I&M Bank LIMITED

I&M BANK LIMITED

ANNUAL REPORT

AND FINANCIAL STATEMENTS | 2018

CREATING SUSTAINABLE GROWTH

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We value sustainable growth based on a strong foundation and sound principles and believe in the eternity of sustainability. Time changes everything except our values, which affirms our commitment to being partners of growth for all our stakeholders.

MR. SARIT S RAJA SHAH - CHAIRMAN

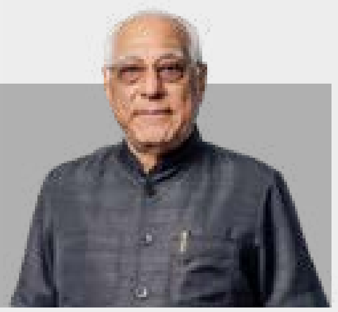
Appointed as Chairman of the Bank on the 14th January 2010 upon the acquisition of the Bank by the consortium led by I&M Bank Ltd. Mr. Sarit S Raja Shah holds a Masters Degree from City University London.

He is currently an Executive Director of I&M Bank Limited, Kenya and also serves on the board of several other companies, including I&M Holdings Ltd, Bank One Ltd, GA Insurance Limited & Coastal Bottlers Ltd (a bottling plant that has a Coca Cola Franchise).

MR. SHAMEER PATEL - DIRECTOR

Mr Shameer Patel was appointed as a Director of the Bank on 11th September 2013. He is the Chairman of the Board Credit Committee and is also a member of the Board Audit Committee and Board Risk Committee. He has more than 15 years of experience in Banking covering credit, operations and strategic planning.

Mr Shameer Patel is part of the senior management team at I&M Bank Ltd, Kenya and heads the CEOs Office function with responsibilities covering various strategic initiatives and monitoring of subsidiaries within the banking group.



MR. BHARAT K. RUPARELIA - DIRECTOR

MR. Bharat K. Ruparelia appointed as Director of the Bank and a member of the Board Credit Committee effective from 7th September 2017.

Mr. Ruparelia is an entrepreneur with interests in varied commercial and agricultural ventures in Tanzania. He holds Directorship in the Board of many companies in the country.

MR. ALAN RODRICK MCHAKI - DIRECTOR

Mr. Alan Rodrick Mchaki was appointed as an Independent Director of the bank with effect from 26th September 2016. He is a fellow member of Association of Chartered Certified Accountant of UK and Certified Public Accountant in Tanzania.

He is also an Associate at Swaziland Institute of Accountants. Alan has over 30 years working experience covering public practice with two major accountancy firms and in industry, including amongst others, oil marketing, television broadcasting, health service delivery and mutual fund management; where he held directorship roles in finance.

Board of Directors

AMBASSADOR BERTHA ERNESTINE SEMU-SOMI - DIRECTOR

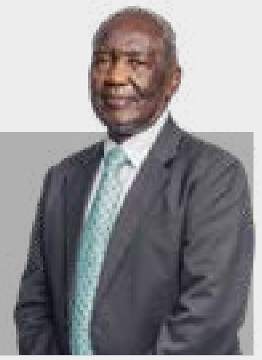
Bertha Ernestine Semu-Somi was appointed as an Independent Director of the Bank on 6th September 2016. She also serves as an Executive Director of a Charity Organisation, Hassan Majar TRUST.

She comes with vast experience, knowledge and network both in the Tanzanian Government and internationally, especially the United Nations System. Ambassador Bertha is reputed for her commitment to duty, diligence professionalism and teamwork. She also holds membership in various NGOs.

MR. THIERRY HUGNIN - DIRECTOR

Mr. Thierry Hugnin was appointed as Director of the Bank on the 14th January 2010. He is also member of the Board Audit Committee and of the Board Credit Committee.

Mr. Hugnin worked in investment banking in London and Mauritius. He later joined Blakeney Management, a London-based investment boutique, focusing in Africa and the Middle East. He is the Chief Investment Officer and a director of CIEL Capital Limited, the Investment Manager of CIEL Investment Limited



MR. MICHAEL SHIRIMA - DIRECTOR

Mr. Michael Shirima was appointed as Director of the Bank on the 14th January 2010. He serves as the Chairman of the Board Risk Committee and is also member of the Board Audit Committee and the Board Credit Committee.

Mr. Michael Shirima is a renowned businessman with diverse business interests in Tanzania. He is currently the Chairman of Precision Air Services Ltd and also serves on the board of several other companies.

MR. PRATUL SHAH - DIRECTOR

Mr. Pratul Shah was appointed as Director of the Bank on the 10th February 2010. He is the Chairman of the Board Audit Committee and a member of Board Risk Committee. Mr. Pratul Shah is a Fellow of the Association of Chartered Certified Accountants.

He holds various directorships in diverse companies in East Africa, in the financial, manufacturing and services sector, including Reliance Insurance Tanzania Ltd. He is also an Independent Director of Bank One Ltd, Mauritius.

WHO LEADS US

Donald Mate
Head of Operations

Aimtonga Adolph
Head of Internal Audit

Emmanuel Wilson
Head of Risk & Compliance

Patrick Kapela
Head of Treasury

Amulike Kamwela
Head of Finance

Baseer Mohammed
Chief Executive Officer

Allan Mbangula
Head of Information Communication & Technology

Martha Kimweri
Head of Human Resources

Krishnan Ramachandran
Head of Corporate Banking

Clement Kagoye
Head of Credit

Emmanuel Kiondo
Manager Marketing and Communication

Sarit S. Raja Shah
Chairman

It gives me great pleasure to present you the Bank's Annual Report and Financial Statements for the year ending 31st December, 2018.

Economy Overview
The Tanzania's economy maintained the momentum with the real GDP growth at an average of 6.7% for the period ending 31st December 2018. The Inflation remained relatively low in 2018 on the back of stability of commodity prices closing the year with an average CPI of 3.5%. The financial sector remains broadly stable with adequate capitalization and liquidity ratios. The Bank of Tanzania has been monitoring the financial sector through frequent interventions to maintain the stability of the sector during the year.

Banking Industry
The banking sector faced challenging times in 2018 as there were general liquidity constraints in the market. There has been consolidation of smaller banks and takeover of administration by Bank of Tanzania of certain weak banks to provide stability and confidence to the financial sector. The total assets in the Banking industry grew by 6.02% from TZS 29.9 trillion in the year 2017 to TZS 31.7 trillion in the year 2018. The overall deposits reported an increase of 4.74% from TZS 21.1 trillion to TZS 22.1 trillion and there was a net increase in the loan book by 1.31% from TZS 15.3 trillion in 2017 to TZS 15.5 trillion in 2018. The credit growth remains subdued largely due to the higher levels of non-performing assets prevalent. The profit after tax of the Banking industry decreased by 3.61% from TZS 310 billion in the year 2017 to TZS 299 billion in the year 2018. The key statutory and regulatory changes including the implementation of IFRS 9, enhanced loan provisioning and revision in write-off requirements of loss assets significantly impacted the bottom line of the banks during the year. Despite a challenging year, I'm pleased to state that the Bank has demonstrated a decent performance during the year 2018.The balance sheet has increased by 15.24% from TZS 443 billion in 2017 to TZS 511 billion in 2018 thereby touching the half trillion mark for the first time. Amongst others, the growth has been driven by an increase in the net loan book by 10.6% from TZS 312 billion to TZS 345 billion. However, the non-performing assets had increased leading to a Gross NPA ratio of 13.41% as at 31st December 2018 compared to 8.47 % as at 31st December 2017 due to the prevailing market environment. The total deposits increased by 9.21 % from TZS 334 billion to TZS 365 billion with an increase in customer deposits by 2.96% from TZS 320 billion to TZS 329 billion. The Bank maintained its consistency in delivering a profitable growth on a YOY basis with an increase in the Profit before taxes by 29.3% from TZS 6.97 billion in 2017 to TZS 9.01 billion in 2018.

iMara - Medium Term Strategy – progress
The Bank implemented the Medium Term Strategy termed iMara which was developed last year with an aspiration to be "the banking power house for medium to large businesses and premium clients in Tanzania" and progressed on various initiatives by enhancing the market share, strengthening the brand, driving the growth through innovation and introduction of various products and services. In order to enhance the value propositions and focus to key segments of the business the Bank during the year introduced separate verticals for its retail and corporate business which aims to sharpen the focus in each of these customer segments. Marketing & Product Development To enhance the brand recall and strengthen the equity various initiatives including marketing campaigns, adverstisements and communication through Print, Radio and other digital media was extensively carried out during the year.

In order to improve the customer experience, an advance banking service termed iClick was introduced during the year which enables the customers to access the banking services either on mobile (Mobile Banking) or through web based platforms (Internet Banking) in a more convenient and secure way. The Bank also introduced an e-wallet solution termed SPENN in collaboration with BLOCKBONDS that allows for FREE transfer of funds between users. The Bank also partnered with Master Card and introduced the digital payment solution Master Pass which is based on QR code authentication process. Technology To strengthen the technology backbone for meeting the various strategic objectives and growth plans of the future, the Bank has made a significant capital investment for upgrading the Core banking system "FINACLE" from version 7 to version 10 during the year. Branch Network The Bank relocated Mwanza branch to a more vibrant and strategic location, the inauguration of which was graced by the Regional Commissioner of Mwanza. The Arusha branch was renovated to meet the regulatory norms and enhance the customer experience as well as align to the brand standards.

Human Resources - Initiatives
In order to drive the performance culture, nurture talent and build capacities various initiatives were implemented during the year. The Bank introduced the Balance Score Card approach to managing its strategy and developed the individual Personal Score cards in line with these objectives. In order to benchmark the compensation structure to the market and streamline the various grades and skill levels a comprehensive job evaluation and salary survey was implemented during the year. In its endeavor to monitor the health of the organization, the Bank conducted the Organization Health Index (OHI) survey during the year and noted remarkable improvement on various fronts. The Bank continued the various Capacity Building efforts through extensive functional and technical training programs. As an employee welfare initiative a comprehensive Group Life Insurance was also taken on board to cover all the employees of the Bank.

Corporate Social responsibility During the year the Bank partnered with KSIJ community and sponsored the awareness walk on the occasion of WORLD AUTISM DAY which received wide appreciation. The Bank also made a contribution towards improving the services in the pediatric ward at Sekou Toure Hospital in Mwanza a state-owned hospital. The Bank continues to support Cornel Ngaleku Children's Centre through the collections in "Donation Boxes" placed at all the branches.

Outlook for 2019
The macroeconomic indicators of the country continue to be strong with focus of the government on ambitious investments in the large infrastructure projects. It is our belief that these projects will stimulate the economic activities across the country and hence contribute to the growth of banking industry.
The Bank would continue to enhance its presence in the market by leveraging on digital technologies to simplify the end to end customer journey and widen its customer base. The Bank would be introducing an innovative solution termed Bank Genie in the year 2019 to ease the customer enrolment process and would endeavor to provide the state of art banking products and solutions going forward.

Acknowledgements

On behalf of the Board, I would like to take this opportunity in expressing our gratitude to all the Customers for their patronage and valuable support to 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 at all times.

I would like to express my gratitude to my fellow directors on the Board for their unwavering support by bringing in their wisdom and providing timely guidance during the year.

Thank You!

Chairman
Sarit S Raja Shah

CORPORATE INFORMATION

PRINCIPAL PLACE OF BUSINESS AND REGISTERED OFFICE

HEAD 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.

REGISTERED OFFICE

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

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.

ATZ Law chambers,
Peugeot House,
36 Ali Hassan Mwinyi Road,
PO Box 79651,

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

AUDITORS

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

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2018

1. Introduction

The Directors submit their report and the audited financial statements for the year ended 31 December 2018 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 happy 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 2018.

5. Review of business performance

The Bank's results are set out on page 27 of these financial statements. During the year under review, the Bank recorded a profit before tax of TZS 9,012 million compared to TZS 6,968 million in the previous year, representing an increase of 29.34%.

Interest Income
Interest income during the year amounted to TZS 44,283 million compared to TZS 41,740 million in the previous year, representing an increase of 6.09% (TZS 2,543 million). The increase is mainly due to the growth in loans and advances. As at year end, the loans and advances had increased by 10.61% (TZS 33,141 million) from the previous year.

Interest expense
Interest expense during the year amounted to TZS 18,928 million, as compared to TZS 17,876 million in the prior year, representing an increase of 5.89% (TZS 1,052 million). The increase in interest expense is mainly attributed by growth in high cost deposits balances.

Net Interest Income
Net interest income (interest income less interest expense) during the year amounted to TZS 25,355 million, as compared to TZS 23,865 million in prior year, representing an increase of 6.25% (TZS 1,490 million).

Non - Interest Income
Non-interest income amounted to TZS 9,423 million compared to TZS 7,238 million in the previous year, showing annual increase of 30.20% mainly due to increase in net trading income by 47.93% (2018 TZS 3,007 million: 2017 TZS 2,033 million). Non-interest income mainly includes fee and commission income, foreign exchange income and other operating income.

Non-Interest Expenses
Non- interest expenses amounted to TZS 19,851 million as compared to TZS 19,736 million in prior year, implying a marginal increase of 0.58% (TZS 115 million) due to controls on expenditures and implementation of various cost savings initiatives.

5. Review of business performance (Continued)

Income tax expense
Income tax expense amounted to TZS 2,814 million (2017: TZS 2,092 million).

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

	2018	2017
Return on average assets	1.30%	1.13%
Return on average equity	9.36%	8.96%
Non-interest income to net interest income	37.17%	30.33%
Operating expenses to average assets	2.67%	4.49%
Non-interest expenses before tax to operating income	56.77%	63.07%

6. Review of financial position

The Bank's financial position is set out on page 28 of these financial statements. Major movements are as explained in the table below:

Item	2018	2017	Increase / (Decrease)	
	TZS' 000	TZS ' 000	TZS ' 000	%
Cash and balances with Bank of Tanzania	42,423,289	36,612,816	5,810,473	16%
Balance with other banks	7,838,743	1,467,105	6,371,638	434%
Cheques and items for clearance	22,900	96,349	(73,449)	-76%
Financial assets measured at fair value through other comprehensive income (FVOCI)	811,000	811,000	-	0%
Investment securities	98,884,257	81,084,838	17,799,419	22%
Loans and advances	345,398,232	312,257,036	33,141,196	11%
Deferred tax asset	4,894,725	3,550,713	1,344,012	38%
Property and equipment	4,378,431	4,950,261	(571,830)	-12%
Intangible assets	3,357,199	639,227	2,717,972	425%
Other assets	1,933,743	1,610,608	323,135	20%
Deposits	365,431,485	334,609,543	30,821,942	9%
Other liabilities	5,020,056	4,998,469	21,587	0%
Long term borrowing	64,044,015	47,160,393	16,883,622	36%

Deposits
There is a net increase in customer deposits by TZS 9,465 million (3%) mainly on account of growth in high cost deposits balances.

Loans and advances
There has been a net increase in loans and advances by TZS 33,141 million (11%) on account of increase in the credit portfolio.

6. Review of financial position (Continued)

Government securities
There has been an increase in investment in government securities by TZS 17,799 million (22%) during the year.

Long term borrowing
Long term borrowing increased by TZS 16,883 million (36%) which was attributed by new FMO loan during the year.

Key efficiency ratios

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

	2018	2017
Shareholders fund to total assets	14.85%	12.76%
Non-performing loans to total advances	13.21%	8.47%
Gross loans to total deposits	99.09%	97.23%
Loans to total assets	70.86%	73.26%
Liquidity ratio	30.30%	28.00%

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 32 to 53 are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

9. Acquisitions and disposals

There was no material disposal or acquisition of business during the year 2018 (2017: Nil).

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
Subject to approval of shareholders, the Directors propose a final Dividend for 2018 in respect of Ordinary B Class Shares at an annualised rate of 16.88% for the period the Ordinary B Class shares were issued and paid up.

Ordinary A Class Shares
Subject to approval of shareholders, the Directors propose a final Dividend of TZS 48,400 per share to Ordinary A Class shares - for the year 2018, [2017: Nil]

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.

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)	14th January 2010
Mr. Michael N Shirima	Member	Tanzanian	Businessman	14th January 2010
Mr. Thierry Hugnin	Member	Mauritian	Chartered Accountant,(ACA England & Wales)	14th January 2010
Mr. Pratul H Shah	Member	Kenyan	Fellow of the Association of Chartered Certified Accountants, CPA (K),CPS (K)	10th February 2010
Mr. Shameer Patel	Member	Kenyan	Bachelor of Arts – Joint Honours in Economics & Geography	11th September 2013
Ambassador Bertha Ernestine Semu-Somi	Member	Tanzanian	Post graduate studies in Diplomacy ,BA(Hons) International relations & French	6th September 2016
Mr. Alan Mchaki	Member	Tanzanian	Fellow of the Association of Chartered Certified Accountants, CPA (T), Associated member ,Swaziland Institute of Accountant	26th September 2016
Mr. Arun S Mathur *	Alternate Director to Mr. Shameer Patel	Kenyan	B. Tech (Hons.) Diploma in Statistical Methods	14th January 2010
Mr. Bharat K Ruparelia	Member	British	Businessman	16th 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 2018 is Ms. Hamida Sheikh of M/S Sheikh Chambers Advocates.

14. Directors' interest
Mr. Michael N. Shirima has direct interest in the share capital of the Bank as disclosed in Note 16 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 2018.

15. Directors' remuneration
The remuneration for services rendered by the non-executive Directors of the Bank in 2018 was TZS 144 million (2017: TZS 149 million).

16. Capital structure and shareholding

	2018 Ordinary A Class Shares		2017 Ordinary A Class Shares	
	Number of shares	TZS '000	Number of shares	TZS '000
Authorised (TZS 1,000,000/- each)	50,000	50,000,000	10,000	10,000,000
Issued, Subscribed & Fully Paid (TZS 1,000,000/- each)	2,792	2,792,000	2,792	2,792,000

	2018 Ordinary B Class Shares		2017 Ordinary B Class Shares	
	Number of shares	TZS '000	Number of shares	TZS '000
Authorised (TZS 1,000,000/- each)	50,000	50,000,000	-	-
Issued, Subscribed & Fully Paid (TZS 1,000,000/- each)	13,410	13,410,000	-	-

Shareholding
As at 31 December 2018, the following shareholders held shares in I&M Bank (T) Limited:

	2018 Ordinary A Class Shares		2017 Ordinary A Class Shares	
Name of shareholders	Number of shares held	%	Number of shares held	%
I&M Bank Limited	1,965	70.38	1,965	70.38
The Kibo Fund	559	20.02	559	20.02
Proparco	129	4.62	129	4.62
Mr. Michael N. Shirima	139	4.98	139	4.98
	2,792	**100.00**	**2,792**	**100.00**

	2018 Ordinary B Class Shares		2017 Ordinary B Class Shares	
Name of shareholders	Number of shares held	%	Number of shares held	%
I&M Bank Limited	9,437	70.38	-	-
The Kibo Fund	2,685	20.02	-	-
Proparco	620	4.62	-	-
Mr. Michael N. Shirima	668	4.98	-	-
	13,410	**100.00**	**-**	**-**

There are two classes of shares, i.e Ordinary A Class shares and Ordinary B Class shares (2017: Ordinary A Class shares).

17. Capital adequacy

The Bank monitors the adequacy of its capital using ratios established by the Bank of Tanzania as described in Note 5(d) to the financial statements.

18. 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 2018 were:

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

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 2018 were:

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

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

18. Corporate governance (Continued)

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 meet 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

19. 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.

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.

19 . Employee welfare (Continued)

Retirement benefits
The Bank makes contributions in respect of staff retirement benefits to statutory National Social Security Fund and other pension Funds. The total number of employees, at the year end, was 183 (2017:172).

20. 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.

21. 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 2018, the Bank had 95 male and 88 female employees (2017: 89 male and 83 female employees).

22. Related party transactions
All related party transactions and balances are disclosed in note 34 to these financial statements.

23. 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 million (2017: TZS 21 million).

24. 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.

25. 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.

26. Subsequent events
There are no subsequent events that have occurred which either need to be disclosed or to be adjusted in the financial statements that could materially affect the financial statements.

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

Approved by the board of directors and signed on its behalf by;

Name: Mr. Sarit S Raja Shah **Title:** Chairman **Signature:** ______________

Name: Mr. Pratul H Shah **Title:** Director **Signature:** ______________

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

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act, CAP 212 Act No.12 of 2002 as well as Banking and Financial Institutions Act, 2006. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit in accordance with International Financial Reporting Standards (IFRS). The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

The external auditors are responsible for independently reviewing and reporting on the Bank's financial statements. The financial statements have been examined by the external auditors and their report is presented on page 23 to 26.

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

Approval of financial statements
The financial statements of I&M Bank (T) Limited, as identified above, were approved by the board of Directors on 21st March 2019 and signed by;

Name: Mr. Sarit S Raja Shah **Title:** Chairman **Signature:** ______________

Name: Mr. Pratul H Shah **Title:** Director **Signature:** ______________

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, CPA 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 2018 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 March 2019

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS 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 27 to 95, which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and 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 2018, 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.

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

Impairment on Loans and Advances	
The Key Matter	**How the Matter was Addressed in Our Audit**
Loans and advances for the Bank amounted to TZS 362,106 million at 31 December 2018 (TZS 324,882 million at 31 December 2017), and the total impairment allowance for the Bank amounted to TZS 16,709 million at 31 December 2018 (TZS 12,625 million at 31 December 2017). On 1 January 2018, the Bank adopted IFRS 9, resulting in impairment charges being recognised when losses are expected rather than when they are incurred. Management has disclosed information regarding the transitional effect of this new and complex standard in note 3(v)(i). Measurement of loan impairment charges for loans 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	Based on our risk assessment and industry knowledge, we have examined the impairment charges for loans and advance and evaluated the methodology applied as well as the assumptions made according to the description of the key audit matter. Our audit procedures in this area, included, among others: • Testing of controls over assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows. • Testing of controls over the compilation and review of the credit watch list, credit file review processes, approval of external collateral valuation vendors and review of controls over the approval of significant individual impairments. • Reviewing management model for establishing Stage 3 impairment amounts. This includes challenging reasonability

Report on the Audit of the Financial Statements (Continued)

Key audit matters (continued)

Impairment on Loans and Advances	How the Matter was Addressed in Our Audit
The Key Matter	
levels of management judgement and therefore increased levels of audit focus on the Bank's implementation of IFRS 9 are: • Assumptions used in determining criteria for significant increase in credit risk. • 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 • Establishing groups of similar financial assets for the purposes of measuring ECL Management has provided further information about the loans and advances impairment charges in notes 2(d), 3(f)(iii), 4(a), 5(a)(iii), and 19 to the financial statements.	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 as well as regulatory considerations; • Testing of a sample of key data inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts and PD assumptions applied; • Evaluating the appropriateness of the Bank's IFRS 9 methodologies including the SICR criteria used; • esting the impairment calculations to check if the correct parameters – Probability of Default (PDs, Loss Given Default (LGDs), and Exposure at Default (EADs) were determined by considering local economic/portfolio factors; • Reviewing management method of determining groups of similar financial assets for purposes of measuring ECL to confirm that assets are properly stratified based on existing economic trends; and • Assessing whether the disclosures appropriately disclose the key judgements and assumptions used in determining the expected credit losses.

Report on the Audit of the Financial Statements (Continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, but 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 21, 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.

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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS 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 (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 those charged with governance, 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.

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 to you 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)

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

21st March 2019

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

	Note	2018 TZS '000	2017 TZS '000
Interest income	8	44,283,263	41,740,249
Interest expense	9	(18,928,187)	(17,875,553)
Net interest income		25,355,076	**23,864,696**
Fee and commission income	10	6,104,152	4,964,347
Fee and commission expense	10	(250,641)	(320,007)
Net fee and commission income		5,853,511	4,644,340
Revenue		**31,208,587**	**28,509,036**
Net trading income	11	3,007,307	2,032,960
Other operating income	12	303,155	233,445
Dividend income	13	8,780	6,754
Net operating income before change in expected credit losses and other credit impairment charges		**34,527,829**	**30,782,195**
Net impairment charge on loans and advances	20(c)	(5,916,177)	(4,399,027)
Net operating income		**28,611,652**	**26,383,168**
Staff costs			
Premises and equipment costs	14	(9,438,340)	(9,098,016)
General administrative expenses	14	(1,599,366)	(1,614,540)
Depreciation and amortisation	14	(6,977,565)	(7,278,619)
	14	(1,584,631)	(1,424,326)
Operating expenses			
		(19,599,902)	**(19,415,501)**
Profit before income tax			
Income tax expense	15	**9,011,750**	**6,967,667**
	16(a)	(2,814,033)	(2,091,961)
Net profit for the year after tax		**6,197,717**	**4,875,706**
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		-	311,000
Deferred tax on fair value of available-for -sale financial assets	24	-	(93,300)
Total other comprehensive income for the year		**-**	**217,700**
Total comprehensive income for the year		**6,197,717**	**5,093,406**

The notes set out on pages 32 to 95 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

ASSETS	Note	2018 TZS '000	2017 TZS '000
Cash and balances with Bank of Tanzania	17	42,423,289	36,612,816
Items in the course of collection	18	22,900	96,349
Loans and advances to banks	19	7,838,743	1,467,105
Loans and advances to customers	20 (a)	345,398,232	312,257,036
Financial assets measured at fair value through other comprehensive income (FVOCI)	21(a)	811,000	811,000
Other financial assets at amortised cost	21(b)	98,884,257	81,084,838
Property and equipment	22	4,378,431	4,950,261
Intangible assets - software	23	3,357,199	639,227
Deferred tax asset	24	4,894,725	3,550,713
Due from group companies	34(c)	1,084,577	375,400
Other assets	25	1,933,743	1,610,608
TOTAL ASSETS		**511,027,096**	**443,455,353**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	26	19,028,983	14,525,748
Deposits from customers	27	329,067,170	319,602,129
Due to group companies	34(c)	17,335,332	481,666
Other liabilities	28	5,020,056	4,998,469
Tax payable	16(c)	710,645	121,842
Long term debt	29	45,311,446	29,178,397
Subordinated debt	30	18,732,569	17,981,996
		435,206,201	**386,890,247**
Shareholders' Equity			
Share capital	31(b)	16,202,000	2,792,000
Share premium	31(b)	18,090,228	17,995,751
Retained earnings		34,024,365	33,038,798
General provisions		2,727,744	2,520,857
Statutory reserve		4,558,858	-
Fair value reserve		217,700	217,700
		75,820,895	**56,565,106**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**511,027,096**	**443,455,353**

The financial statements set out on pages 27 to 95 were approved and authorised for issue by the Board of Directors on 21st March 2019 and were signed on its behalf by:

Name: Mr. Sarit S Raja Shah **Title:** Chairman **Signature:**

Name: Mr. Pratul H Shah **Title:** Director **Signature:**

The notes set out on pages 32 to 95 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 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	33,038,798	**2,520,857**	-	**217,700**	56,565,106
Day one transition adjustment (Note 37(b))	-	-	(637,722)	-	-	-	(637,722)
Deferred tax on transition adjustment	-	-	191,317	-	-	-	191,317
Adjusted balance 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 32 to 95 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

2017:	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 2017	2,792,000	17,995,751	28,781,302	2,703,950	-		52,273,003
Total comprehensive income for the year						-	4,875,706
Net Profit after tax	-	-	4,875,706	-	-	-	4,875,706
	-	-	**4,875,706**	-	-	-	
Other comprehensive income							
Transfer from general provisions			183,093	(183,093)	-	-	-
Revaluation-available for sale reserve	-	-	-	-	-	311,000	311,000
Deferred tax-available for sale	-	-	-	-	-	(93,300)	(93,300)
Total other comprehensive income	-	-	**183,093**	**(183,093)**	-	**217,700**	**217,700**
Total comprehensive income	-	-	**5,058,799**	**(183,093)**	-	**217,700**	**5,093,406**
Transactions with owners recorded directly in equity							
Interim dividend paid - declared in 2016	-	-	(801,303)	-	-	-	(801,303)
Total transactions with owners for the year	-	-	**(801,303)**	-	-	-	**(801,303)**
Balance as at 31 December 2017	**2,792,000**	**17,995,751**	**33,038,798**	**2,520,857**	-	**217,700**	**56,565,106**

The notes set out on pages 32 to 95 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

ASSETS	Note	2018 TZS'000	2017 TZS '000
Net cash flows (used in)/ generated from operating activities	**32(a)**	**(5,404,192)**	**13,654,826**
Cash outflows from investing activities			
Purchase of property and equipment	22	(608,595)	(892,766)
Purchase of intangible assets	23	(3,237,972)	(193,407)
Proceeds from disposal of property and equipment		10,637	511
Dividends received	13	8,780	6,754
Net cash used in investing activities		**(3,827,150)**	**(1,078,908)**
Cash inflows/(outflows) from financing activities			
Issue of shares		13,410,000	-
Dividend paid		-	(801,303)
Net cash inflows/(outflows) from financing activities		**13,410,000**	**(801,303)**
Net increase in cash and cash equivalents	**32(b)**	**4,178,658**	**11,774,615**
Cash and cash equivalents at start of the year	**32(b)**	**1,048,869**	**(10,725,746)**
Cash and cash equivalents at end of the year	**32(b)**	**5,227,527**	**1,048,869**

The notes set out on pages 32 to 95 form an integral part of these financial statements.

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 2018 were authorised for issue in accordance with a resolution of the Directors on 21 February 2019 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 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS). Additional information required by the regulatory bodies is included where appropriate.

This is the first set of the Bank's annual financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 4. Details of the significant accounting policies are included in Note 3.

(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) and buildings 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 6.

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:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Foreign currencies

Foreign currency transactions are translated into the functional currency of an entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss in the year in which they arise.

Foreign currency non-monetary items measured at fair value are translated into functional currency using the rate of exchange at the date the fair value was determined. Foreign currency gains and losses on non-monetary items are recognized in profit or loss. Foreign currency differences arising from available for sale equity investments (before 1 January 2018) or equity instruments in respect of which an election has been made to present subsequent changes in fair value in OCI (from 1 January 2018) are recognized in OCI.

(b) Income recognition

Policy applicable from 1 January 2018

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.

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 (or impairment allowance before 1 January 2018).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(b) Income recognition (continued)
Policy applicable from 1 January 2018 (continued)
(i) Net interest income - continued

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(b) Income recognition (continued)
Policy applicable from 1 January 2018 (continued)

(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.

Policy applicable before 1 January 2018
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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
Income tax expense (Continued)

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.

(f) Financial assets and financial liabilities
Policy applicable from 1 January 2018

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
Financial asset and liabilities (Continued)
(ii) Classification (Continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(f) Financial assets and liabilities (continued)
(ii) Classification - continued

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(f) Financial assets and liabilities (continued)
Policy applicable from 1 January 2018
(iii) Impairment - continued

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 and Other Comprehensive Income.

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.

(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 5(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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(f) Financial assets and liabilities (continued)
Policy applicable from 1 January 2018
(iii) Impairment - continued

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).

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.

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:

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(f) Financial assets and liabilities (continued)
Policy applicable from 1 January 2018

- *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; (See note 35)
- *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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)
(f) Financial assets and liabilities (continued)
Policy applicable from 1 January 2018 (Continued)

(v) Modifications of financial assets and financial liabilities
Financial assets Policy applicable from 1 January 2018

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.

Policy applicable before 1 January 2018

(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 at 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

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term

fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortized cost using the effective interest method. Loans and receivables compose of loans and advances and cash and cash equivalents.

Held to Maturity
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest rate method.

Available-for-sale
Available-for-sale financial investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any other category of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in other comprehensive income and presented in the available-for-sale fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is re-classified to profit or loss.

(iii) Identification and measurement of impairment of financial assets
At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably. The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial Assets and Liabilities (continued)

Policy applicable from 1 January 2018 (Continued)

by historical trends. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss recognised previously in profit or loss.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(iv) De-recognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognized as a separate asset or liability.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized 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. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

(v) 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.

(vi) Fair value of financial assets and financial liabilities

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.

(vii) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(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

(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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Operating Leases (Continued)

will flow to the Bank. On-going repairs and maintenance are expensed as incurred.

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

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:
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. The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding three years. 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.

(k) Operating leases

(i) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases arrangements (whether prepaid or post-paid) are charged to the profit or loss on a straight-line basis over the period of the lease.

(ii) Finance lease receivables

Minimum lease receipts are apportioned between the interest income and the reduction of outstanding asset. The interest income is allocated to each period during the lease term so as to produce a constant period of rate of interest on the remaining balance of the liability.

(l) 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.

(m) Employee Benefits

(i) Defined contribution plan

The Bank and its employees contribute to the publicly administered pension plans (NSSF or PSSSF) 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.

(n) 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.

(o) 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.

(p) 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.

(q) 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.

(r) Comparative Information

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

(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 2018, including consequential amendments to other standards with the date of initial application by the Bank

New Standard or Amendments	Effective for Annual Periods Beginning on or After
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments (2014)	1 January 2018
• IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018

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

being 1 January 2018. The nature and effects of the changes are as explained here in.

- *IFRS 15 Revenue from Contracts with Customers*
  This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

  The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when the Bank will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

  The Bank applied IFRS 15 on 1 January 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognised at the date of initial application as an adjustment to the opening balance of retained earnings as at 1 January 2018 without restating comparative periods.

  There was no material impact of application of IFRS 15 and no adjustment to retained earnings was required.

- *IFRS 9: Financial Instruments (2014)*
  On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

  The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

  As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

  The key changes to the bank accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 4a and Note 5a.

  Classification of financial assets and financial liabilities
  IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

  IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows.

  The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. For an explanation of how the Bank classifies financial assets under IFRS 9, see Note 3(f) (ii).

  IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

  For an explanation of how the Bank classifies financial liabilities under IFRS 9, see Note 3(f) (ii).

  Impairment of financial assets
  IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

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

  Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see Note 3(f) (iii) and Note 5(a).

  Transition
  Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

  Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9. The Bank used the exemption not to restate comparative periods.

  The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- Determination of factors to consider in determining whether there has been a significant increase in credit risk.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

  For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 4(a).

- *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*
  This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it).

  This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

  This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

(a) at fair value; or
(b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

  The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

  The adoption of this standard did not have a material impact on the bank's financial statements.

(ii) New and amended standards and interpretations in issue but not yet effective for the year ended 31 December 2018

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these financial statements.

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	1 January 2019
• IFRIC 23 Uncertainty over income tax treatments	1 January 2019
• IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
• Annual improvements cycle (2015-2017)	1 January 2019
• 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

The bank does not plan to adopt these standards early. These are summarised below:
All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity).

IFRS 16: Leases
On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments.
(b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
(c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a Company to recognise assets and liabilities for:
(a) short-term leases (i.e. leases of 12 months or less) and;
(b) leases of low-value assets

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted in so far as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

The Bank is currently in the process of assessing existing contractual relationships to identify the existing

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 2018 - continued

population of leases that would be recorded on the statement of financial position under the new standard. The Bank continues to evaluate the potential impact to the existing IT systems and processes and next steps include performing an initial quantification of the existing obligations and reviewing the additional disclosures required by the new standard. During 2019, the Bank will also complete its assessment of various practical expedients and formulate its accounting policies under IFRS 16.

- *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.

- *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.

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 2018 - continued

- *Annual improvement cycle (2015 – 2017) – various standards*

Standards	Amendments
IAS 12 Income taxes	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
IAS 23 Borrowing costs	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The adoption of these amendments is not expected to affect the amounts and disclosures of the Bank's financial statements.

The Bank did not early adopt new or amended standards in the year ended 31 December 2018.

- *Amendments to References to the Conceptual Framework in IFRS Standards*

This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.

The adoption of these changes will not affect the amounts and disclosures of the Bank's financial statements.

- *IAS 1 and IAS 8 Definition of Material*

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

5. FINANCIAL RISK MANAGEMENT (continued)
Financial Risk (continued)
Credit Risk (continued)

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Bank is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

4. CHANGES IN ACCOUNTING POLICIES

The Bank has initially adopted IFRS 9 (see a) and IFRS 15 (see b) from 1 January 2018. Also, the Bank early adopted Prepayment Features with Negative Compensation (Amendments to IFRS 9), issued in October 2017.

A number of other new standards are also effective from 1 January 2018 but they do not have a material effect on the Bank's financial statements.

Due to the transition method chosen by the Bank in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets;
- additional disclosures related to IFRS 9; and
- additional disclosures related to IFRS 15.

Except for the changes in Note 3(s)(i), the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

5. 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.

An assessment of the extent to which fair values of collaterals cover existing credit risk exposure on loans and

5. FINANCIAL RISK MANAGEMENT (continued)

Financial Risk (continued)

(a) Credit risk (continued)

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, FVOCI debt investments (2018) and available-for-sale debt assets (2017). 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.

Risk classification	12 month ECL (Stage 1) TZS '000	Lifetime ECL Not Credit Impaired (Stage 2) TZS '000	Lifetime ECL Credit Impaired (Stage 3) TZS '000	Total 31 December 2018 TZS '000	Total 31 December 2017 TZS '000
Loans and advances to Customers at amortised cost					
Normal (Stage 1)	272,854,841	-	-	272,854,841	45,213,088
Watch (Stage 2)	-	41,413,530	-	41,413,530	252,161,780
Non-Performing loans (Stage 3)	-	-	**47,838,377**	**47,838,377**	27,507,225
Gross Carrying Amount	**272,854,841**	**41,413,530**	**47,838,377**	**362,106,748**	**324,882,093**
Loss allowance	(516,388)	(401,066)	(15,791,062)	(16,708,516)	(12,625,057)
Carrying amount	**272,338,453**	**41,012,464**	**32,047,315**	**345,398,232**	**312,257,036**

The Company has estimated that the ECL for the following financial assets was not significant as at 31 December 2018. These financial assets have been assessed to be in Stage 1 (low credit risk).

	2018 TZS '000	2017 TZS '000
Balances with central banks	35,003,525	31,234,913
Items in the course of collection	22,900	96,349
Loans and advances to banks	7,838,743	1,467,105
Financial assets at fair value through other comprehensive income (FVOCI)	811,000	811,000
Other financial assets at amortised cost	98,884,257	81,084,838
Due from group companies	1,084,577	375,400
	143,645,002	115,069,605

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

Financial Risk (Continued)

(a) Credit risk (continued)

(i) Credit quality analysis -continued

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

Loans and advances to customers	2018 TZS '000	2017 TZS '000
Identified impairment:		
Grade 3: Substandard	25,179,072	15,375,449
Grade 4: Doubtful	14,090,437	8,506,062
Grade 5: Loss	8,568,868	3,625,714
	47,838,377	**27,507,225**
Specific allowance for impairment	(15,791,062)	(9,836,795)
Carrying amounts	**32,047,315**	**17,670,430**
Unidentified impairment:		
Grade 2: Watch	41,413,530	45,213,088
Grade 1: Normal	272,854,841	252,161,780
	314,268,371	**297,374,868**
Portfolio impairment provision	(917,454)	(2,788,262)
Carrying amounts	**313,350,917**	**294,586,606**
Total carrying amounts	**345,398,232**	**312,257,036**

Identified impairment:	Gross TZS '000	Net TZS '000
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**
31 December 2017		
Grade 3: Substandard	15,375,449	12,755,538
Grade 4: Doubtful	8,506,062	3,869,051
Grade 5: Loss	3,625,714	1,045,841
	27,507,225	**17,670,430**
Unidentified impairment:		
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**
31 December 2017		
Grade 1: Normal	252,161,780	**249,666,458**
Grade 2: Watch	45,213,088	**44,920,148**
	297,374,868	**294,586,606**

FINANCIAL RISK MANAGEMENT (continued)
Financial Risk (continued)
(a) Credit risk (continued)
(iii) Amount Arising from ECL

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.

(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 2018 or 2017.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2018 TZS '000	2017 TZS '000
Fair value of collateral held – against impaired loans	32,381,511	18,784,982

(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.

FINANCIAL RISK MANAGEMENT (continued)
Financial risk (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL –continued

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.

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].

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

RISING TO THE CUSTOMERS' NEEDS

Our customers are at the core of our business. We are honored to provide cutting edge solutions for their problems, inspired by their success because when they grow, we grow.

5. FINANCIAL RISK MANAGEMENT (continued)

Financial risk (Continued)

(a) Credit risk (continued)

(iii) Amounts arising from ECL –continued

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.

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.

5. 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)
Incorporation of forward-looking information - continued

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.

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 2018 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 1 month and Public debt to GDP ratio was lagged by 24 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%).

There were no forecasted predictions applicable to the retail portfolio that comprises of 4% of the total loan book due to the insignificant correlations established with the Banking Industry non-performing loans (NPL%) and

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

5. FINANCIAL RISK MANAGEMENT (continued)
Financial risk (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL –continued

volatility of the portfolio's historical default rates.

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.

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.

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.

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). Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

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

5. FINANCIAL RISK MANAGEMENT (continued)
Financial risk (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL –continued

Loans and advances to customers at amortised cost

	Provisions (ECL Allowance)				Exposure (Gross Balance)			
	12 month ECL (Stage 1) TZS '000	Lifetime ECL not credit impaired (Stage 2) TZS '000	Lifetime ECL credit impaired (Stage 3) TZS '000	Total TZS '000	12 month ECL (Stage 1) TZS '000	Lifetime ECL not credit impaired (Stage 2) TZS '000	Lifetime ECL credit impaired (Stage 3) TZS '000	Total 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)**	(33,805,751)	(1,238,318)	(3,735,461)	(38,779,530)
Balance at 31 December 2018	**516,388**	**401,066**	**15,791,062**	**16,708,516**	**272,854,842**	**41,413,529**	**48,672,671**	**362,941,042**

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

5. FINANCIAL RISK MANAGEMENT (continued)
Financial risk (continued)
(a) Credit risk (continued)
(iii) Amounts arising from ECL –continued

Loan Commitments and Financial Guarantee Contracts

	Provisions (ECL allowance)			Exposure (Gross balance)		
	12 month ECL (Stage 1) TZS '000	Lifetime ECL not credit impaired (Stage 2) TZS '000	Total TZS '000	12 month ECL (Stage 1) TZS '000	Lifetime ECL not credit impaired (Stage 2) TZS '000	Total 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 to 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**

(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:

	2018	2017
At 31 December	30%	28%
Average for the period	31%	31%
Highest for the period	37%	34%
Lowest for the period	25%	28%

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 2018 and 2017 to the contractual maturity date

31 December 2018	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	Total TZS '000
LIABILITIES					
Deposits from banks	19,028,983	-	-	-	**19,028,983**
Deposits from customers	121,461,792	58,049,333	140,071,597	9,484,448	**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	250,251	69,754	-	44,991,441	**45,311,446**
Subordinated debt	-	-	292,569	18,440,000	**18,732,569**
At 31 December 2018	**144,503,742**	**76,711,759**	**140,364,166**	**72,915,889**	**434,495,556**

31 December 2017	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	Total TZS '000
LIABILITIES					
Deposits from banks	14,525,748	-	-	**-**	**14,525,748**
Deposits from customers	137,260,146	48,584,086	130,768,382	**2,989,515**	**319,602,129**
Due to group companies	481,666	-	-	**-**	**481,666**
Other liabilities	736,398	4,262,071	-	**-**	**4,998,469**
Long term debt	1,384,680	478,303	6,325,823	**20,989,591**	**29,178,397**
Subordinated debt	-	61,997	-	**17,919,999**	**17,981,996**
At 31 December 2017	**154,388,638**	**53,386,457**	**137,094,205**	**41,899,105**	**386,768,405**

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

5. 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

Exposure to interest rate risk

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
FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

5. FINANCIAL RISK MANAGEMENT (continued)
(c) Market risk (continued)
Exposure to interest rate risk - continued

31 December 2018	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	-	-	-	-	-	-	42,423,289	42,423,289
Items in the course of		-	-	-	-	-	22,900	22,900
collection	-	7,838,743	-	-	-	-	-	7,838,743
Loans and advances to banks	3.20%	345,398,232	-	-	-	-	-	345,398,232
Loans and advances to customers	10.46%	-	-	-	-	-		
Financial assets measured at fair value through other comprehensive income (FVOCI)							811,000	811,000
Other financial assets at amortised cost	9.20%	-	8,879,743	35,896,607	37,965,863	16,142,044	-	98,884,257
Due from group companies	3.20%	-	-	-	-	-	1,084,577	1,084,577
Other assets	-	-	-	-	-	-	1,933,743	1,933,743
At 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%	63,048,701	58,049,333	140,071,597	9,484,448	-	58,413,091	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%	250,251	69,754	-	44,991,441	-	-	45,311,446
Subordinated debt	9.03%	-	-	292,569	18,440,000	-	-	18,732,569
At 31 December 2018		**82,327,935**	**75,454,419**	**140,364,166**	**72,915,889**	**-**	**63,433,147**	**434,495,556**
Interest rate gap		**270,909,040**	**(66,574,676)**	**(104,467,559)**	**(34,950,026)**	**16,142,044**	**(17,157,638)**	**63,901,185**

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

5. FINANCIAL RISK MANAGEMENT (continued)
(c) Market risk (continued)
Exposure to interest rate risk - continued

31 December 2017	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	-	-	-	-	-	-	36,612,816	36,612,816
Items in the course of collection	-	-	-	-	-	-	96,349	96,349
Loans and advances to banks	3.00%	1,467,105	-	-	-	-	-	1,467,105
Loans and advances to customers	9.98%	309,471,545	377	60,126	1,545,271	1,179,717	-	312,257,036
Financial assets measured at fair value through other comprehensive income (FVOCI)		-	-	-	-	-	811,000	811,000
Investment securities	13.03%	12,031,630	7,481,910	44,424,923	9,406,527	7,739,848	-	81,084,838
Due from group companies	-	-	-	-	-	-	375,400	375,400
Other assets	-	-	-	-	-	-	1,610,608	1,610,608
At 31 December 2017		**322,970,280**	**7,482,287**	**44,485,049**	**10,951,798**	**8,919,565**	**39,506,173**	**434,315,152**
LIABILITIES								
Deposits from banks	3.00%	-	14,525,748	-	-	-	-	**14,525,748**
Deposits from customers	4.58%	10,591,347	48,584,086	130,768,382	2,989,514	-	126,668,800	**319,602,129**
Due to group companies	-	-	-	-	-	-	481,666	**481,666**
Other liabilities	-	-	-	-	-	-	4,998,469	**4,998,469**
Long term debt	7.66%	26,438,673	2,739,724	-	-	-	-	**29,178,397**
Subordinated debt	7.87%	-	17,981,996	-	-	-	-	**17,981,996**
At 31 December 2017		**37,030,020**	**83,831,554**	**130,768,382**	**2,989,514**	**-**	**132,148,935**	**386,768,405**
Interest rate gap		**285,940,260**	**(76,349,267)**	**(86,283,333)**	**7,962,284**	**8,919,565**	**(92,642,762)**	**47,546,747**

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

5. FINANCIAL RISK MANAGEMENT (continued)
(c) Market risk (continued)
Exposure to interest rate risk - continued

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.

Sensitivity Analysis

31 December 2018	**Profit or loss**	**Equity net of tax**
200 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.

31 December 2017	**Profit or loss**	**Equity (net of tax)**
100 basis points	**Increase/decrease in basis points ('000)**	**Increase/decrease in basis points ('000)**
Assets	3,948,090	2,763,663
Liabilities	(2,546,195)	(1,782,336)
Net position	**1,401,895**	**981,327**

An increase of 100 basis points in interest rates at the reporting date would have increased equity (net of tax) by TZS 981.3 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.

5. FINANCIAL RISK MANAGEMENT (continued)
(c) Market risk (continued)
(c) Market Risk (continued)
Currency Rate Risk

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 2018 and 31 December 2017.

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)**

At 31 December 2017	USD TZS '000	GBP TZS '000	Euro TZS '000	Other TZS '000	Total TZS '000
ASSETS					
Cash and balances with Bank of Tanzania	8,177,675	2,111,775	438,347	155,406	10,883,202
Items in the course of collection	310,400	-	-	-	310,400
Loans and advances to customers	245,589,112	-	-	-	245,589,112
Other assets	34,916	-	-	-	34,916
At 31 December 2017	**254,112,103**	**2,111,775**	**438,347**	**155,406**	**256,817,631**
LIABILITIES					
Deposits from banks	8,960,000	-	-	-	8,960,000
Deposits from customers	190,657,500	2,113,624	437,828	-	193,208,952
Other liabilities	9,508,962	8,788	648	193,613	9,712,012
Long-term borrowings	25,514,717	-	-	-	25,514,717
Subordinated debt	17,981,996	-	-	-	17,981,996
At 31 December 2017	**252,623,175**	**2,122,412**	438,476	**193,613**	**255,377,676**
Overall net position – 2017	**1,488,927**	**(10,637)**	**(130)**	**(38,207)**	**1,439,954**

5. FINANCIAL RISK MANAGEMENT (continued)
(c) Market risk (continued)
(c) Market Risk (continued)
Currency Rate Risk

Sensitivity analysis

At 31 December 2018	Profit or loss Strengthening/weakening of currency TZS '000	Equity net of tax Strengthening/ weakening of currency 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. The analysis assumes that all other variables in particular foreign currency exchange rates remain constant.

At 31 December 2017	Profit or loss Strengthening/weakening of currency TZS '000	Equity net of tax Strengthening/ weakening of currency TZS '000
USD (± 1% movement)	14,889	10,422
GBP (± 1% movement)	(106)	(74)
EUR (± 1% movement)	(1)	(1)
Net Position	**14,782**	**10,347**

A depreciation of TZS by 100 basis points in the currency rates at the reporting date would have increased equity (net of tax) by TZS 10.3 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
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 50 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

5. FINANCIAL RISK MANAGEMENT (Continued)
(d) Capital management (continued)

to restore the capital conservation buffer.

The Bank's regulatory capital position at 31 December 2018 was as follows:

		2018 TZS '000	2017 TZS '000
Core capital (Tier 1)			
Share capital		16,202,000	2,792,000
Share premium		18,090,228	17,995,751
Retained earnings		34,024,365	33,038,798
		68,316,593	**53,826,549**
Less: Prepaid expenses		(1,636,884)	(1,379,744)
Deferred tax asset		(4,894,725)	(3,550,713)
Intangible assets		(3,357,199)	(639,227)
Total Core capital		**58,427,785**	**48,256,865**
Supplementary capital (Tier 2)			
Term subordinated debt		12,908,000	14,336,000
General provisions		2,727,744	2,520,857
Statutory reserve		4,558,858	-
Fair value reserve		217,700	217,700
		20,412,302	**17,074,557**
Total capital		**78,840,087**	**65,331,422**
Risk weighted assets			
On balance sheet		338,717,810	303,547,002
Off balance sheet		48,782,755	38,592,243
Capital charge on operational risk		37,249,585	32,382,065
Capital charge for market risk		2,312,875	572,730
Total risk weighted assets		**427,063,026**	**375,094,040**
Capital ratios	Minimum*	Ratio	Ratio
Core capital /Total risk weighted assets	10%	**13.68%**	**12.87%**
Total capital /Total risk weighted assets	12%	**18.46%**	**17.42%**

* The minimum as defined by Bank of Tanzania

As at 31 December, 2018, the Bank had a capital conservation buffer of 3.68% and 6.46% for Tier 1 and Tier 2 Capital respectively.

(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.

6. 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

5. USE OF ESTIMATES AND JUDGEMENT (Continued)

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.

7. 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.

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

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE

31 December 2018	Carrying Amounts					Fair Value		
	Financial assets at amortised cost TZS '000	Financial assets at FVOCI TZS '000	Financial assets at FVTPL TZS '000	Other financial liabilities TZS '000	Total TZS '000	Level 2 TZS '000	Level 3 TZS '000	Total TZS '000
Financial assets								
Cash and balances with Bank of Tanzania	-	42,423,289	-	-	**42,423,289**	-	-	-
Items in the course of collection	-	-	-	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**	-	-	-
Loans and advances to customers	-	345,398,232	-	1,084,577	**345,398,232**	-	-	-
Due from group companies	-	-	-	1,933,743	**1,084,577**	-	-	-
Other assets	-	-	-		**1,933,743**	-	-	-
	98,884,257	**396,471,264**		**3,041,220**	**498,396,741**	**98,884,257**	**811,000**	**99,695,257**
Financial liabilities								
Deposits from banks	-	-	-	19,028,983	**19,028,983**	-	-	-
Deposits from customers	-	-	-	329,067,170	**329,067,170**	-	-	-
Due to group companies	-	-	-	17,335,332	**17,335,332**	-	-	-
Long term borrowings	-	-	-	45,311,446	**45,311,446**	-	-	-
Subordinated debt	-	-	-	18,732,569	**18,732,569**	-	-	-
	-	-	-	**429,475,500**	**429,683,285**	-	-	-

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

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)
Accounting classifications at carrying amounts and fair values – continued

31 December 2017	Carrying Amounts					Fair Value		
	Held to maturity TZS '000	Loans and receivables TZS '000	Available -for-sale TZS '000	Other amortised cost TZS '000	Total TZS '000	Level 2 TZS '000	Level 3 TZS '000	Total TZS '000
Financial assets								
Cash and balances with Bank of Tanzania	-	36,612,816	-	-	**36,612,816**		-	-
Items in the course of collection	-	-	-	96,349	**96,349**		-	-
Investment securities	81,084,838	-	811,000	-	**81,895,838**	**81,084,838**	**811,000**	81,895,838
Loans and advances to banks	-	1,467,105	-	-	**1,467,105**		-	-
Loans and advances to customers	-	312,257,036	-	-	**312,257,036**		-	-
Due from group companies	-	-	-	375,400	**375,400**		-	-
Other assets	-	-	-	1,610,608	**1,610,608**		-	-
	81,084,838	**350,336,957**	**811,000**	**2,082,357**	**434,315,152**	**81,084,838**	**811,000**	**81,895,838**
Financial liabilities								
Deposits from banks	-	-	-	**14,525,748**	**14,525,748**		-	-
Deposits from customers	-	-	-	**319,602,129**	**319,602,129**		-	-
Due to group companies	-	-	-	**481,666**	**481,666**		-	-
Long term borrowings	-	-	-	**29,178,397**	**29,178,397**		-	-
Subordinated debt	-	-	-	**17,981,996**	**17,981,996**		-	-
	-	-	-	**381,769,936**	**381,769,936**	-	-	-

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

Financial assets measured at fair value - At 31 December 2018 and 31 December 2017

SUSTAINING THE PROGRESS

Sustainable growth ensures a future for our youth. Our roots are steadily ingrained by our desire to enrich the lives of all our stakeholders, because success tastes better shared.

7. FAIR VALUE HEIRARCHY FOR ASSETS CARRIED AT FAIR VALUE (Continued)

8. INTEREST INCOME

	2018 TZS '000	2017 TZS '000
Loans and advances to customers	34,894,241	31,829,689
Loans and advances to banks	102,783	428,100
Investment securities:-		
- At amortised cost (2017: Loans and receivables)	9,286,239	9,482,460
	44,283,263	**41,740,249**

9. INTEREST EXPENSE

Deposits from customers	14,328,486	14,120,997
Deposits from banks	1,086,389	495,673
Long term debt	1,750,482	1,895,171
Subordinated debt	1,762,830	1,363,712
	18,928,187	**17,875,553**

10. NET FEE AND COMMISSION INCOME

Fee and Commission income		
Commissions	3,818,048	3,250,955
Service fees	2,286,104	1,713,392
	6,104,152	**4,964,347**
Fees and Commission expense		
Interbank transaction fees	(250,641)	(320,007)
Net fee and commission income	**5,853,511**	**4,644,340**

11. NET TRADING INCOME

Income from foreign exchange dealings	**3,007,307**	**2,032,960**

12. OTHER OPERATING INCOME

Profit on sale of property and equipment	5,251	-
Other income	297,904	233,445
	303,155	**233,445**

13. DIVIDEND INCOME

Dividend income-Tanzania Mortgage Refinancing Company Limited	**8,780**	**6,754**

14. OPERATING EXPENSES

	2018 TZS '000	2017 TZS '000
Staff costs		
Salaries and wages	6,266,218	6,192,120
Statutory contribution	600,643	566,016
Other staff costs	2,571,479	2,339,880
	9,438,340	**9,098,016**
Premises and equipment costs		
Rental of premises	1,292,087	1,321,689
Utilities	184,609	173,875
Other premises and equipment costs	122,670	118,976
	1,599,366	**1,614,540**
General administrative expenses		
Deposit protection insurance contribution	470,161	453,610
Loss on disposal of property and equipment	102,092	1,321
Other general administrative expenses	6,405,312	6,823,688
	6,977,565	**7,278,619**
Depreciation and Amortisation		
Depreciation on property and equipment (Note 22)	1,064,631	936,483
Amortisation of intangible assets (Note 23)	520,000	487,843
	1,584,631	**1,424,326**

15. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging /(crediting):		
Depreciation	1,064,631	936,483
Amortisation of intangible assets	520,000	487,843
Directors' emoluments: -fees	144,176	149,471
Directors' emoluments: -other	69,031	57,839
Auditors' remuneration	175,914	153,483
Net profit (Loss) on sale of property and equipment	5,251	(1,321)

16. INCOME TAX EXPENSE AND TAX PAYABLE

		2018 TZS '000	2017 TZS '000
(a)	**Income tax expense**		
	Current year's tax at 30%	3,966,728	3,559,030
	Deferred tax credit -Prior year (Note 24)	-	(36,068)
		3,966,728	**3,522,962**
	-Current year (Note 24)	(1,152,695)	(1,431,001)
	Income tax expense	**2,814,033**	**2,091,961**
	The tax on the company`s profit differs from the theoretical amount using the basic tax rate as follows:		
(b)	**Accounting profit before tax**	**9,011,750**	**6,967,667**
	Computed tax using the applicable corporation tax rate at 30%	2,703,525	2,090,300
	Effect on non-deductible costs /non-taxable income	110,508	37,729
	Under provision in prior year - deferred tax	-	(36,068)
		2,814,033	**2,091,961**
(c)	**Tax Payable/(Recoverable)**		
	At 1 January	121,842	152,260
	Income tax expense (Note 16(a))	3,966,728	3,559,030
	Tax paid (Note 32)	(3,377,925)	(3,589,448)
	At 31 December	**710,645**	**121,842**

17. CASH AND BALANCES WITH BANK OF TANZANIA

Cash on hand	7,419,764	5,377,903
Balances with Bank of Tanzania:		
• Restricted balances (Cash reserve ratio)	26,028,422	22,601,653
• Unrestricted balances	8,975,103	8,633,260
	42,423,289	**36,612,816**

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 2018, the cash ratio requirement was 10.0% (2017: 10.0%) of eligible deposits

18. ITEMS IN THE COURSE OF COLLECTION

	2018 TZS '000	2017 TZS '000
Assets	**22,900**	**96,349**

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

19. LOANS AND ADVANCES TO BANKS

	2018 TZS '000	2017 TZS '000
Due within 90 Days	**7,838,743**	**1,467,105**

20. LOANS AND ADVANCES TO CUSTOMERS

(a) Classification

Overdrafts	119,270,096	128,720,577
Loans	242,836,652	196,161,516
Gross loans and advances	**362,106,748**	**324,882,093**
Less: Impairment losses on loans and advances	(16,708,516)	(12,625,057)
Net loans and advances	**345,398,232**	**312,257,036**

(b) Impairment losses reserve

	Specific impairment allowance TZS '000	Portfolio impairment allowance TZS '000	Total TZS '000
At 1 January 2017	6,520,528	1,705,502	8,226,030
Impairment made for the year	4,356,151	1,082,760	5,438,911
Write offs	(1,039,884)	-	(1,039,884)
At 31 December 2017	**9,836,795**	**2,788,262**	**12,625,057**

The 2018 movement in impairment loss reserves in compliance with IFRS 9 is disclosed on Note 5(a).

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

(c) Impairment losses on loans and advances

	2018			2017
	Loans and advances to Customers at amortised cost TZS '000	Loan commitments and financial guarantee contracts TZS '000	Total TZS '000	Loans and advances to Customers TZS '000
Net remeasurement of loss allowance	5,712,052	10,027	5,722,079	4,208,047
New financial assets originated or purchased	180,851	13,247	194,098	-
	5,892,903	23,274	**5,916,177**	**4,208,047**
Amounts directly written off during the year	-	-	-	190,980
	5,892,903	23,274	**5,916,177**	**4,399,027**

(d) Non-performing loans and advances

Non-performing loans and advances net of impairment losses and estimated value of securities are disclosed in Note 5(a)

	2018 TZS '000	2017 TZS '000
Interest on impaired loans and advances which has not yet been received in cash	**7,943,232**	**4,119,998**

(e) Loans and advances concentration by sector

	2018		2017	
	TZS '000	%	TZS '000	%
Manufacturing	82,348,470	23%	71,887,280	22%
Wholesale and retail trade	52,340,440	14%	61,586,009	19%
Building and construction	9,090,300	3%	8,449,970	3%
Agriculture	15,417,600	4%	10,552,050	3%
Real estate	87,162,000	24%	76,998,460	24%
Transport and communication	20,372,390	6%	26,572,940	8%
Business services	50,369,840	14%	32,664,833	10%
Mining and quarrying	8,923,980	2%	8,065,390	2%
Others	36,081,728	10%	28,105,161	9%
	362,106,748	**100%**	**324,882,093**	**100%**

21. FINANCIAL ASSETS

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

	2018 TZS '000	2017 TZS '000
Equity investment	811,000	811,000

(b) Other financial assets at amortised cost

	2018 TZS '000	2017 TZS '000
Treasury bonds (Non Liquid)	57,291,631	24,209,076
Treasury bills (Non Liquid)	41,592,626	56,875,762
	98,884,257	**81,084,838**

The change in the carrying mount 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 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**
	-	-	-
At 1 January 2017	-	-	-
Additions	86,440,438	-	86,440,438
Disposals and maturities	(63,677,836)	-	(63,677,836)
Revaluation gain	-	311,000	311,000
Amortisation of discounts and premiums	58,322,236	500,000	58,822,236
At 31 December 2017	**81,084,838**	**811,000**	**81,895,838**

22. PROPERTY AND EQUIPMENT

2018	Leasehold improvements TZS '000	Furniture, fittings, fixtures and office equipment TZS '000	Computers TZS '000	Motor Vehicles TZS '000	Capital work in progress TZS '000	Total 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
Disposals	(958)	-	(10,088)	(33,000)	-	(44,046)
Reclassification/internal transfers	122,951	-	-	-	**(122,951)**	-
Write offs	(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	(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. PROPERTY AND EQUIPMENT (Continued)

2017	Leasehold improvements TZS '000	Furniture, fittings, fixtures and office equipment TZS '000	Computers TZS '000	Motor Vehicles TZS '000	Capital work in progress TZS '000	Total TZS '000
Cost/ Valuation						
At 1 January 2017	2,914,590	2,390,665	2,398,008	313,226	-	8,016,489
Additions	616,236	79,070	13,084	61,425	122,951	892,766
Disposals	-	-	(12,822)	(14,350)	-	(27,172)
Reclassification/internal transfers	-	1,729,613	(1,729,613)	-	-	-
Write offs/Back	-	(25,893)	(6,205)	-	-	(32,098)
At 31 December 2017	**3,530,826**	**4,173,455**	**662,452**	**360,301**	**122,951**	**8,849,985**
Depreciation						
At 1 January 2017	1,138,984	908,233	824,931	142,907	-	3,015,055
Reclassification	-	465,675	(465,675)	-	-	-
On disposals	-	-	(11,986)	(13,354)	-	(25,340)
Charge for the year	308,182	434,880	126,588	66,833	-	936,483
Write offs/Back	-	(20,934)	(5,540)	-	-	(26,474)
At 31 December 2017	**1,447,166**	**1,787,854**	**468,318**	**196,386**	**-**	**3,899,724**
Net book value at 31 December 2017	**2,083,660**	**2,385,601**	**194,134**	**163,915**	**122,951**	**4,950,261**

23. INTANGIBLE ASSETS

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**
2017			
Cost	**Computer Software TZS '000**	**Capital work in progress TZS '000**	**Total TZS '000**
At 1 January 2017	**2,538,948**	-	**2,538,948**
Additions	193,407	-	193,407
At 31 December 2017	**2,732,355**	-	**2,732,355**
Amortisation			
At 1 January 2017	**1,605,285**	-	**1,605,285**
Amortisation for the year	487,843	-	487,843
At 31 December 2017	**2,093,128**	-	**2,093,128**
Carrying amount at 31 December 2017	**639,227**	-	**639,227**

24. DEFERRED TAX ASSET

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**

2017	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	(416,866)	36,068	-	-	(380,798)
General provisions	2,593,810	-	-	1,431,001	4,024,811
Available-for-sale reserves	-	-	(93,300)	-	(93,300)
	2,176,944	**36,068**	(93,300)	1,431,001	**3,550,713**

25. OTHER ASSETS

	2018 TZS '000	2017 TZS '000
Prepayments	1,636,884	1,379,744
Other receivables	296,859	230,864
	1,933,743	**1,610,608**

26. DEPOSITS FROM BANKS

	2018 TZS '000	2017 TZS '000
Due within 90 Days	**19,028,983**	**14,525,748**

27. DEPOSITS FROM CUSTOMERS

	2018 TZS '000	2017 TZS '000
Government and Parastatals	16,745,381	19,188,394
Private sector and individuals	312,321,789	300,413,735
	329,067,170	**319,602,129**

28. OTHER LIABILITIES

	2018 TZS '000	2017 TZS '000
Accruals	1,586,407	1,582,630
Other accounts payables	2,871,945	3,055,709
Provisions for loan commitments*	207,785	-
Bankers cheques payable	353,919	360,130
	5,020,056	**4,998,469**

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

29. LONG TERM BORROWINGS

	2018 TZS '000	2017 TZS '000
Less than one year	320,005	3,601,683
One to five years	44,991,441	25,576,714
	45,311,446	**29,178,397**
Loan movement schedule		
At 1 January	29,178,398	35,743,995
Funds received	23,050,000	-
Payments on principal and interest	(9,057,931)	(7,632,708)
Interest payable	320,005	351,683
Accrued Interest	1,078,793	-
Translation differences	742,181	715,427
At 31 December	**45,311,446**	**29,178,397**

29. LONG TERM BORROWINGS (Continued)

PROPARCO
The long term borrowing of USD 5 million was granted on 3 July 2012 by PROPARCO. The facility is repayable in semi - annual instalments with a final repayment date of 31 October 2019. The loan bears a floating interest rate. The effective interest rate on the long term borrowing is 5.64%.

TMRC (Tanzania Mortgage Refinance Company Limited)
The long term borrowing of TZS 3,250 million was granted into two tranches with an effective interest rate on the long term borrowing is 9.0% p.a. TZS 1,800 million a refinance facility was granted on 13th August 2018 for tenure of 5 years, while TZS 1,450 million was granted on 30th August 2018 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 7.07% 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 6.68% p.a.

30. SUBORDINATED DEBT

	2018 TZS '000	2017 TZS '000
Less than one year	292,569	61,996
One to five years	18,440,000	17,920,000
	18,732,569	17,981,996

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 9.06%.

31. SHARE CAPITAL AND RESERVES

(a) Authorized share capital	Number of shares	TZS 000
2018		
Authorized - Ordinary A Class Shares		
1 January 2018 (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	**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**
2017	**Number of shares**	**TZS 000**
Authorized - Ordinary A Class Shares		
At 31 December 2017 (par value TZS 1,000,000 each)	**10,000**	**10,000,000**

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

31. SHARE CAPITAL AND RESERVES

(b) Issued and fully paid up share capital	Number of shares	Share Capital TZS '000	Share Premium TZS '000
Ordinary A Class Shares			
1 January 2018 (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 TZS '000**	**Share Premium TZS '000**
2018			
Ordinary B Class Shares			
Allocation of shares	13,410	13,410,000	94,477
At 31 December	**13,410**	**13,410,000**	**94,477**
	Number of shares	**Share Capital TZS '000**	**Share Premium TZS '000**
2017			
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**

(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.

32. NOTES TO THE STATEMENT OF CASH FLOWS

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

	Note	2018 TZS '000	2017 TZS '000
Cash flows from operating activities			
Profit before income tax		9,011,750	6,967,667
Adjustments for:			
Depreciation	22	1,064,631	936,483
Amortisation of intangible asset	23	520,000	487,843
Profit (loss) on sale of property and equipment		(5,251)	1,321
Write off - property and equipment		110,408	5,624
Exchange loss on borrowings		1,492,755	1,197,501
Dividend income	13	(8,780)	(6,754)
		12,185,513	**9,589,685**
Increase/(decrease) in operating assets			
Movement in loans and advances to customers		(33,571,132)	(13,943,513)
Investment in securities		(17,799,419)	(22,762,602)
Due from group companies		(709,177)	-
Loans and advances from Banks		-	9,365,227
Cash and balances with Bank of Tanzania:			
– Cash Reserve Ratio		(3,426,769)	6,940,174
Other assets		(228,658)	(40,010)
		(55,735,155)	**(20,440,724)**
Increase/(decrease) in operating liabilities			
Customer deposits		9,465,041	34,913,291
Net inflow/(outflow) from long-term borrowings		15,390,868	(7,281,025)
Balances due to group companies		16,853,666	(1,175,999)
Other liabilities		(186,200)	1,639,046
		41,523,375	**28,095,313**
Cash (outflows)/inflows generated from operating activities		**(2,026,267)**	**17,244,274**
Tax paid	16(c)	(3,377,925)	(3,589,448)
Net cash (outflows)/inflows from operating activities		**(5,404,192)**	**13,654,826**

(b) Analysis of cash and cash equivalents

	Note	2018 TZS '000	2017 TZS '000	Change TZS '000
Cash and balances with Bank of Tanzania – excluding SMR	17	16,394,867	**14,011,163**	2,383,704
Items in the process of collection	18	22,900	**96,349**	(73,449)
Loans and advances to banks	19	7,838,743	**1,467,105**	6,371,638
Deposits from banks	26	(19,028,983)	**(14,525,748)**	(4,503,235)
		5,227,527	**1,048,869**	**4,178,658**

33. 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:

Contingencies related to:	2018 TZS '000	2017 TZS '000
Letters of credit	32,946,527	21,943,934
Guarantees	24,495,770	11,935,408
Acceptances/undrawn balance	19,956,645	25,797,588
	77,398,942	**59,676,930**

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.

34. RELATED PARTY TRANSACTIONS

In the normal course of business, the Company enters into transactions with related parties. The related party transactions are at arm's length. 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

	2018 TZS '000	2017 TZS '000
(a) Directors and key management personnel: Loans		
Loans outstanding at the beginning of the year	1,465,252	1,714,252
Loans issued during the year	50,000	20,000
Loan repayments during the year	(155,579)	(269,000)
Loans outstanding at the end of the year	**1,359,673**	**1,465,252**
Interest income earned	**137,076**	**196,688**
(b) Directors and key management personnel: Deposits		
Deposits at the beginning of the year	6,842,152	4,971,664
Deposits received during the year	256,092	4,740,885
Deposits repaid during the year	(2,471,680)	(2,870,397)
Deposits at the end of the year	**4,626,564**	**6,842,152**
Interest expense	**116,069**	**154,757**
(c) Amount due to/from related companies		
Amounts due from I&M Bank Limited - Holding Company	1,084,577	375,400
Amounts due to I&M Bank Limited - Holding Company	17,335,332	481,666
Amounts due to Bank one - Mauritius	11,525,973	-

34. RELATED PARTY TRANSACTIONS (Continued)

	2018 TZS '000	2017 TZS '000
(d) Key management compensation		
Salaries and other short-term benefits	1,997,898	1,968,635
Post-employment benefits	168,782	155,054
	2,166,680	**2,123,689**
Key management comprise of CEO and all heads of department.		
Directors' remuneration-made up of short-term benefits	**144,176**	**149,471**
(e) Management fees		
Management fees paid to I&M Bank Ltd	**972,071**	**934,207**

(f) Long term borrowing
On 3rd July 2012, the Bank obtained an unsecured long term borrowing of USD 5 million from PROPARCO, a 4.62% shareholder of the Bank. For more details refer to note 28. As at 31st December 2018, the outstanding was USD 909,084.95 (Equivalent to TZS 2,095 million).

35. CAPITAL COMMITMENTS

	2018 TZS '000	2017 TZS '000
Capital commitments	**16,683,479**	**7,152,188**

36. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

(a) Lessee
The Bank leases 10 bank premises under operating leases. The leases typically run for an initial period of six years with an option to renew the lease after that date. None of the leases include contingent rentals. During the year, TZS 1,292 Million (2017 – TZS 1,320 Million) was charged to the Profit or loss statement in respect of operating leases. Future minimum lease payments under these operating leases are as follows:

	2018 TZS '000	2017 TZS '000
Less than one year	120,005	47,272
One to five years	2,836,570	3,941,939
	2,956,575	**3,989,211**

37. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9
The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 31 December 2017.

	31 December 2017			1 January 2018	
	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 TZS '000	Re-measurement* TZS '000	New carrying amount under IFRS 9 TZS '000
Financial assets					
Cash and bank balances with Central bank	Loans and receivables	Amortised cost	36,612,816	-	36,612,816
Items in the course of collection			96,349	-	96,349
Loans and advances to banks			1,467,105	-	1,467,105
Loans and advances from customers			312,257,036	(637,722)	311,619,314
Financial assets measured at fair value through other comprehensive income (FVOCI)	Available for sale	FVOCI	811,000	-	811,000
Other financial assets at amortised cost	Held to maturity		81,084,838	-	81,084,838
Due from related parties	Loans and receivables	Amortised cost	375,400	-	375,400
Total financial assets			**432,704,544**	**(637,722)**	**432,066,822**

*Day one transition adjustment Note 4(a).

37. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (Continued)

	31 December 2017			1 January 2018	
	Original classification under IAS 39	**New classification under IFRS 9**	**Original carrying amount under IAS 39 TZS '000**	**Re-measurement* TZS '000**	**New carrying amount under IFRS 9 TZS '000**
Financial assets	Amortised cost	Amortised cost			
Deposit from banks			319,602,129	-	319,602,129
Deposits from customers			319,602,129	-	319,602,129
Amounts due to group companies			481,666	-	481,666
Other liabilities			4,998,469	-	4,998,469
Long term debt			29,178,397	-	29,178,397
Subordinated debt			17,981,996	-	17,981,996
Total financial liabilities			**691,844,786**	-	**691,844,786**

The application of the Company's policies in line with IFRS 9 did not result in any reclassification.

37. IFRS 9 TRANSITION ON THE DATE OF INITIAL APPLICATION (Continued)

(b) Day one IFRS 9 transition adjustment on impairment loss allowance

	12 month ECL (Stage 1) TZS '000	Lifetime ECL not credit impaired (Stage 2) TZS '000	Total TZS '000
Day one adjustment			
Loans and advances to Customers at amortised cost	311,122	142,089	453,211
Loan commitments and financial guarantee contracts	184,511	-	184,511
	495,633	**142,089**	**637,722**

38. 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.

UPLIFTING THE COMMUNITY

We are only as strong as the community we are in. We pride ourselves in developing our community and investing in their social - economic welfare.

Corporate Social Responsibility Initiatives

DONATION TO SUPPORT SEKOU TOURE HOSPITAL AND CORNEL NGALEKU CHILDREN'S CENTER

The Bank donated TZS 10,000,000/= to improve services at the pediatric ward in Sekou Toure Hospital in Mwanza, which is a state-owned hospital. The handover event was graced by Ilemela District Commissioner on behalf of Mwanza Regional Commissioner. In addition, the Bank continued to support the Cornel Ngaleku Children's Centre through staff and customers' donations at the teller counters in all branches. On the other hand, for the second consecutive year the Bank has kept donation boxes for Cornel Ngaleku Children's Centre at the teller counters at all branches.

Corporate Social Responsibility Initiatives

PARTICIPATION IN THE AUTISM AWERENESS WALK

For third consecutive year, the Bank partnered with Al Muntazir Special Education Needs in hosting World Autism Day-Awareness Walk, which was held in Dar es Salaam on March 25, 2018. The walk aims to raise awareness and contribute in changing the future for all those who are struggling with autism.

The Bank contributed $5000 for the walk to support activities aimed at supporting victims of Autism. The walk was graced by Deputy Speaker of Tanzania National Assembly, Dr. Tulia Ackson Mwansasu, Deputy Minister Health, Community Development, Gender, Elderly and Children, Dr. Faustine Ndugulile and other members of parliament.

World Autism Awareness Day celebrates the unique talents and skills of persons with autism and is a day when individuals with autism are warmly welcomed in community events around the globe.

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CREATING SUSTAINABLE GROWTH