	85,084	-	23,897,920	**23,983,004**
At 31 December 2019	**115,403,400**	**97,860,180**	**135,530,947**	**99,453,638**	**448,248,165**

31 December 2018	Within 1 month	Due within 1-3 months	Due between 3-12 months	Due between 1-5 years	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
LIABILITIES					
Deposits from banks	19,028,983	-	-	-	**19,028,983**
Deposits from customers	121,461,793	58,049,333	140,071,597	9,484,447	**329,067,170**
Due to group companies	-	17,335,332	-	-	**17,335,332**
Other liabilities	3,762,716	1,257,340	-	-	**5,020,056**
Long term debt	250,252	69,754	-	44,991,440	**45,311,446**
Subordinated debt	-	-	292,569	18,440,000	**18,732,569**
At 31 December 2018	**144,503,744**	**76,711,759**	**140,364,166**	**72,915,887**	**434,495,556**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spread (not relating to changes in the obligator's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments.

The Bank is primarily exposed to interest rate and foreign exchange risk. All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Bank manages its use of trading instruments in response to changing market conditions.

The Board of Directors has delegated responsibility for management of market risk to the Board Risk Committee. Exposure to market risk is formally managed within risk limits and policy guidelines issued by the Board, on recommendation of the Board Risk Committee. ALCO, a management committee is charged with the responsibility of ensuring implementation and monitoring of the risk management framework in line with policy guidelines. The policy guidelines and procedures in place are adequate to effectively manage these risks.

This is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Bank's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates is shown below:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk - continued

31 December 2019	Effective interest rate	Within 1 month TZS '000	Due within 1-3 months TZS '000	Due between 3-12 months TZS '000	Due between 1-5 years TZS '000	Due after 5 years TZS '000	Non-interest bearing TZS '000	Total TZS '000
ASSETS								
Cash and balances with Bank of Tanzania	-	-	-	-	-	-	30,774,304	**30,774,304**
Items in the course of collection	-	-	-	-	-	-	135,006	**135,006**
Loans and advances to banks	3.61%	-	-	-	-	-	-	**-**
Loans and advances to customers	10.89%	37,821,569	75,720,403	75,736,636	100,545,534	55,530,987	-	**345,355,129**
Financial assets measured at fair value through other comprehensive income (FVOCI)		-	-	-	-	-	1,013,750	**1,013,750**
Other financial assets at amortised cost	5.88%	-	9,324,390	48,935,909	29,267,363	17,912,743	-	**105,440,405**
Due from group companies	3.20%	-	-	-	-	-	2,252,955	**2,252,955**
Other assets	-	-	-	-	-	-	5,213,826	**5,213,826**
31 December 2019		**37,821,569**	**85,044,793**	**124,672,545**	**129,812,897**	**73,443,730**	**39,389,841**	**490,185,375**
LIABILITIES								
Deposits from banks	3.61%	-	45,387,981	-	-	-	-	**45,387,981**
Deposits from customers	4.60%	45,134,616	51,142,390	131,743,327	23,002,676	-	57,925,404	**308,948,413**
Due to group companies	3.20%	8,336,495	-	-	-	-	-	**8,336,495**
Other liabilities	-	743,039	-	-	-	7,516,242	2,846,553	**11,105,834**
Long term debt	6.91%	-	242,764	-	37,289,986	-	-	**37,532,750**
Subordinated debt	9.96%	-	83,017	-	18,400,000	-	-	**18,483,017**
31 December 2019		**54,214,150**	**96,856,152**	**131,743,327**	**78,692,662**	**7,516,242**	**60,771,957**	**429,794,490**
Interest rate gap		**(16,392,581)**	**(11,811,359)**	**(7,070,782)**	**51,120,235**	**65,927,488**	**(21,382,116)**	**60,390,885**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk - continued

31 December 2018	Effective interest rate	Within 1 month	Due within 1-3 months	Due between 3-12 months	Due between 1-5 years	Due after 5 years	Non-interest bearing	Total
		TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
ASSETS								
Cash and balances with Bank of Tanzania	-	-	-	-	-	-	42,423,289	**42,423,289**
Items in the course of collection	-	-	-	-	-	-	22,900	**22,900**
Loans and advances to banks	3.20%	7,838,743	-	-	-	-	-	**7,838,743**
Loans and advances to customers	10.46%	345,398,232	-	-	-	-	-	**345,398,232**
Financial assets measured at fair value through other comprehensive income (FVOCI)		-	-	-	-	-	811,000	**811,000**
Investment securities	9.20%	-	8,879,743	35,896,607	37,965,863	16,142,044	-	**98,884,257**
Due from group companies	-	-	-	-	-	-	1,084,577	**1,084,577**
Other assets	-	-	-	-	-	-	1,933,743	**1,933,743**
31 December 2018		**353,236,975**	**8,879,743**	**35,896,607**	**37,965,863**	**16,142,044**	**46,275,509**	**498,396,741**
LIABILITIES								
Deposits from banks	3.20%	19,028,983	-	-	-	-	-	**19,028,983**
Deposits from customers	4.60%	63,048,702	58,049,333	140,071,597	9,484,448	-	58,413,090	**329,067,170**
Due to group companies	3.20%	-	17,335,332	-	-	-	-	**17,335,332**
Other liabilities	-	-	-	-	-	-	5,020,056	**5,020,056**
Long term debt	8.03%	250,252	69,753	-	44,991,441	-	-	**45,311,446**
Subordinated debt	9.03%	-	-	292,569	18,440,000	-	-	**18,732,569**
31 December 2018		**82,327,937**	**75,454,418**	**140,364,166**	**72,915,889**	**-**	**63,433,146**	**434,495,556**
Interest rate gap		**270,909,038**	**(66,574,675)**	**(104,467,559)**	**(34,950,026)**	**16,142,044**	**(17,157,637)**	**63,901,185**

Customer deposits up to three months represent transactional accounts, savings accounts and call deposit account balances, which past experience has shown to be stable in a dynamic scenario.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk - continued

Sensitivity Analysis

31 December 2019	**Profit or loss**	**Equity net of tax**
100 basis points	**Increase/decrease in basis points ('000)**	**Increase/decrease in basis points ('000)**
Assets	4,507,955	3,155,569
Liabilities	(3,690,225)	(2,583,158)
Net position	**817,730**	**572,411**

An increase of 100 basis points in interest rates at the reporting date would have increased equity (net of tax) by TZS 572.4 million and the inverse is the case for decrease in interest rates of 100 basis points. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

31 December 2018	**Profit or loss**	**Equity net of tax**
100 basis points	**Increase/decrease in basis points ('000)**	**Increase/decrease in basis points ('000)**
Assets	4,521,212	3,164,849
Liabilities	(3,710,624)	(2,597,437)
Net position	**810,588**	**567,412**

An increase of 100 basis points in interest rates at the reporting date would have increased equity (net of tax) by TZS 567.4 million and the inverse is the case for decrease in interest rates of 100 basis points. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk - continued

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies which the Bank is exposed to as at 31 December 2019 and 31 December 2018.

31 December 2019	**USD**	**GBP**	**Euro**	**Other**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
ASSETS					
Cash and balances with Bank of Tanzania	2,232,983	2,265,891	443,327	214,845	**5,157,046**
Items in the course of collection	160,866	-	-	-	**160,866**
Loans and advances to customers	236,254,299	-	-	-	**236,254,299**
Other assets	64,321	-	-	-	**64,321**
31 December 2019	**238,712,469**	**2,265,891**	**443,327**	**214,845**	**241,636,532**
LIABILITIES					
Deposits from banks	4,485,000	-	-	-	**4,485,000**
Deposits from customers	178,723,928	2,263,717	448,046	-	**181,435,691**
Other liabilities	3,861,211	5,229	231	219,294	**4,085,965**
Long-term borrowings	40,344,196	-	-	-	**40,344,196**
Subordinated debt	12,420,000	-	-	-	**12,420,000**
31 December 2019	**239,834,335**	**2,268,946**	**448,277**	**219,294**	**242,770,852**
Overall net position – 2019	**(1,121,866)**	**(3,055)**	**(4,950)**	**(4,449)**	**(1,134,320)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk - continued

Currency rate risk – continued

At 31 December 2018	USD TZS '000	GBP TZS '000	Euro TZS '000	Other TZS '000	Total TZS '000
ASSETS					
Cash and balances with Bank of Tanzania	16,831,358	2,417,074	1,428,020	221,033	**20,897,485**
Items in the course of collection	47,346	-	-	-	**47,346**
Loans and advances to customers	264,794,540	-	-	-	**264,794,540**
Other assets	1,130,593	-	-	-	**1,130,593**
At 31 December 2018	**282,803,837**	**2,417,074**	**1,428,020**	**221,033**	**286,869,964**
LIABILITIES					
Deposits from banks	28,812,500	-	-	-	**28,812,500**
Deposits from customers	188,405,091	2,406,264	1,375,610	-	**192,186,965**
Other liabilities	6,946,130	5,079	53,002	47,648	**7,051,859**
Long-term borrowings	47,273,441	-	-	-	**47,273,441**
Subordinated debt	12,908,000	-	-	-	**12,908,000**
At 31 December 2018	**284,345,162**	**2,411,343**	**1,428,612**	**47,648**	**288,232,765**
Overall net position – 2018	**(1,541,325)**	**5,731**	**(592)**	**173,385**	**(1,362,801)**

Sensitivity Analysis

At 31 December 2019	Profit or loss Strengthening/ weakening of currency TZS '000	Equity net of tax Strengthening/ weakening of currency TZS '000
USD (± 1% movement)	(11,219)	(7,853)
GBP (± 1% movement)	(31)	(21)
EUR (± 1% movement)	(50)	(35)
Net Position	**(11,299)**	**(7,909)**

A depreciation of TZS by 100 basis points in the currency rates at the reporting date would have decreased equity (net of tax) by TZS 7.9 million and an inversely would have been the case for an appreciation of TZS. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

Exposure to interest rate risk - continued

Sensitivity Analysis – continued

At 31 December 2018	Profit or loss Strengthening/ weakening of currency	Equity net of tax Strengthening/ weakening of currency
	TZS '000	TZS '000
USD (± 1% movement)	(15,413)	(10,789)
GBP (± 1% movement)	57	40
EUR (± 1% movement)	(6)	(4)
Net Position	**(15,362)**	**(10,753)**

A depreciation of TZS by 100 basis points in the currency rates at the reporting date would have decreased equity (net of tax) by TZS 10.7 million and an inversely would have been the case for an appreciation of TZS by 100. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

(d) Capital management (continued)

The Bank of Tanzania sets and monitors capital requirements for the Tanzania banking industry. The Bank of Tanzania has set among other measures, the rules and ratios to monitor adequacy of a bank's capital. In implementing current capital requirements, The Bank of Tanzania requires Banks to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank's regulatory is analysed in two tiers:

- Tier 1 capital: This includes ordinary share capital, share premium, retained earnings, after deductions for prepaid expenses, goodwill, other intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital: This includes qualifying subordinated liabilities, collective impairment allowances and the element of fair value reserve relating to unrealized gains on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base such as qualifying Tier 2 capital cannot exceed Tier 1 capital and qualifying subordinated debt may not exceed 50 percent of Tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Tier 1 capital is also subjected to various limits such as Tier 1 capital should not be less than 10 percent of the risk weighted assets and premises investments should not exceed 70 percent of the core capital and movable assets should not exceed 20% of core capital. In addition to the above requirements, the Bank of Tanzania require banks to maintain a capital conservation buffer of 2.5% over and above the regulatory capital ratios to enable the Bank to withstand stressful economic conditions. In situations where the buffer is less than 2.5%, the Bank is restricted from distributing any dividends to shareholders as well as paying bonus to senior management and other staff members. Further the Bank is required to submit a capital restoration plan to the Bank of Tanzania (BoT) within a specified period of time as determined by BoT. In the event the capital restoration plan is not approved by BoT, the Bank may be directed to raise additional capital in order to restore the capital conservation buffer.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Capital management (continued)

The Bank's regulatory capital position at 31 December 2019 was as follows:

		2019 TZS '000	2018 TZS '000
Core capital (Tier 1)			
Share capital		16,202,000	16,202,000
Share premium		18,090,228	18,090,228
Retained earnings		37,303,341	34,024,365
		71,595,569	**68,316,593**
Less: Prepaid expenses		(1,293,797)	(1,636,884)
Deferred tax asset		(5,620,807)	(4,894,725)
Intangible assets		-	(3,357,199)
Total Core capital		**64,680,965**	**58,427,785**
Supplementary capital (Tier 2)			
Term subordinated debt		3,680,000	12,908,000
General provisions		-	2,727,744
Statutory reserve		8,150,554	4,558,858
Fair value reserve		248,938	217,700
		12,079,492	**20,412,302**
Total capital		**76,760,457**	**78,840,087**
Risk weighted assets			
On balance sheet		334,697,311	338,717,810
Off balance sheet		46,799,438	48,782,755
Capital charge on operational risk		27,871,571	37,249,585
Capital charge for market risk		1,144,316	2,312,875
Total risk weighted assets		**410,512,636**	**427,063,026**
Capital ratios	Minimum*	Ratio	Ratio
Core capital /Total risk weighted assets	**10%**	**15.76%**	**13.68%**
Total capital /Total risk weighted assets	**12%**	**18.70%**	**18.46%**

* The minimum as defined by Bank of Tanzania

As at 31 December, 2019, the Bank had a capital conservation buffer of 5.76% and 6.70% for Tier 1 and Tier 2 Capital respectively.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of bearing the consequences of non-compliance with regulatory requirements. The compliance function is responsible for establishing and maintaining an appropriate framework of Bank compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

5. USE OF ESTIMATES AND JUDGEMENT

Key sources of estimation uncertainty

(a) Allowance for credit losses

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 3(f) (iii) which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in Note 2(d).

(b) Income taxes

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

(c) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out under accounting policy note 3(i).

(d) Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include financial asset and liability classification. The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances.

In classifying financial assets as held to maturity, the Bank has determined that it has both positive intention and ability to hold the assets until their maturity date as required by the bank's accounting policies.

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications at carrying amounts and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value because they re-price in the short term.

	Carrying amounts					Fair value			
31 December 2019	**Financial assets at amortised cost**	**Financial assets at FVOCI**	**Financial assets at FVTPL**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Financial assets									
Cash and balances with Bank of Tanzania	30,774,304	-	-	-	**30,774,304**	-	30,774,304	-	**30,774,30**
Items in the course of collection	135,006	-	-	-	**135,006**	-	135,006	-	**135,006**
Financial assets measured at fair value through other comprehensive income (FVOCI)		1,013,750	-	-	**1,013,750**	-	-	1,013,750	**1,013,750**
Other financial assets at amortised cost	105,440,405	-	-	-	**105,440,405**		105,440,405	-	**105,440,405**
Loans and advances to customers	345,355,129	-	-	-	**345,355,129**	-	345,355,129	-	**345,355,129**
Due from group companies	2,252,955	-	-	-	**2,252,955**	-	2,252,955	-	**2,252,955**
	483,957,799	**1,013,750**	**-**	**-**	**484,971,549**	**-**	**453,048,489**	**1,013,750**	**484,971,549**
Financial liabilities									
Deposits from banks	-	-	-	45,387,981	**45,387,981**	-	45,387,981	-	**45,387,981**
Deposits from customers	-	-	-	308,948,413	**308,948,413**	-	308,948,413	-	**308,948,413**
Due to group companies	-	-	-	8,336,495	**8,336,495**	-	8,336,495	-	**8,336,495**
Long term borrowings	-	-	-	37,532,750	**37,532,750**	-	37,532,750	-	**37,532,750**
Subordinated debt	-	-	-	18,483,017	**18,483,017**	-	18,483,017	-	**18,483,017**
31 December 2019	**-**	**-**	**-**	**418,688,656**	**418,736,707**	**-**	**418,688,656**	**-**	**418,736,707**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

6. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

Accounting classifications at carrying amounts and fair values – continued

	Carrying amounts					Fair value			
At 31 December 2018	**Financial assets at amortised cost**	**Financial assets at FVOCI**	**Financial assets at FVTPL**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	TZS '000	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**	**TZS '000**
Financial assets									
Cash and balances with Bank of Tanzania	42,423,289	-	-	-	**42,423,289**	-	42,423,289	-	42,423,289
Items in the course of collection	22,900	-	-	-	**22,900**	-	22,900	-	22,900
Financial assets measured at fair value through other comprehensive income (FVOCI)	-	811,000	-	-	**811,000**	-	-	811,000	811,000
Other financial assets at amortised cost	98,884,257	-	-	-	98,884,257	-	98,884,257	-	98,884,257
Loans and advances to banks	7,838,743	-	-	-	**7,838,743**	-	7,838,743	-	7,838,743
Loans and advances to customers	345,398,232	-	-	-	**345,398,232**	-	345,398,232	-	345,398,232
Due from group companies	1,084,577	-	-	-	**1,084,577**	-	1,084,577	-	1,084,577
31 December 2018	**495,651,998**	**811,000**	**811,000**	**-**	**496,462,998**	**-**	**495,651,998**	**811,000**	**496,462,998**
Financial liabilities									
Deposits from banks	-	-	-	19,028,983	**19,028,983**		19,028,983		
Deposits from customers	-	-	-	329,067,170	**329,067,170**		329,067,170		329,067,170
Due to group companies	-	-	-	17,335,332	**17,335,332**		17,335,332		17,335,332
Long term borrowings	-	-	-	45,311,446	**45,311,446**		45,311,446		45,311,446
Subordinated debt	-	-	-	18,732,569	18,732,569		18,732,569		18,732,569
31 December 2018	**-**	**-**	**-**	**429,475,500**	**429,683,285**	**-**	**429,475,500**		**429,475,500**

7. INTEREST INCOME

	2019 TZS '000	2018 TZS '000
Loans and advances to customers	38,898,190	34,894,241
Loans and advances to banks	15,815	102,783
Investment securities:-		
- At amortised cost	10,243,135	9,286,239
	49,157,140	**44,283,263**

8. INTEREST EXPENSE

	2019	2018
Deposits from customers	13,231,577	14,328,486
Deposits from banks	1,887,276	1,086,389
Long term debt	2,756,121	1,750,482
Subordinated debt	1,719,193	1,762,830
Lease liabilities	269,084	-
	19,863,251	**18,928,187**

9. NET FEE AND COMMISSION INCOME

	2019	2018
Fee and commission income		
Commissions	3,470,123	3,818,048
Service fees	2,015,018	2,286,104
	5,485,141	**6,104,152**
Fees and commission expense		
Interbank transaction fees	(179,550)	(250,641)
Net fee and commission income	**5,305,591**	**5,853,511**

10 NET TRADING INCME

	2019	2018
Income from foreign exchange dealings	**3,120,982**	**3,007,307**

11. OTHER OPERATING INCOME

	2019	2018
Profit on sale of property and equipment	3,150	5,251
Other income	200,734	297,904
	203,884	**303,155**

12. DIVIDEND INCOME

	2019	2018
Dividend income-Tanzania Mortgage Refinancing Company Limited	**8,620**	**8,780**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

13. OPERATING EXPENSES

	2019 TZS '000	2018 TZS '000
Staff costs		
Salaries and wages	7,364,331	6,266,218
Statutory contribution	770,940	600,643
Other staff costs	2,929,363	2,571,479
	11,064,634	**9,438,340**
Premises and equipment costs		
Rental of premises	-	1,292,087
Utilities	202,275	184,609
Other premises and equipment costs	562,372	122,670
	764,647	**1,599,366**
General administrative expenses		
Deposit protection insurance contribution	498,769	470,161
Loss on disposal of property and equipment	-	102,092
Other general administrative expenses	7,879,986	6,405,312
	8,378,755	**6,977,565**
Depreciation and Amortisation		
Depreciation on property and equipment (Note 21)	1,067,999	1,064,631
Depreciation on right of use asset (Note 21)	720,832	-
Amortisation of intangible assets (Note 22)	765,610	520,000
	2,554,441	**1,584,631**

14. PROFIT BEFORE INCOME TAX

	2019	2018
Profit before income tax is arrived at after charging /(crediting):		
Depreciation	1,788,831	1,064,631
Amortisation of intangible assets	765,610	520,000
Directors' emoluments: -fees	140,647	144,176
Directors' emoluments: -other	71,234	69,031
Auditors' remuneration	130,726	175,914
Net profit (Loss) on sale of property and equipment	3,150	5,251

15. INCOME TAX EXPENSE AND TAX PAYABLE

		2019	2018
(a)	**Income tax expense**		
	Current year's tax at 30%	3,580,821	3,966,728
		3,580,821	**3,966,728**
	Deferred tax credit -Current year (Note 23)	(739,470)	(1,152,695)
	Income tax expense	**2,841,351**	**2,814,033**

15. INCOME TAX EXPENSE AND TAX PAYABLE (CONTINUED)

The tax on the company`s profit differs from the theoretical amount using the basic tax rate as follows:

		2019 TZS '000	2018 TZS '000
(b)	**Accounting profit before tax**	**8,843,474**	**9,011,750**
	Computed tax using the applicable corporation tax rate at 30%	2,653,042	2,703,525
	Effect on non-deductible costs /non-taxable income	188,309	110,508
		2,841,351	**2,814,033**
(c)	**Tax Payable/(Recoverable)**		
	At 1 January	710,645	121,842
	Income tax expense (Note 15(a))	3,580,821	3,966,728
	Tax paid	(3,772,522)	(3,377,925)
	At 31 December	**518,944**	**710,645**

16. CASH AND BALANCES WITH BANK OF TANZANIA

	2019	2018
Cash on hand	6,294,180	7,419,764
Balances with Bank of Tanzania:		
-Restricted balances (Cash reserve ratio)	21,055,672	26,028,422
-Unrestricted balances	3,424,452	8,975,103
	30,774,304	**42,423,289**

The Company's Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for Bank of Tanzania requirement. At 31 December 2019, the cash ratio requirement was 10.0% (2018: 10.0%) of eligible deposits.

17. ITEMS IN THE COURSE OF COLLECTION

	2019	2018
Assets	**135,006**	**22,900**

Items in the course of collection represent net settlement balances through the inter-banking clearing process.

18. LOANS AND ADVANCES TO BANKS

	2019 TZS '000	2018 TZS '000
Due within 90 Days	**-**	**7,838,743**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

19. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

	2019 TZS '000	2018 TZS '000
Overdrafts	128,127,770	119,270,096
Loans	236,785,431	242,836,652
Gross loans and advances	364,913,201	362,106,748
Less: Impairment losses on loans and advances	(19,558,072)	(16,708,516)
Net loans and advances	**345,355,129**	**345,398,232**

(a) Non-performing loans and advances

Non-performing loans and advances net of impairment losses and estimated value of securities are disclosed in Note 4(a)

	2019 TZS '000	2018 TZS '000
Interest on impaired loans and advances which has not yet been received in cash	10,324,910	7,943,232

2019:	Loans and advances to Customers at amortised cost TZS '000	Loan commitments and financial guarantee contracts TZS '000	Total TZS '000
Net remeasurement of loss allowance	6,264,034	48,041	6,312,075
New financial assets originated or purchased	14,931	10	14,941
	6,278,965	**48,051**	**6,327,016**

2018:	Loans and advances to Customers at amortised cost TZS '000	Loan commitments and financial guarantee contracts TZS '000	Total TZS '000
Net remeasurement of loss allowance	5,712,052	10,027	5,722,079
New financial assets originated or purchased	180,851	13,247	194,098
	5,892,903	**23,274**	**5,916,177**

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Loans and advances concentration by sector

	2019 TZS '000	2019 %	2018 TZS '000	2018 %
Manufacturing	83,195,590	23%	82,348,470	23%
Wholesale and retail trade	52,453,430	14%	52,340,440	14%
Building and construction	7,711,790	2%	9,090,300	3%
Agriculture	13,661,830	4%	15,417,600	4%
Real estate	87,590,430	24%	87,162,000	24%
Transport and communication	17,557,230	5%	20,372,390	6%
Business services	52,175,330	14%	50,369,840	14%
Mining and quarrying	9,234,510	3%	8,923,980	2%
Others	41,333,061	11%	36,081,728	10%
	364,913,201	**100%**	**362,106,748**	**100%**

20. FINANCIAL ASSETS

(a) Financial assets measured at fair value through other comprehensive income (FVOCI)

	2019 TZS '000	2018 TZS '000
Equity investment	**1,013,750**	**811,000**

During the year under review the bank had acquired 125,000 shares at a discounted price of TZS 1,265 per share.

(b) Other financial assets at amortised cost

	2019 TZS '000	2018 TZS '000
Treasury bonds (Non Liquid)	57,536,166	57,291,631
Treasury bills (Non Liquid)	42,762,596	41,592,626
	105,440,405	**98,884,257**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

20. FINANCIAL ASSET (CONTINUED)

(b) Other financial assets at amortised cost (Continued)

The change in the carrying amount of investment securities held by the Company is as shown below:

	Other financial assets at amortised cost TZS '000	Financial assets measured at fair value through other comprehensive income (FVOCI) TZS '000	Total TZS '000
At 1 January 2019	98,884,257	811,000	99,695,257
Additions	46,000,000	158,125	46,158,125
Disposals and maturities	(43,423,000)	-	(43,423,000)
Revaluation gain	-	44,625	44,625
Interest receivable	3,979,148	-	3,979,148
At 31 December 2019	**105,440,405**	**1,013,750**	**106,454,155**
	-	-	-
At 1 January 2018	81,084,838	811,000	81,895,838
Additions	78,317,106	-	78,317,106
Disposals and maturities	(64,245,856)	-	(64,245,856)
Interest receivable	3,728,169	-	3,728,169
At 31 December 2018	**98,884,257**	**811,000**	**99,695,257**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

20. FINANCIAL ASSET (CONTINUED)

(b) Other financial assets at amortised cost (Continued)

21. PROPERTY AND EQUIPMENT

2019	Leasehold improvements TZS '000	Furniture, fittings, fixtures and office equipment TZS '000	Computers TZS '000	Motor Vehicles TZS '000	Right of use assets TZS '000	Capital work in progress TZS '000	Total TZS '000
Cost/ Valuation							
At 1 January 2019	3,873,308	4,273,914	655,904	327,301	4,057,725	-	13,188,152
Additions	5,125	1,041,472	151,888	69,540	-	76,107	1,344,132
Disposals	-	-	-	(18,500)	-	-	(18,500)
At 31 December 2019	**3,878,433**	**5,315,386**	**807,792**	**378,341**	**4,057,725**	**76,107**	**14,513,784**
Depreciation							
At 1 January 2019	1,811,008	2,114,012	585,515	241,461	-	-	4,751,996
On disposals	-	-	-	(18,499)	-	-	(18,499)
Charge for the year	408,276	497,641	88,606	73,476	720,832	-	1,788,831
At 31 December 2019	**2,219,284**	**2,611,653**	**674,121**	**296,438**	**720,832**	**-**	**6,522,328**
Net book value at 31 December 2019	**1,659,149**	**2,703,733**	**133,671**	**81,903**	**3,336,893**	**76,107**	**7,991,456**

21. PROPERTY AND EQUIPMENT (CONTINUED)

2018	Leasehold improvements	Furniture, fittings, fixtures and office equipment	Computers	Motor Vehicles	Capital work in progress	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cost/ Valuation						
At 1 January 2018	3,530,826	4,173,455	662,452	360,301	122,951	8,849,985
Additions	429,445	175,610	3,540	-	-	608,595
Disposal	(958)	-	(10,088)	(33,000)	-	(44,046)
Reclassification/internal transfers	122,951	-	-	-	(122,951)	-
Write offs/back	(208,956)	(75,151)	-	-	-	(284,107)
At 31 December 2018	**3,873,308**	**4,273,914**	**655,904**	**327,301**	**-**	**9,130,427**
Depreciation						
At 1 January 2018	1,447,166	1,787,854	468,318	196,386	-	3,899,724
On disposals	-	-	(9,587)	(29,073)	-	(38,660)
Charge for the year	490,969	372,730	126,784	74,148	-	1,064,631
Write offs/Back	(127,127)	(46,572)	-	-	-	(173,699)
At 31 December 2018	**1,811,008**	**2,114,012**	**585,515**	**241,461**	**-**	**4,751,996**
Net book value at 31 December 2018	**2,062,300**	**2,159,902**	**70,389**	**85,840**	**-**	**4,378,431**

22. INTANGIBLE ASSETS

2019 Cost	Computer Software TZS '000	Capital work in progress TZS '000	Total TZS '000
At 1 January 2019	**2,748,315**	**3,222,012**	**5,970,327**
Additions	3,919,268	-	3,919,268
Reclassification from capital work in progress	3,222,012	(3,222,012)	-
At 31 December 2019	**9,889,595**	**-**	**9,889,595**
Amortisation			
At 1 January 2019	**2,613,128**	**-**	**2,613,128**
Amortisation for the year	765,610	-	765,610
At 31 December 2019	**3,378,738**	**-**	**3,378,738**
Carrying amount at 31 December 2019	**6,510,857**	**-**	**6,510,857**

2018 Cost	Computer Software TZS '000	Capital work in progress TZS '000	Total TZS '000
At 1 January 2018	**2,732,355**	**-**	**2,732,355**
Additions	15,960	3,222,012	3,237,972
At 31 December 2018	**2,748,315**	**3,222,012**	**5,970,327**
Amortisation			
At 1 January 2018	**2,093,128**	**-**	**2,093,128**
Amortisation for the year	520,000	-	520,000
At 31 December 2018	**2,613,128**	**-**	**2,613,128**
Carrying amount at 31 December 2018	**135,187**	**3,222,012**	**3,357,199**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2019

23. DEFERRED TAX ASSET

2019	Balance at 1 January TZS '000	Prior year under/over provision TZS '000	Recognized in equity TZS '000	Recognized in profit or loss TZS '000	Balance at 31 December TZS '000
Equipment	(340,120)	-	-	(195,169)	(535,289)
General provisions	5,328,145	-	-	803,176	6,131,321
Financial assets measured at fair value through other comprehensive income (FVOCI)	(93,300)	-	(13,387)	-	(106,688)
Right of use of asset (IFRS 16)	-			131,463	131,463
	4,894,725	**-**	**(13,387)**	**739,470**	**5,620,807**

2018	Balance at 1 January TZS '000	Prior year under/over provision TZS '000	Recognized in equity TZS '000	Recognized in profit or loss TZS '000	Balance at 31 December TZS '000
Equipment	(380,798)	-	-	40,678	(340,120)
General provisions	4,024,811	-	191,317	1,112,017	5,328,145
Financial assets measured at fair value through other comprehensive income (FVOCI)	(93,300)	-	-	-	(93,300)
	3,550,713	**-**	**191,317**	**1,152,695**	**4,894,725**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

24. OTHER ASSETS

	2019 TZS '000	2018 TZS '000
Prepayments	1,293,797	1,636,884
Other receivables	3,920,029	296,858
	5,213,826	**1,933,742**

25. DEPOSITS FROM BANKS

	2019	2018
Due within 90 Days	**45,387,981**	**19,028,983**

26. DEPOSITS FROM CUSTOMERS

	2019	2018
Government and Parastatals	1,404,740	16,745,381
Private sector and individuals	307,543,673	312,321,789
	308,948,413	**329,067,170**

27. OTHER LIABILITIES

	2019	2018
Accruals	1,419,700	1,586,407
Other accounts payables	6,194,739	2,871,945
Lease liabilities	3,130,314	-
Provisions for loan commitments*	48,051	207,785
Bankers cheques payable	313,030	353,919
	11,105,834	**5,020,056**

*This represents impairment allowance for loan commitments and financial guarantee contracts.

28. LONG TERM BORROWINGS

	2019 TZS '000	2018 TZS '000
Less than one year	242,750	320,005
One to five years	37,290,000	44,991,441
	37,532,750	**45,311,446**

Loan movement schedule

	2019	2018
At 1 January	45,311,446	29,178,398
Funds received	-	23,050,000
Payments on principal and interest	(11,834,564)	(9,057,931)
Interest payable	325,780	320,005
Accrued Interest	4,149,533	1,078,793
Translation differences	(419,445)	742,181
At 31 December	**37,532,750**	**45,311,446**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

28. LONG TERM BORROWINGS (CONTINUED)

TMRC (Tanzania Mortgage Refinance Company Limited)

The long term borrowing of TZS 3,250 million was granted in two tranches of which (i) TZS 1,800 million was granted on 13th August 2018 with an effective rate of 9.0% for tenure of 5 years and (ii) TZS 1,450 million was granted on 30th August 2018 with an effective rate of 9.0% for a tenure of 3 years. The interest on the facility is repayable on a quarterly basis and the principal at maturity.

FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.)

The first long term borrowing of USD 12 million granted on March 2016 by FMO as a senior debt for tenor of 6 years. The interest and principal on the facility is repayable on a quarterly basis. The effective interest rate on the first long term borrowing is 6.06% p.a.

The second long term borrowing of USD 15 million granted on December 2018 by FMO as a senior debt for tenor of 5 years, of which an amount of USD 10 Million was received during the month of December 2018. The interest and principal on the facility is repayable on a quarterly basis. The effective interest rate on the second long term borrowing is 5.68% p.a.

29. SUBORDINATED DEBT

	2019 TZS '000	2018 TZS '000
Less than one year	83,017	292,569
One to five years	18,400,000	18,440,000
	18,483,017	**18,732,569**

DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH)

The long term borrowing of USD 10 million was granted on January 2015 by DEG as subordinated debt qualifying as Tier II capital, of which an amount of USD 8 Million was received. The effective interest rate of the long term borrowing is 9.96%.

30. SHARE CAPITAL AND RESERVES

(a) Authorized share capital

2019	**Number of shares**	**TZS '000**
Authorized - Ordinary A Class Shares		
At 31 December 2019 (par value TZS 1,000,000 each)	**50,000**	**50,000,000**

2019	**Number of shares**	**TZS '000**
Authorized - Ordinary B Class Shares		
At 31 December 2019 (par value TZS 1,000,000 each)	**50,000**	**50,000,000**

2018	**Number of shares**	**TZS '000**
Authorized - Ordinary A Class Shares		
1 January 2019 (par value TZS 1,000,000 each)	10,000	10,000,000
Authorized for the year (par value TZS 1,000,000 each)	40,000	40,000,000
At 31 December 2018 (par value TZS 1,000,000 each)	**50,000**	**50,000,000**

2018	**Number of shares**	**TZS '000**
Authorized - Ordinary B Class Shares		
At 31 December 2018 (par value TZS 1,000,000 each)	**50,000**	**50,000,000**

(b) Issued and fully paid up share capital

2019	**Number of shares**	**Share Capital TZS '000**	**Share Premium TZS '000**
Ordinary A Class Shares			
1 January 2019 (par value TZS 1,000,000 each)	**2,792**	**2,792,000**	**17,995,751**
At 31 December	**2,792**	**2,792,000**	**17,995,751**

2019	**Number of shares**	**Share Capital TZS '000**	**Share Premium TZS '000**
Ordinary B Class Shares			
1 January 2019 (par value TZS 1,000,000 each)	**13,410**	**13,410,000**	**94,477**
At 31 December	**13,410**	**13,410,000**	**94,477**
Total		**16,202,000**	**18,090,228**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

30. SHARE CAPITAL AND RESERVES (CONTINUED)

	Number of shares	Share Capital	Share Premium
2018		**TZS '000**	**TZS '000**
Ordinary A Class Shares			
1 January 2017 (par value TZS 1,000,000 each)	**2,792**	**2,792,000**	**17,995,751**
At 31 December	**2,792**	**2,792,000**	**17,995,751**

	Number of shares	Share Capital	Share Premium
2018		**TZS '000**	**TZS '000**
Ordinary B Class Shares			
Allocation of shares	**13,410**	**13,410,000**	**94,477**
At 31 December	**13,410**	**13,410,000**	**94,477**
Total		**16,202,000**	**18,090,228**

(c) Statutory reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits and the reverse for reductions. These reserves are not distributable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

31. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before income tax to cash flow from operating activities

	Note	2019 TZS '000	2018 TZS '000
Cash flows from operating activities			
Profit before income tax		8,843,474	9,011,750
Adjustments for:			
Depreciation on Property & Equipment	21	1,067,999	1,064,631
Depreciation on right of use asset	21	720,832	
Amortisation of intangible asset	22	765,610	520,000
Interest on Lease Liabilities	8	269,084	
Profit (loss) on sale of property and equipment		-	(5,251)
Write off - property and equipment		-	110,408
Exchange loss on borrowings		(419,446)	1,492,755
Dividend income	12	(8,620)	(8,780)
		11,238,933	**12,185,513**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers		43,103	(33,571,132)
Investment in securities		(6,556,148)	(17,799,419)
Due from group companies		(1,168,378)	(709,177)
Loans and advances from Banks		-	-
Cash and balances with Bank of Tanzania:			
– Cash Reserve Ratio		4,972,750	(3,426,769)
Other assets		(3,280,083)	(228,658)
		(5,988,756)	**(55,735,155)**
Increase/(decrease) in operating liabilities			
Customer deposits		(20,118,757)	9,465,041
Net inflow/(outflow) from long-term borrowings		(7,608,802)	15,390,868
Balances due to group companies		(8,998,837)	16,853,666
Other liabilities		7,001,111	(186,200)
		(29,725,284)	**41,523,375**
Cash (outflows)/inflows generated from operating activities		**(24,475,108)**	**(2,026,267)**
Tax paid		(3,759,134)	(3,377,925)
Interest on Lease Liabilities	8	(269,084)	
Net cash (outflows)/inflows from operating activities		**(28,503,326)**	**(5,404,192)**

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

31. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(b) Analysis of cash and cash equivalents

	Note	2019 TZS '000	2018 TZS '000	Change TZS '000
Cash and balances with Bank of Tanzania – excluding SMR	16	9,718,632	16,394,867	(6,676,235)
Items in the process of collection	17	135,006	22,900	112,106
Loans and advances to banks	18	-	7,838,743	(7,838,743)
Deposits from banks	25	(45,387,981)	(19,028,983)	(26,358,998)
		(35,534,343)	**5,227,527**	**(40,761,870)**

32. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

In the ordinary course of business, the bank conduct business involving guarantees, acceptances and letters of credit. These facilities are offset by corresponding obligations of third parties. At the period end, the contingent liabilities were as follows:

	2019 TZS '000	2018 TZS '000
Contingencies related to:		
Letters of credit	28,279,463	32,946,527
Guarantees	55,469,106	24,495,770
Acceptances/undrawn balance	37,552,558	19,956,645
	121,301,127	**77,398,942**

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

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

An *acceptance* is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Forward contracts are arrangements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

The fair values of the respective currency forwards are carried on the face of the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2019

33. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with related parties. All the loans and advances and deposits are issued or received from the related parties at market interest rates. There were no provisions held towards impairment of any of the advances to related parties

(a) Directors and key management personnel: Loans	**2019** **TZS '000'**	**2018** **TZS '000'**
Loans outstanding at the beginning of the year	1,359,673	1,465,252
Loans issued during the year	558,050	50,000
Loan repayments during the year	(201,099)	(155,579)
Loans outstanding at the end of the year	**1,716,624**	**1,359,673**
Interest income earned	**654,379**	**137,076**
(b) Directors and key management personnel: Deposits		
Deposits at the beginning of the year	4,626,564	6,842,152
Deposits received during the year	1,835,878	256,092
Deposits repaid during the year	(2,155,744)	(2,471,680)
Deposits at the end of the year	**4,306,698**	**4,626,564**
Interest expense	**91,130**	**116,069**
(c) Amount due to/from related companies		
Amounts due from I&M Bank Limited - Holding Company	2,252,955	1,084,577
Amounts due to I&M Bank Limited - Holding Company	8,336,495	17,335,332
Amounts due to Bank one - Mauritius	-	11,525,973
(d) Key management compensation		
Salaries and other short-term benefits	2,577,603	1,997,898
Post-employment benefits	221,487	168,782
	2,799,091	2,166,680
Key management comprise of CEO and all heads of department.		
Directors' remuneration-made up of short-term benefits	140,647	144,176
(e) Management fees		
Management fees paid to I&M Bank Ltd	1,020,451	972,071

34. CAPITAL COMMITMENTS

	2019 TZS '000	2018 TZS '000
Capital commitments	17,294,010	16,683,479

35. OTHER DISCLOSURES

(a) Operational risk

The overall responsibility of managing operational risks - the risk arising from failed or inadequate internal processes, people, systems and external events - is vested with the Board of Directors. The Board through the Board Risk Committee, issues policies that guide management on appropriate practices of operational risk mitigation. An independent Risk Manager assures the Board Risk Committee of the implementation of the said policies.

The following are key measures that the Bank undertakes in managing operational risk:

- Documentation of procedures and controls, including regular review and updates to reflect changes in the dynamic business environment.
- Appropriate segregation of duties, including the independent authorisation of transactions
- Reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Reporting of operational losses and ensuring appropriate remedial action to avoid recurrence.
- Development and implementation of Business Continuity and Disaster Recovery Plans
- Training and professional development of employees to ensure they are well equipped to identify and mitigate operational risks in a timely manner.
- Establishment of ethical practices at business and individual employee's level.
- Implementation of Risk mitigation parameters, including insurance where this is considered effective.

The entire operational risk management framework is subjected to periodic independent audits (internal) in order for the bank to obtain an independent opinion on the effectiveness and efficiency of the framework. Further, the findings of the Internal Audit department are reviewed by the Board Audit Committee and recommendations made implemented in line with the agreed timeframe.

(b) Environmental and social risk

Environmental and social risks are the risks that the Bank could bear the consequences of socio-environmental fall-out of transactions. Such risks could arise from failure of the bank to assess the impacts of activities (of both the bank and its clients) which could harm the environment or have negative social impact.

The Bank is aware that it has a responsibility to ensure that its internal practice and its lending activities do not have negative environmental and social impacts and is thus committed to ensure that such risks are sufficiently managed through its environmental and social management policy and by adopting the country's labour and environmental laws. The Bank also adheres to international best practice (IFC performance standards and ILO standards as ratified by the Tanzanian government). An environmental and social management system is put in place to ensure due diligence and monitoring of the environmental and social risk is done efficiently. Compliance to these laws is monitored by the compliance function.

The Directors are responsible for selection and disclosure of the Bank's critical accounting policies and estimates and the application of these policies and estimates.

36. SUBSEQUENT EVENTS

On 11 March 2020, the World Health Organisation declared the Coronavirus COVID-19 outbreak to be a pandemic due to its rapid spread across the globe. Many governments including the Tanzanian government, are taking stringent measures to help contain the virus, including: requiring self-isolation/ quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders. This has led to a relatively weaker economic outlook and uncertainties across the globe. As a result the bank will likely experience a decrease in profitability especially during the second quarter of the year due to decline in revenues and a potential increase in impairment on loans and advances as customers' businesses continue to be affected by the pandemic.

As at the date of the financial statements, there is no sufficient data to quantify the effects of the pandemic however, based on preliminary assessment the directors and management believe the effect of the pandemic does not have a material impact on the financial statements as at 31 December 2019 based on the current information and does not amount to a material uncertainty over the bank's ability to continue as a going concern.

Corporate Office, Maktaba Square, Maktaba Street,
P. O. Box 1509, Dar Es Salaam, Tanzania
Customer Care: +255 22 2127331-4
or customer.care@imbank.co.tz

www.imbank.co.tz