TANZANIA

FINANCIAL STATEMENTS 2018

BANK OF AFRICA
Groupe BMCE BANK

Contents

Opening date: October 2007

Created in 1995: EURAFRICAN BANK - TANZANIA Ltd (EBT).

Integrated into BOA network in 2007.

Capital as at 31/12/2018

Tanzanian Shillings (TZS) 37.021 billion

Board of Directors as at 31/12/2018

Mwanaidi SINARE MAAJAR, Chairman
Amine BOUABID
Abdelkabir BENNANI
Vincent de BROUWER
Henri LALOUX
Moremi MARWA
Georgia MUTAGAHWA
Ghali LAHLOU
Joseph IHA

Auditors

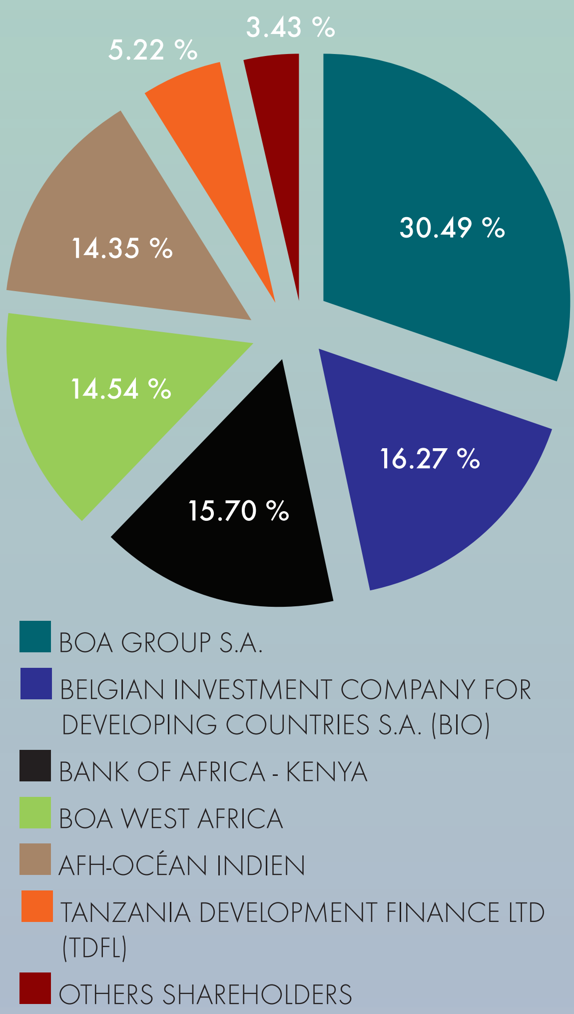
PRICE WATERHOUSE COOPERS

Registered office

NDC Development House - Ohio Street
Kivukoni Front
P.O. Box 3054 - Dar Es Salaam - TANZANIA
Tél. : (255) 22 211 01 04 / 12 90
Fax : (255) 22 211 37 40
SWIFT : EUAFTZTZ

boa@boatanzania.com
www.boatanzania.com

Principal Shareholders as at 31/12/2018



Financial analysis

BANK OF AFRICA - TANZANIA (BOA-TANZANIA) recorded a pre-tax loss of TZS 8.4 billion (2017: Profit of TZS 4.9 billion) during the year ended 31 December 2018.

Profit after tax (PAT) decreased from TZS 3.2 billion to a loss of TZS 6.1 billion. This decline was attributed to increase in impairment charge on loans and advances and a decline in interest income on loans & advances. Impairment charges on loans and advances during the year amounted to TZS 15.6 billion being almost twofold increase from the TZS 8.3 billion charged in 2017. One of the reason for this increase in loan impairment is the

TANZANIA

Key figures 2018

(in TZS million)

Activity	2017	2018	Variation
Deposits	369,368	333,238	-10 %
Loans	300,713	265,339	-12 %
Number of branches	26	26	0 %
Structure			
Total Assets	557,683	459,307	-18 %
Shareholders' equity	72,622	63,008	-13 %
Number of employees	321	336	5 %
Income			
Net operating income	51,076	47,644	-7 %
Operating expenses (includind depreciation and amortization)	37,966	40,453	7 %
Gross operating profit	13,110	7,191	-45 %
Cost of risk in value	8,258	15,586	89 %
Net income	3,197	-6,107	-291 %
Operating ratio	74.3 %	84.9 %	
Cost of risk	2.6 %	5.5 %	
Return on Assets (ROA)	0.6 %	-1.2 %	
Return on Equity (ROE)	4.4 %	-9.0 %	
Capital Adequacy Ratio			
Tier 1	54,881	47,295	
Tier 2	2,808	2,457	
Risk Weighted Asset (RWA)	365,257	343,121	
Tier 1 + Tier 2 / RWA	15.8 %	14.5 %	

-18 %
Total assets

Deposits
369,368 TZS million
2017
333,238 TZS million
2018

Loans
- 12 %

Net operating income
- 7 %

fact that during the year, the Bank adopted for the first time IFRS 9 – an accounting standard which has introduced changes in impairment provisioning model. The new provisioning model, necessitates entities to make impairment provisioning assessment even for loans which have not shown objective evidence of impairment. On the other hand, there has been industry-wide deterioration of credit quality which has also affected the Bank.

Net interest income decreased by 3% YoY driven mainly by significantly decrease of loan and advances to customers, decreased yields on Local currency (LCY) loans. The Bank's net loan book declined by 11.8% to TZS 265 billion (2017: TZS 301 billion) while the total balance sheet size declined by 17.6% to TZS 459 billion (2017: TZS 558 billion). Industry-wide loans & advances to customers declined by 2% YoY. This was mainly a result of decline in the following sectors: Trade - declined by 2.4% (Q4-2018) and Building and Construction – declined by 23% (Q4-2018).

Customers' deposits for the Bank stood at TZS 333 billion as at 31 December 2018 (2017: TZS 369 billion), being a decline of 10% over the previous year. The Bank intends to continue its focus on retail and SME segments in line with our Triennial Development Plan (TDP).

The Bank has put in place measures to increase recovery of its Non-Performing Loans (NPLs). This includes the strengthening of the human resource and investment in Management Information Systems to improve monitoring and recovery. The Bank will continue to focus on the growth of its retail business to take advantage of higher yields. This strategy also has a potential to significantly grow our overall loan book hence increasing our interest income.

Capital adequacy ratios were well within the regulatory limits – Tier I at 13.8%, Tier II at 14.5% against the regulatory limits of 12.5% and 14.5% respectively

Stock information (in thousands of TZS)

	2016	2017	2018	AAGR*
Earning per share	14.9	86.4	-165.0	NS
Shareholders' equity per share	291.8	1,961.6	1,702	141.5 %
Net dividend per share	9.4	0.0	0.0	

(*) Average annual growth rate

Digital workshop

Iftar dinner

Highlights

April

- Launch of the "Saving" campaign.

May

- Participation in a digital seminar organized by the Group.
- Held an "Iftar" dinner for the Bank's customers and partners.
- Organization of a prize-giving ceremony for winners of the deposit campaign with the presence of Mr. Hamza Cherkaoui, regional sales coordinator of BANK OF AFRICA Group.

September

- Participation in the 2018 BANK OF AFRICA Director's Meetings, in Tangier, Morocco.

October

- The Bank Celebrated the Customer Service Week by providing exceptional service to its clients while living the banks values.
- Appointment of a new Managing Director.

Customer Service Week

Celebration of women's day

Staff recreation day

Corporate information

Directors	Nationality	Position	Remarks
Ambassador M. S. Maajar	Tanzanian	Chairperson	
Vincent De Brouwer	Belgian	Member	
Georgia Mutagahywa	Tanzanian	Member	
Amine Bouabid	Moroccan	Member	
Henri Laloux	Belgian	Member	
Abdelkabir Bennani	Moroccan	Member	
Joseph Iha Wanje	Kenyan	Member	Appointed on 14 October 2018
Ammishaddai Owusu-Amoah	Ghanaian	Member	Resigned on 14 October 2018
Moremi Marwa	Tanzanian	Member	
Ghali Lahlou	Morrocan	Member	

Registered office and principal place of business

Development House
Kivukoni Front/Ohio Street
P.O.Box 3054
Dar es Salaam - Tanzania

Bank secretary

Elizabeth Muro
P.O.Box 3054
Dar es Salaam - Tanzania

Auditors

PricewaterhouseCoopers
Certified Public Accountants (Tanzania)
369 Toure Drive, Oyster bay Pemba House
P.O.Box 45
Dar es Salaam - Tanzania

Report of the directors

For the year ended 31 december 2018

The Directors present their report together with the audited financial statements of BANK OF AFRICA - TANZANIA Limited (the "Bank") for the year ended 31 December 2018, which disclose the state of financial affairs of the Bank.

Incorporation

The Bank is a limited liability company incorporated under the Companies Act, 2002 and is domiciled in the United Republic of Tanzania.

Bank's vision and mission

Bank's vision

To be the preferred bank in the Bank's chosen markets.

Bank's mission

To serve customers with efficiency and courtesy, contribute to the development of all the Bank's stakeholders, optimize the growth of the BOA Group through synergies and common development plans and promote growth and stability of the economies in which the Bank operates.

Principal activities and performance for the year

Principal activities

The Bank's principal activity is the provision of banking and related services. The Bank is licenced under the Banking and Financial Institutions Act, 2006.

Business developments

During the year ended 31 December 2018, BANK OF AFRICA - TANZANIA Limited recorded a pre-tax loss of TZS 8.4 billion (2017: Profit of TZS 4.9 billion).

Total operating income decreased by 22% to TZS 34 billion (2017: TZS 42.8 billion). The drop was significantly contributed by decreased interest income as a result of declining loan and advances to customers. Impairment charges on loans and advances grew from TZS 8.3 billion to TZS 15.5 billion. The Bank's net loan book declined by 11.8% to TZS 265 billion (2017: TZS 301 billion) while the total balance sheet size declined by 17.6% to TZS 459 billion (2017: TZS 558 billion). Customers' deposits for the Bank stood at TZS 333 billion as at 31 December 2018 (2017: TZS 369 billion), being a decline of 10% over the previous year.

The following Key Performance Indicators (KPIs) are considered by the Directors as effective in measuring the delivery of the Bank's strategy and managing the business:

PERFORMANCE INDICATOR	DEFINITION/CALCULATION METHOD	2018	2017
RETURN ON EQUITY	NET PROFIT/TOTAL EQUITY	(9.7%)	5.5%
RETURN ON ASSETS	NET PROFIT/TOTAL ASSETS	(1.3%)	0.7%
COST TO INCOME RATIO	OPERATING COSTS/OPERATING INCOME	84.9%	74.0%
INTEREST MARGIN ON EARNING ASSETS	TOTAL INTEREST INCOME/(INVESTMENT IN GOVERNMENT SECURITIES + BALANCES WITH OTHER FINANCIAL INSTITUTIONS + INTERBANK LOAN RECEIVABLES + INVESTMENTS IN OTHER SECURITIES + NET LOANS, ADVANCES AND OVERDRAFT	14.7%	13.8%
NON - INTEREST INCOME TO GROSS INCOME	NON - INTEREST INCOME/TOTAL INCOME	27.9%	30.3%
GROSS LOANS TO CUSTOMERS TO CUSTOMER DEPOSITS	TOTAL LOANS TO CUSTOMERS/ TOTAL DEPOSITS FROM CUSTOMERS	87.8%	85.0%
NON - PERFORMING LOANS TO GROSS LOANS	NON - PERFORMING LOANS/GROSS LOANS AND ADVANCES	16.0%	10.5%
EARNING ASSETS TO TOTAL ASSETS	EARNING ASSETS/TOTAL ASSETS	70.4%	71.2%
GROWTH ON TOTAL ASSETS	TREND (2018 TOTAL ASSETS – 2017 TOTAL ASSETS/2017 TOTAL ASSETS)*%	(17.6%)	-11.3%
GROWTH ON LOANS AND ADVANCES TO CUSTOMERS	TREND (2018 LOANS AND ADVANCES – 2017)/2017 LOANS AND ADVANCES)*%	(11.8%)	-7.1%
GROWTH ON CUSTOMER DEPOSITS	TREND (2018 DEPOSITS – 2017 DEPOSITS/2017 DEPOSITS)*%	(9.8%)	-6.2%
CAPITAL ADEQUACY			
TIER 1 CAPITAL	CORE CAPITAL/RISK WEIGHTED ASSETS INCLUDING OFF BALANCE SHEET ITEMS	13.8%	16.2%
TIER 1+TIER 2 CAPITAL	TOTAL CAPITAL/RISK WEIGHTED ASSETS INCLUDING OFF-BALANCE SHEET ITEMS	14.5%	17.0%

The banking sector in Tanzania continued to experience challenging business environment as evidenced by deteriorating asset quality across the industry.

The Bank's ratio of non-performing loans to gross loans increased from 10.5% at the end of prior year to 16.0% at the end of the reporting period. This ratio is higher than the industry average ratio of 10.3% (based on third quarter publication 2018). The credit selection, appraisal and approval processes, complemented by strong relationships with customers have ensured that potential credit delinquencies are identified and managed at an early stage. This arrangement has proved to be beneficial to the Bank and its customers, especially in light of the challenges that they are facing in the prevailing difficult economic environment.

The Directors extend sincere gratitude to the Bank's customers for their continued support and loyalty, staff for their contribution to the Bank's growth and all stakeholders who acted as catalysts in bringing the Bank this far.

Dividend

The directors do not recommend payment of dividend for the current year.

Directors

The Directors of the Bank at the date of this report and who have been in office since 1 January 2018 unless otherwise stated are set out on page 1.

Corporate governance

At the end of the reporting period, the Board of Directors consisted of 8 directors, including the Managing Director. Apart from the Managing Director, no any other director holds an executive position in the Bank. The Board takes overall responsibility for the Bank, including responsibility for identifying key risk areas, considering and monitoring investment decisions, considering significant financial matters, and reviewing the performance of management business plans and budgets. The Board is also responsible for ensuring that a comprehensive system of internal control, policies and procedures is operative, and for compliance with sound corporate governance principles.

The Board is required to meet at least four times a year. The Board delegates the day to day management of the business to the Managing Director assisted by senior management. Senior management is invited to attend board meetings and facilitates the effective control of all the Bank's operational activities, acting as a medium of communication and coordination between all the various business units. The Bank is committed to the principles of effective corporate governance. The Directors also recognize the importance of integrity, transparency and accountability. During the year the Board of Director met four times.

During the year the Board of Directors of the Bank had the following board sub-committees to ensure a high standard of corporate governance throughout the Bank. All these committees report to the main Board of Directors.

i) Board Credit Committee

Name	Position	Nationality
Abdelkabir Bennani	Chairman	Moroccan
Henri Laloux	Member	Belgian
Georgia Mutagahywa	Member	Tanzanian

The committee conducts its business by circulation and the decisions are discussed and ratified in the Board Risk Committee.

ii) Board Audit Committee

Name	Position	Nationality
Moremi Marwa	Chairman	Tanzanian
Vincent De Brouwer	Member	Belgian
Ghali Lahlou	Member	Moroccan

The committee met four times during the year.

iii) Board Risk and Compliance Committee

Name	Position	Nationality
Abdelkabir Bennani	Chairman	Tanzanian
Henri Laloux	Member	Belgian
Georgia Mutagahywa	Member	Moroccan

The committee met four times during the year.

Capital structure

The Bank's capital structure as at 31 December 2018 is disclosed in notes 3.5 and 31 of these financial statements.

Shareholders of the bank

The total number of shareholders during the year was 9 (2017: 9 shareholders). None of the Directors of the Bank has an interest in the issued share capital. The shareholding of the Bank during the year is as disclosed in note 31 of these financial statements.

Management

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

- Credit & Control
- Finance
- Operations and Support
- Business Development
- Audit
- Enterprise Risk and Compliance

Future development plans

After successfully completing the previous 3 year development plan (2016-2018), the Bank will embark on its next 3 year development plan (2019-2021). The technological advancement being the key strategic objective, the Bank intends to introduce an innovative platform which will be used to deliver services closer to customer in a very efficiency and friendly manner. The new platform will simplify the usage of mobile banking, agency banking and internet banking. The key issue being to improve the financial inclusion in the Tanzania market. The Bank will also continue to implement innovative cost control measures in an effort to improve profitability.

Key strengths and resources

In light of key strengths and resources at the disposal of the Bank, the Directors believe that the Bank will achieve its objectives as highlighted above under Future Development Plans. Being affiliated to BOA Group with presence in 18 countries worldwide, the Bank enjoys considerable technological and intellectual capital. Now ranked among top 10 banks in Tanzania, the Bank will continue to strive to penetrate further into the market. The Bank has well-functioning staff motivational and retention schemes which have resulted in a reliable and committed team of staff.

Solvency

The Board of Directors confirms that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Board of directors has reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future.

Risk management and internal control

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

- The effectiveness and efficiency of operations;
- The safeguarding of the Bank's assets;
- Compliance with applicable laws and regulations;
- The reliability of accounting records;
- Business sustainability under normal as well as adverse conditions; and
- Responsible behaviors towards all stakeholders.

The efficiency of any internal control system is dependent on the strict observance of prescribed measures. There is always a risk of non-compliance with such measures by staff. Whilst no system of internal control can provide absolute assurance against misstatement or losses, the Bank's system is designed to provide the Board with reasonable assurance that the procedures in place are operating effectively. The Board assessed the internal control systems throughout the financial year ended 31 December 2018 and is of the opinion that they met accepted criteria.

Employee's welfare

Management and Employees' Relationship

The Bank's achievements and financial results in such a challenging market are a testimony to good relationship between employees and management. The Bank continued to enjoy good relationship between employees and management for the year ended 31 December 2018. There were no unresolved complaints received by management from the employees during the year.

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, tribe, religion and disability which do not impair ability to discharge duties.

Training Facilities

For the Bank to achieve its business strategy, it needs talented people who deliver superior results. To support and enable our people to give their best, we provide an engaging and fulfilling environment with opportunities for personal and professional growth, maintain a competitive reward strategy and continuously enhance our people practices. In its annual budget for the year 2019, the Bank has allocated a sum of TZS 410 million for staff training in order to improve employee's technical skills hence effectiveness (2018: TZS 483 million was spent). Training programs have been and are continually being developed to ensure employees are adequately trained at all levels. All employees have some form of annual training to upgrade skills and enhance development.

Medical Assistance

All members of staff and a maximum number of four beneficiaries (dependants) for each employee were availed medical insurance guaranteed by the Bank. Currently these services are provided by Strategies Insurance Company Limited.

Financial Assistance to Staff

Loans are available to all confirmed employees depending on the assessment and discretion of management as to the need and circumstances.

Persons with Disabilities

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. 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.

Employees Benefit Plan

The Bank pays contributions to publicly administered pension plans on mandatory basis which qualify to be a defined contribution plans. Publicly administered pension plans of which Banks' employees are members are National Social Security Fund (NSSF) and PPF Pensions Fund (PPF).

Gender parity

As at 31 December 2018, the Bank had 376 employees, out of whom 174 were female and 202 were male. (2017: 321 employees, 134 were female and 187 were male).

Related party transactions

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

Social and environmental policy

The Bank recognizes that sustainable development is dependent upon a positive interaction between economic growth, social upliftment and environmental protection.

As a responsible corporate citizen, the Bank has a policy framework that is designed to ensure that all projects undertaken adhere to social and environmental regulations of the relevant local, national and international standards.

The policy framework commits the Bank to :

- Support business activities that contribute to the protection and improvement of the environment;
- Monitor the effects of the Bank's activities on the environment and work towards the improvement and pollution prevention;
- Comply with all applicable laws and regulations related to environmental protection and other requirements to which the Bank is subject to and subscribed to; and
- Provide financing to projects with minimal adverse impact on the environment while ensuring that those having potentially major adverse environmental and social impact are accompanied by adequate mitigation measures.

Political and charitable donations

The Bank did not make any political or charitable donations during the year 2018 (2017: TZS 3.2 million).

Corporate social responsibility

The Bank is committed towards giving back to the communities in which it is present by engaging in various corporate social responsibility activities that have a positive impact on the social, economic and cultural lives of the beneficiaries. The bank focuses in helping both education and health sectors.

Auditors

The Bank's auditor, PricewaterhouseCoopers, was appointed to serve as external auditors for the year 2018. Having completed a three-year period of audit engagement, the auditors will be eligible for re-appointment as external auditors for the year ending 31 December 2019 subject to competitive bidding as required by the Banking and Financial Institutions Act (External Auditors) Regulations, 2014.

Signed on behalf of the board by:

2019

Ambassador Mwanaidi Sinare Maajar
Board Chairperson

Declaration of the head of finance

For the year ended 31 december 2018

The National Board of Accountants and Auditors (NBAA) according to the power conferred to it under the Auditors and Accountants (Registration) Act. No. 33 of 1972, as amended by Act No. 2 of 1995, requires financial statements to be accompanied with a declaration issued by the Head of Finance 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 a true and fair view of the entity position and performance in accordance with applicable International Accounting Standards and statutory financial reporting requirements. Full legal responsibility for the preparation of financial statements rests with the Board of Directors as mentioned under the statement of Directors' Responsibilities on the next page.

I, Mussa Shaban Mwachaga, being the General Manager – Finance of BANK OF AFRICA - TANZANIA 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 give a true and fair view position of Bank of Africa - Tanzania Limited as on that date and that they have been prepared based on properly maintained financial records.

Signed by: Mussa Shaban Mwachaga
Position: General Manager – Finance
NBAA Membership No.:

Date:

Statement of directors' responsibilities

For the year ended 31 december 2018

The Companies Act, No. 12 of 2002 requires directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the 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, No. 12 of 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the 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.

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

Signed on behalf of the Board of Directors by:

Ambassador Mwanaidi Sinare Maajar
Board Chairperson

28th March 2019

Moremi Marwa
Director

28th March 2019

Independent auditor's report

To the shareholders of bank of africa - tanzania limited

Report on the audit of the financial statements

Our opinion

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

What we have audited

The financial statements of BANK OF AFRICA - TANZANIA Limited as set out on pages 17 to 94 comprise:

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

Basis for opinion

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

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

Independence

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

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 Company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How our audit addressed in the key audit matter
Impairment of loans and advances to customers Management exercises judgement when determining both when and how much to record as loan impairment provisions. Judgement is applied to determine the appropriate parameters and assumptions used to estimate the provisions in the following areas: • Quantitative and qualitative criteria for classification of loans and advances; • Determination of the probability of defaults (both 12 months and lifetime); • Determination of forward looking parameters to be incorporated in the estimation of expected credit losses; • Cash flows from collateral realization for secured facilities used for estimation of loss given default taking into account realizable value under forced sale conditions and the recovery period; and • Recovery rate for unsecured facilities used for estimation of loss given default. These judgements together with the value of gross loans and advances to customers (TZS 292,486 million) and impairment provision (TZS 27,147 million) make this a key audit matter. Further details on loans and advances have been disclosed in the Note 2(e), Note 2(h), Note 2(i), Note 3.1 and Note 17 of the financial statements.	• We tested the reasonableness of the quantitative and qualitative criteria used in the classification of loans and advances. • As the quantitative basis of classification of loans and advances is reliant on information systems, we understood and tested key information technology general and application controls including the accurate calculation of the number of days past due. • We tested management's application of the qualitative criteria in classification of loans and advances. • We tested the reliability of information used for estimating probability of default and loss given default. • We tested the reasonableness of the forward looking parameters considered by management. • We challenged management's basis for establishing the correlation between forward looking parameters and the bank's non-performing loan trends. • We agreed the collateral values used in the impairment model to valuation reports. • We tested the reasonableness of the expected cashflows and challenged management's assumption regarding the recovery costs and recovery periods used to estimate the recoverable amount of collateral for secured facilities. • We challenged management assumptions regarding the recovery rate of unsecured facilities.

Other information

The directors are responsible for the other information. The other information comprises company information, report of the directors, statement of directors' responsibilities and declaration of head of finance but does not include the financial statements and our auditor's 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 identified above 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 on the other information, 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 the directors for the financial statements

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 the requirements of the Companies Act, No. 12 of 2002, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgement 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 Company's internal control.

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

Declaration of transactions by Key Management Personnel

The National Board of Accountants and Auditors (NBAA) issued a requirement for Key Management Personnel (KMP) to declare related party transactions. This was effective for financial statements for periods ended on or after 31 December 2018.

We did not receive declarations from KMP to confirm related part transactions as required by NBAA.

Patrick Kiambi, TACPA – PP
For and on behalf of PricewaterhouseCoopers
Certified Public Accountants
Dar es Salaam

Date

Statement of profit or loss and other comprehensive income

	NOTE	2018 TZS'000	2017 TZS'000
INTEREST AND SIMILAR INCOME	5	47,546,637	54,766,073
INTEREST EXPENSE AND SIMILAR CHARGES	6	(13,187,518)	(19,173,659)
NET INTEREST INCOME		34,359,119	35,592,414
IMPAIRMENT CHARGE ON LOANS AND ADVANCES	7	(15,585,535)	(8,258,449)
NET INTEREST INCOME AFTER LOAN IMPAIRMENT		18,773,584	27,333,965
FEES, COMMISSIONS AND OTHER INCOME	8	12,974,688	14,479,757
FEES AND COMMISSION EXPENSE	9	(2,978,155)	(2,317,643)
NET FEE AND COMMISSION INCOME		9,996,533	12,162,114
FOREIGN EXCHANGE INCOME	10	3,163,057	3,361,411
OTHER OPERATING INCOME /(LOSS)		124,709	(39,889)
TOTAL OPERATING INCOME		32,057,883	42,817,601
OPERATING EXPENSES	11	(40,453,207)	(37,966,385)
(LOSS) /PROFIT BEFORE INCOME TAX		(8,395,324)	4,851,216
INCOME TAX CREDIT/(EXPENSE)	13(A)	2,288,127	(1,654,289)
(LOSS) /PROFIT FOR THE YEAR		(6,107,197)	3,196,927
OTHER COMPREHENSIVE INCOME		-	-
NET GAINS ON REVALUATION OF FINANCIAL ASSETS HELD AT FVOCI		1,823,316	-
INCOME TAX THEREON		(546,995)	-
TOTAL OTHER COMPREHENSIVE INCOME		1,276,321	-
TOTAL COMPREHENSIVE (LOSS) /INCOME FOR THE YEAR		(4,830,876)	3,196,927

Statement of financial position as at 31 December 2018

	NOTE	2018 TZS'000	2017 TZS'000
ASSETS			
CASH AND BALANCES WITH BANK OF TANZANIA	15	46,085,201	81,609,476
BALANCES DUE FROM OTHER BANKS	16	58,173,243	105,367,043
GOVERNMENT SECURITIES:			
- HELD AT AMORTISED COST	17	-	32,509,442
- HELD AT FVOCI	17	46,235,929	-
LOANS AND ADVANCES TO CUSTOMERS	18	265,339,181	300,712,936
DERIVATIVE FINANCIAL INSTRUMENTS	29	-	6,123
EQUITY INVESTMENT	20	1,200,200	1,020,000
OTHER ASSETS	19	6,945,833	8,040,881
PROPERTY AND EQUIPMENT	21	18,844,350	18,431,860
INVESTMENT PROPERTY	22	4,407,178	4,407,178
INTANGIBLE ASSETS	23	1,414,320	542,669
CURRENT TAX ASSET	13(C)	2,598,552	761,585
DEFERRED TAX ASSET	30	8,063,432	4,273,943
TOTAL ASSETS		459,307,419	557,683,136
LIABILITIES AND EQUITY			
LIABILITIES			
BALANCES DUE TO OTHER BANKS	24	31,307,474	79,787,484
DEPOSITS FROM CUSTOMERS	25	333,237,771	369,367,921
DERIVATIVE FINANCIAL INSTRUMENTS	29	448,841	-
LONG TERM BORROWINGS	26	21,097,583	24,636,340
OTHER LIABILITIES	27	10,207,662	11,269,539
TOTAL LIABILITIES		396,299,331	485,061,284
EQUITY			
SHARE CAPITAL	31	37,021,000	37,021,000
SHARE PREMIUM		12,780,383	12,780,383
RETAINED EARNINGS		9,473,571	12,686,032
REVALUATION RESERVE		1,276,321	-
REGULATORY RESERVE – SPECIFIC		-	7,326,709
REGULATORY RESERVE – GENERAL		2,456,813	2,807,728
TOTAL EQUITY		63,008,088	72,621,852
TOTAL LIABILITIES AND EQUITY		**459,307,419**	**557,683,136**

The financial statements on pages 22 to 88 were approved by the board of directors on 28th March 2019 and were signed on its behalf by:

Ambassador Mwanaidi Sinare Maajar
Board Chairperson

Moremi Marwa
Director

Statement of financial position as at 31 December 2018

	SHARE CAPITAL TZS'000	SHARE PREMIUM TZS'000	RETAINED EARNINGS TZS'000	REVALUATION RESERVE TZS'000	REGULATORY RESERVE-SPECIFIC TZS'000	REGULATORY RESERVE-GENERAL TZS'000	TOTAL TZS'000
AT 1 JANUARY 2017	**37,020,550**	**12,780,383**	**17,772,731**	**-**	**1,289,542**	**3,143,272**	**72,006,478**
PROFIT FOR THE YEAR	-	-	3,196,927	-	-	-	3,196,927
CHANGES IN SHARE CAPITAL	450	-	(450)	-	-	-	-
DIVIDEND PAID DURING THE YEAR	-	-	(2,581,553)	-	-	-	(2,581,553)
TRANSFER TO REGULATORY RESERVE - SPECIFIC	-	-	(6,037,167)	-	6,037,167	-	-
TRANSFER TO REGULATORY RESERVE - GENERAL	-	-	335,544	-	-	(335,544)	-
AT 31 DECEMBER 2017	**37,021,000**	**12,780,383**	**12,686,032**	**-**	**7,326,709**	**2,807,728**	**72,621,852**
AT 1 JANUARY 2018	**37,021,000**	**12,780,383**	**12,686,032**	**-**	**7,326,709**	**2,807,728**	**72,621,852**
CHANGES ON INITIAL APPLICATION OF IFRS 9	-	-	(4,782,888)	-	-		(4,782,888)
RESTATED BALANCE AT 1 JANUARY 2018	37,021,000	12,780,383	7,903,144	-	7,326,709	2,807,728	67,838,964
LOSS FOR THE YEAR	-	-	(6,107,197)	-	-	-	(6,107,197)
GAIN ON FAIR VALUE CHANGES OF INVESTMENTS	-	-	-	1,823,316	-	-	1,823,316
TAX ON OTHER COMPREHENSIVE INCOME	-	-	-	(546,995)	-	-	(546,995)
TRANSFER TO REGULATORY RESERVE - GENERAL	-	-	350,915	-	-	(350,915)	-
TRANSFER TO REGULATORY RESERVE - SPECIFIC	-	-	7,326,709	-	(7,326,709)	-	-
AT 31 DECEMBER 2018	**37,021,000**	**12,780,383**	**9,473,571**	**1,276,321**	**-**	**2,456,813**	**63,008,088**

Regulatory reserve - specific represents the surplus of loan provision computed as per the Bank of Tanzania regulations over the impairment of loans and advances calculated in accordance with International Financial Reporting Standards and is not available for distribution.

Regulatory reserve – general represents 1% of the unclassified loans (current) as per requirement of section 27 of the Banking and Financial Institution (Management of Risk Assets) Regulation, 2014.

Statement of cash flows

	NOTE	2018 TZS'000	2017 TZS'000
CASH FLOW FROM OPERATING ACTIVITIES			
(LOSS) /PROFIT BEFORE TAX		(8,395,323)	4,851,216
ADJUSTMENT FOR:			
DEPRECIATION OF TANGIBLE ASSETS	11	3,184,954	2,424,435
AMORTIZATION OF INTANGIBLE ASSETS	11	352,351	500,409
PROVISION FOR BAD DEBTS		15,964,368	8,529,793
TRANSLATION FOREIGN EXCHANGE LOSSES ON SUBORDINATED DEBTS		-	119,023
TRANSLATION FOREIGN EXCHANGE LOSSES ON LONG-TERM BORROWINGS	26	88,774	150,177
INTEREST EXPENSE ON LONG-TERM BORROWINGS	6	435,241	696,361
INTEREST EXPENSE ON SUBORDINATED BORROWINGS		-	127,271
DERIVATIVE FINANCIAL INSTRUMENTS		454,964	(2,551)
WRITE-OFF OF INTANGIBLE ASSET		-	4,841
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT		-	43,571
		12,085,329	17,444,546
CHANGES IN OPERATING ASSETS			
STATUTORY MINIMUM RESERVE	15	2,963,588	6,352,642
GOVERNMENT SECURITIES		(12,083,371)	(26,166)
LOANS AND ADVANCES TO CUSTOMERS		12,576,690	15,627,491
OTHER ASSETS		1,095,047	(4,396,151)
CHANGES IN OPERATING LIABILITIES			
BALANCES DUE TO OTHER BANKS		(48,480,010)	(44,373,579)
DEPOSIT FROM CUSTOMERS		(36,130,150)	(24,267,100)
OTHER LIABILITIES		(1,061,877)	1,400,157
NET CASH FROM OPERATING ACTIVITIES BEFORE INCOME TAX		(69,034,754)	(32,238,160)
INCOME TAX PAID	13(C)	(1,835,516)	(3,233,904)
NET CASH FROM OPERATING ACTIVITIES		(70,870,270)	(35,472,064)
CASH FLOW FROM INVESTING ACTIVITIES			
PURCHASE OF INTANGIBLE ASSETS	23	(1,224,001)	-
PURCHASE OF TANGIBLE ASSETS	21	(3,597,444)	(8,184,332)
NET CASH USED IN INVESTING ACTIVITIES		(4,821,445)	(8,184,332)
CASH FLOW FROM FINANCING ACTIVITIES			
DIVIDEND PAID DURING THE YEAR		-	(2,581,553)
PROCEEDS FROM LONG-TERM BORROWINGS	26	-	4,482,320
REPAYMENT ON SUBORDINATED BORROWINGS		-	(6,060,325)
REPAYMENT ON LONG TERM BORROWINGS	26	(4,062,772)	(4,083,206)
NET CASH FROM FINANCING ACTIVITIES		(4,062,772)	(8,242,764)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(79,754,487)	(51,899,160)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR		160,614,212	212,513,372
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	**31**	**80,859,725**	**160,614,212**

Notes

For the year ended 31 December 2018

1. General information

BANK OF AFRICA - TANZANIA Limited (the "Bank") is a limited liability company incorporated in the United Republic of Tanzania under the Companies Act, 2002, and regulated by the Bank of Tanzania under the Banking and Financial Institutions Act, 2006. The details of the address of its registered office and principal place of business are disclosed on page 1 whilst its principal activities are described in the Report of the Directors.

2. Significant accounting policies

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

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Tanzania Shillings (TZS), rounded to the nearest thousand.

The financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The significant accounting policies adopted in the preparation of these financial statements are set out below.

i) New and amended standards adopted by the Bank

The following standards and interpretations apply for the first time to financial reporting periods commencing on or after 1 January 2018:

IFRS 9: Financial Instruments

The Bank has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements.

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

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

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

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank.

(a) Classification and measurement of financial instruments

The measurement category and the carrying amounts of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

FINANCIAL ASSETS	MEASUREMENT CATEGORY	CARRYING AMOUNT	MEASUREMENT CATEGORY	CARRYING AMOUNT
CASH AND BALANCES WITH BOT	AMORTISED COST (LOANS AND RECEIVABLES)	81,609,476	AMORTISED COST	81,609,476
BALANCES DUE FROM OTHER BANKS	AMORTISED COST (LOANS AND RECEIVABLES)	105,367,043	AMORTISED COST	105,367,043
GOVERNMENT SECURITIES*	AMORTISED COST (LOANS AND RECEIVABLES)	32,509,442	AMORTISED COST	32,509,442
LOANS AND ADVANCES TO CUSTOMERS	AMORTISED COST (LOANS AND RECEIVABLES)	300,712,936	AMORTISED COST	293,880,239
OTHER ASSETS (EXCLUDING PREPAYMENTS)	AMORTISED COST (LOANS AND RECEIVABLES)	5,217,487	AMORTISED COST AMORTISED COST	5,217,487
DERIVATIVE FINANCIAL INSTRUMENTS	FVPL (HELD FOR TRADING)	6,123	FVPL (MANDATORY)	6,123
EQUITY INVESTMENTS	FVOCI (AVAILABLE FOR SALE)	1,020,000	FVOCI	1,020,000

*As at year end the measurement for government securities was fair value through other comprehensive income.

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Bank performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets from their previous measurement category in accordance with IAS 39 to their new measurement category upon transition to IFRS 9 on 1 January 2018.

	IAS 39 CARRYING AMOUNT 31 DEC 2017 TZS'000	RECLASSIFICATION TZS'000	RE-MEASUREMENT TZS'000	IFRS 9 CARRYING AMOUNT 1 JAN2018 TZS'000
AMORTISED COST				
CASH AND BALANCES WITH BOT				
- OPENING BALANCE UNDER IAS 39 AND CLOSING BALANCE UNDER IFRS 9	81,609,476	-	-	81,609,476
BALANCES DUE FROM OTHER BANKS				
- OPENING BALANCE UNDER IAS 39 AND CLOSING BALANCE UNDER IFRS 9	105,367,043	-	-	105,367,043
GOVERNMENT SECURITIES				
- OPENING BALANCE UNDER IAS 39 AND CLOSING BALANCE UNDER IFRS 9	32,509,442	-	-	32,509,442
LOANS AND ADVANCES TO CUSTOMERS				
- OPENING BALANCE UNDER IAS 39	300,712,936	-	-	-
- RE-MEASUREMENT: ECL ALLOWANCE	-	-	(6,832,697)	-
- CLOSING BALANCE UNDER IFRS 9	-	-	-	293,880,239
OTHER ASSETS(EXCLUDING PREPAYMENTS)				
- OPENING BALANCE UNDER IAS 39 AND CLOSING BALANCE UNDER IFRS 9	5,217,487	-	-	5,217,487
TOTAL FINANCIAL ASSETS MEASURED AT AMORTISED COST	525,416,384	-	(6,832,697)	518,583,687

	IAS 39 CARRYING AMOUNT 31 DEC 2017 TZS'000	RECLASSIFICATION TZS'000	RE-MEASUREMENT TZS'000	IFRS 9 CARRYING AMOUNT 1 JAN2018 TZS'000
FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)				
DERIVATIVE FINANCIAL INSTRUMENTS (HELD FOR TRADING)				
- OPENING BALANCE UNDER IAS 39 AND CLOSING BALANCE UNDER IFRS 9	6,123	-	-	6,123
FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)				
EQUITY INVESTMENTS - FVOCI (EQUITY INSTRUMENTS)				
- OPENING BALANCE UNDER IAS 39				
- ADDITION: FROM AVAILABLE FOR SALE (IAS 39)	-	1,020,000	-	-
- CLOSING BALANCE UNDER IFRS 9	-	-	-	1,020,000
EQUITY INVESTMENTS - AVAILABLE FOR SALE (AFS)				
- OPENING BALANCE UNDER IAS 39	1,020,000	-	-	-
- SUBTRACTION: TO FVOCI - EQUITY INSTRUMENTS	-	(1,020,000)	-	-
- CLOSING BALANCE UNDER IFRS 9				
TOTAL FINANCIAL ASSETS MEASURED AT FVOCI	1,020,000	-	-	1,020,000

Designation of equity instruments at FVOCI

The bank has elected to irrevocably designate its equity investments of TZS 1,020 Million at Fair Value through Other Comprehensive Income(FVOCI) as permitted under IFRS 9. These investments were previously classified as Available for Sale (AFS). The changes in fair value of such investments will no longer be reclassified to profit or loss when they are disposed of.

Reclassification from retired categories with no change in measurement

In addition to the above, the government securities which were previously being classified as Held to Maturity (HTM) at the time of adoption of IFRS 9 were measured at amortised cost. At year end the government securities were measured at fair value through other comprehensive income. Management of the Bank holds these securities with the objective of both collecting the contractual cash flows from coupon payments and principal investment on maturity as well as selling the securities as and when management deems it is beneficial to the Bank.

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

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

	LOAN LOSS ALLOWANCE UNDER IAS 39/PROVISION UNDER IAS 37 TZS'000	RECLASSIFICATION TZS'000	REMEASUREMENT TZS'000	LOAN LOSS ALLOWANCE UNDER IFRS 9 TZS'000
CASH AND BALANCES WITH BOT	-	-	-	-
BALANCES DUE FROM OTHER BANKS	-	-	-	-
GOVERNMENT SECURITIES	-	-	-	-
LOANS AND ADVANCES TO CUSTOMERS	13,117,768	-	6,168,323	19,286,090
OTHER ASSETS (EXCLUDING PREPAYMENTS)	-	-	-	-
EQUITY INVESTMENTS	-	-	-	-
OUTSTANDING GUARANTEES AND INDEMNITIES	-	-	271,789	271,789
LETTERS OF CREDITS	-	-	392,585	392,585
TOTAL	13,117,768	-	6,832,697	19,950,464

IFRS 15: Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers (IFRS 15) with effect from 1 January 2018, replaces the existing revenue standards and the related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer.

The standard incorporates a five step analysis to determine the amount and timing of revenue recognition. The bank adopted IFRS 15 on 1 January 2018 and, as permitted by IFRS 15, did not restate its comparative financial results. The standard does not apply to revenue associated with financial instruments, and therefore does not impact the majority of the bank's revenue.

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

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

IFRS 16 Leases

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Bank's operating leases. As at the reporting date, the Bank has non-cancellable operating lease commitments of Tzs 8,640M, see note 32. The most significant impact from initially applying IFRS 16 will be to recognise rights of use assets in respect of branches and office properties leased by the Bank under contracts classified as operating leases under IAS 17.

The Bank will apply IFRS 16 on a modified retrospective basis without restating prior years and electing for the following exemptions on transition at 1 January 2019. The Bank will

- apply IFRS 16 to contracts previously identified as leases by IAS 17

- use the incremental borrowing rate as the discount rate

- not apply IFRS 16 to operating leases with a remaining lease term of less than 12 months or low value leases (non property leases)

- rely on the assessment of whether the lease contract is onerous under IAS 37 at 31 December 2018 as an alternative to performing an impairment review of the right of use assets created on 1 January 2019 Where this is the case the carrying amount of the assets will be adjusted by the onerous lease provision.

- exclude initial direct costs from the measurement of the right of use asset

The opening balance sheet at 1 January 2019 will be adjusted to create a right of use asset and a corresponding lease liability.

IFRS 16 is also expected to have impact on the following areas:

- Increase in EBITDA as a result of change in the presentation in the income statement as the operating lease payments under IAS 17 were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability under the new rules are excluded from this measure.

- Operating cash flows will increase and financing cash flows decrease as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

- Additional disclosures in the financial statements as a result of new disclosure requirements brought by the new standard.

The Bank is still assessing the full quantitative impact of the new standard and other areas of impact as part of the ongoing IFRS 16 implementation project.

(b) Interest income and expense

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

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

(1) Purchased or originated credit-impaired financial assets for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

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

Interest accruing from non-performing credit accommodations is suspended from being recognized in the statement of profit or loss and other comprehensive income. When a credit accommodation is upgraded to a current status, the suspended interest is released to the statement of profit or loss and other comprehensive income.

(c) Fees and commission income

Fees and commission are generally recognised on an accrual basis when the service has been rendered except those fees that form part of the effective interest rate.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into Tanzania Shillings using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

(e) Financial assets

Measurement methods

Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or financial liability is measured at 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 loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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

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

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

Measurement methods

Classification and subsequent measurement

Following the adoption of IFRS 9, the Bank classifies its financial assets into the following categories:

- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

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

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables.

The classification and subsequent measurement of debt instruments depends on:

(I) The Bank's business model for managing the assets; and

(II) The cash flow charateristics of the asset

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

(i) Amortised cost

This category includes assets that are held for collection of contractual cash flows where those cash flows represent solely payment of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss. The carrying amounts of these assets is adjusted by any expected credit loss allowance. Interest income from these assets is included in "interest and similar income" using the effective interest rate method. Loans and advances to customers, balances due from other banks, balances due from Bank of Tanzania and other assets fall under this classification.

(ii) Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset, except equity instruments designated at FVOCI, is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in 'Net Investment income'. Interest income from Government securities measured at FVOCI is included in 'Interest income' using the effective interest rate method. Government securities and equity investments fall under this classification.

(iii) Fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss.

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

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

Equity instruments

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

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

(f) Impairment of financial assets

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

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

Modification of loans

The Bank sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms.

If the terms are substantially different, the Bank derecognises the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

(g) Financial liabilities

The Bank's holding in financial liabilities is mainly in financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

Liabilities measured at amortised cost

Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

(h) Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and

- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

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

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

(i) Classes of financial instruments

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

Financial assets	**Category**
Cash and balances with Bank of Tanzania	Amortized cost
Balances due from other banks	Amortized cost
Government securities	Fair value through other comprehensive income
Loans and advances to customers	Amortized cost
Other assets excluding prepayments	Amortized cost
Equity investment	Fair value through other comprehensive income
Financial liabilities	
Balances due to other banks	Amortized cost
Deposits from customers	Amortized cost
Long term borrowings	Amortized cost
Other liabilities	Amortized cost
Derivatives	Fair value through profit or loss

(j) Derivative financial instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as for held for trading unless they are designated as hedging instruments. All derivatives are initially recognised and subsequently measured at fair value, with all fair value gains and losses recognised in profit and loss.

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs that are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(k) Income tax

Income tax expense is the aggregate of the charge to the profit or loss in respect of current tax and deferred tax. Current tax is the amount of income tax payable on the taxable profit for the period determined in accordance with the Income Tax Act, 2004 and its regulations.

Deferred tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(l) Provisions

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

(m) Property and equipment

Property and equipment are stated at historical cost less depreciation and accumulated impairment loss, if any. Depreciation is provided on the straight line basis so as to allocate the cost of assets to their residual values over their useful economic lives, at the following annual rates:

	Percentage
Leasehold property	20
Motor vehicles	20
Furniture and fittings	20
Office equipment & machinery	20
Computer hardware	20

The cost of land and building is amortized over the period of remaining long term lease. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each end of the reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the assets fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are recognised in profit or loss.

(n) Investment property

Investment properties include buildings that are held for long term rental yields and/or for capital appreciation and land under operating leases that is held for capital appreciation, or for a currently indeterminate use. Investment properties are initially recognised at cost and subsequently carried at fair value, determined annually by independent professional valuers. Changes in fair values are recognised in profit or loss. On disposal of an investment property, the difference between the disposal proceeds and the carrying amount is recognised in profit or loss.

(o) Intangible assets

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

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.
- Software costs recognised as intangible assets are amortised on a straight basis over their estimated useful life of five years

(p) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired at the end of the reporting period.

(q) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with Bank of Tanzania, Government Securities and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Bank of Tanzania.

(r) Employee benefits

The Bank and its employees contribute to the National Social Security Fund (NSSF) and PPF Pension Fund (PPF), which are statutory defined contribution schemes. Employees contribute 10% of their monthly emoluments while the Bank contributes 10% to the schemes. 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 years. The Bank's contributions to the defined contribution scheme are charged to profit or loss in the year to which they relate.

(s) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

(t) Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(u) Share capital

Ordinary shares are classified as 'share capital' in equity. New shares are recorded at nominal value and any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(v) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The total payments made under operating leases are charged to 'operating expenses' on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3. Financial risk management objectives

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risk. Taking risk is core to a financial business, and the operational risks are inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by a risk management department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, market risk (such as foreign exchange risk and interest rate risk), credit risk, and liquidity risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important risks are credit risk, liquidity risk and market risk. The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk and market risk.

3.1 Credit risk

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

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business; the Directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

3.1.1 Credit risk management

Loans and advances (incl. loan commitments and guarantees)

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'(EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default'-LGD). Exposure at default is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur. For regulatory purposes and for internal monitoring of the quality of the loan portfolio, all the customers are segmented into five rating classes as shown below:

Bank's internal ratings scale

BANK'S RATING	DESCRIPTION OF THE GRADE	EQUIVALENT IFRS 9 GRADING
1	CURRENT	STAGE I
2	ESPECIALLY MENTIONED	STAGE II
3	SUBSTANDARD	STAGE III
4	DOUBTFUL	STAGE III
5	LOSS	STAGE III

3.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified and in particular, to individual counterparties and groups, and to industries. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items. Actual exposures against limits are monitored daily. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

The following are ways the Bank use to mitigate the credit risks.

(i) Collateral

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

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

Long-term finance and lending to corporate entities are generally secured.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured. The outstanding balances and collaterals held by the Bank as at 31 December 2018 and 31 December 2017 against credit impaired/non-performing loans and advances to customers is as below:

CREDIT IMPAIRED ASSETS	GROSS EXPOSURE TZS'000	IMPAIRMENT ALLOWANCE TZS'000	CARRYING AMOUNT TZS'000	FAIR VALUE OF COLLATERAL HELD TZS'000
31 DECEMBER 2018				
SUBSTANDARD	10,265,813	3,769,739	2,413,560	9,332,000
DOUBTFUL	25,648,889	9,310,548	19,437,754	37,236,889
LOSS	10,890,138	7,266,222	6,104,505	17,715,000
TOTAL	46,804,840	20,346,509	27,955,819	64,283,889
31 DECEMBER 2017				
SUBSTANDARD	8,797,180	2,102,479	6,694,701	9,274,273
DOUBTFUL	15,233,980	2,531,142	12,702,838	15,104,033
LOSS	10,425,436	7,802,568	2,622,868	3,485,445
TOTAL	34,456,596	12,436,189	22,020,407	27,863,751

(ii) Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Expected credit loss measurement

The Banks follows a "three-stage" model for impairment based on changes in credit quality since initial recognition as follows:

• A financial instrument that is not credit impaired on initial recognition is classified in "Stage 1" and has it credit risk continuously monitored by the Bank.

• If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to "stage 2" but is not yet deemed to be credit-impaired. Please refer to note 3.1.3.1 for a description of how the Bank determines when a significant increase in credit risk has occurred.

• If the financial instrument is credit-impaired, the financial instrument is then moved to "stage 3". Please refer to note 3.1.3.2 for a description of how the Bank defines credit-impaired and default.

• Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to note 3.1.3.3 for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

• A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward looking information. Note 3.1.3.4 includes an explanation of how the Bank has incorporated this in its ECL models.

3.1.3.1 Significant increase in credit risk (SICR)

Loans and advances to customers

The Bank considers both qualitative and quantitative criteria to determine whether a loan to customer has experienced a significant increase in credit risk.

Quantitative criteria

A financial instrument is considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments or in case of non-amortising facilities, has an expired line or exposure above limit which has not been regularized for a period exceeding 30 days.

Qualitative criteria

A financial instrument is considered to have experienced a significant increase in credit risk If the borrower meets one or more of the following criteria:

- When client diverts funds to be used for another purpose instead of the approved purpose e.g. loan approved for working capital, but client used it for purchasing asset which is not generating enough cashflows

- Credit accommodations where corresponding promissory notes or credit agreements were signed by a person who is not authorized by the company/firm

- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates.

- Credit accommodations granted to companies not covered by authenticated board resolutions authorizing the borrowings

- un-located certificate of title for the property securing the granted credit facility

- At the time of undertaking of restructuring necessitated by financial difficulties

Balances due from other banks

The Bank considers both qualitative and quantitative criteria to determine whether a credit facility to other banks has experienced a significant increase in credit risk. This is this is done through internal rating system as shown in the following table.

Internal rating criteria

NO	RATING DESCRIPTION	SCORE RANGE	CREDIT RISK	STAGING
1	VERY GOOD	1.0 - <2.0	VERY LOW RISK	STAGE 1
2	GOOD	2.0 - <2.5	LOW RISK	STAGE 1
3	AVERAGE	2.5 - <3.0	RELATIVE LOW RISK	STAGE 1
4 & 5	POOR AND VERY POOR	3.0 - <=5.0	INCREASE IN CREDIT RISK	STAGE 2
-	DEFAULTED	ANY	IMPAIRED	STAGE 3

Interbank placements to counterparties between 1 and 3 are considered to have low credit risk at any point in time and at the reporting date unless they move to rating 4 & 5 or other factors which triggers significant increase in credit risk occurs. When a counterparty moves from upper category (1) to lower categories (2 or 3) it will not be considered as significant increase in credit risk since it does not depict significant changes in internal price indicators of credit risk, however when it is downgraded to category 4 & 5 will be considered as significant increase in credit risk.

Other qualitative factors considered as indicators of significant increase in credit risk are:

- Significant counterparty management restructuring or reorganisation due to prolonged poor performance of the entity

- Significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations

- Significant reductions in financial support from a parent entity that resulted to significant adverse changes of operating results of the counterparty.

Government securities

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

- The government has received a low credit rating ("C") by the international rating agencies.

- The government has initiated debt restructuring process

3.1.3.2 Definition of default and credit-impaired assets

Loans and advances to customers

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

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria

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

- Customer's business extinction or significant deterioration due to natural disaster or man-made factor with no business insurance recovery/reinstatement

- The borrower is deceased

- Customer business declared bankrupt, under liquidation, under supervisory management, or facing regulatory recovery that goes to rampant business closures.

- The borrower is in breach of financial covenant(s)

- Customer dealing with activities that are banned by current government policy i.e. change of government policy on particular activities or sector.

- The calling of the guarantee by the guaranteed third party, this to be applicable where the bank has issued a guarantee to back up its customer who is doing business with a third party.

Balances due from other banks

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

• When repayments of interest and principal are not done on time as per contractual schedules to the extent of 30 days delay.

• When a counterparty is taken under management by Statutory Manager.

• When a counterparty license has been revoked by the Central bank.

• When the counterparty is declared bankrupt by responsible bodies like Registration, Insolvency and Trusteeship Agency (RITA) and Court.

Government securities

For government securities, below events are considered as default when they occur.

• When repayments of interest and principal are not done on time as per contractual schedules and that such delays considered are not those caused by operational issues.

• When the government is downgraded to below rating "C" status by international rating agency such as Moody's, S&P, or Fitch.

• When the government is declared default/bankrupt by responsible agencies like World Bank or IMF.

3.1.3.3 Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

Loans and advances to customers

• The PD represents the likelihood of a borrower defaulting on its financial obligation (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

• EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. For fixed exposures EAD equate to current outstanding balance at the reporting date.

• Loss Given Default (LGD) represents the Banks's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD's are assessed based on recovery experience.

Balances due from other banks

• The ECL model for interbank placements is built on key variables Exposure at Default (EAD), Loss Given Default (LGD) and Probability of default (PD)

• The PD refers to the likelihood of a default over a time horizon. It provides an estimate of the likelihood that a borrower will be unable to meet its debt obligations. PD for counterparties are assessed under the framework of internal rating system.

• The EAD defined as gross exposure in the event of obligor default over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). The bank assesses EAD at each deal/facility level. EAD is equivalent to the existing outstanding balance (including interest accrued at the reporting date).

• The LGD, this refers to the share of an asset that is lost if a borrower default. LGD for interbank investment is computed based on recovery rate that is assessed based on historical recovery experience of counterparties' experience in the market.

Government securities

• The ECL model for government securities is built on key variables Exposure at Default (EAD), Loss Given Default (LGD) and Probability of default (PD)

• The PD refers to the likelihood of a default over a time horizon. It provides an estimate of the likelihood that a government will be unable to meet its debt obligations.

• The EAD defined as gross exposure in the event of government default over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). The bank assesses EAD at each deal/facility level. EAD is equivalent to the existing outstanding balance (including interest accrued at the reporting date).

• The LGD, this refers to the share of an asset that is lost if the government default. LGD for government securities is computed based on collateral placed or recovery rate experience.

3.1.3.3 Forward - looking information incorporated in the model

Incorporation of forward-looking parameters in ECL calculation has been assessed and analyzed to the extent of their relevance in relation to the bank's credit facilities performance and default rates and their availability with reasonable cost.

Macro-economic factors were assessed to check their correlation and/or causal effect relationship with bank default rates and evolution. None of them demonstrated hypothetical based correlation with the bank's default rate evolution over a period under observation. Industry sectorial performance was the only reliably available variable which show reasonable correlation with Bank's default rate evolution in the time horizon considered. Industry performance is the underlying variable which affects and affected by range of Macro-economic variables in the economy at large in the country. Thus, industry sectorial performance is the only factor incorporated in the ECL calculation specifically in PD computation that build ups the forward-looking perspective.

Sensitivity analysis

The most significant assumptions affecting the ECL allowance are as follows;

i) Market value of collaterals, given its impact on Loss Given Default (LGD)

ii) Realization period of re-possessed collaterals, given its impact on present value of the collaterals.

iii) Probabilities of default (PDs)

iv) Recovery rate for unsecured portfolio

Set out below are the changes to the ECL as at 31 December 2018 that would result from reasonably possible changes in these parameters from the actual assumptions used.

	CHANGE IN MARKET VALUE OF COLLATERALS	
	INCREASE BY 5%	DECREASE BY 5%
	TZS'000	TZS'000
INCREASE/(DECREASE) IN ECL ALLOWANCE	**(859,613)**	**991,362**

	CHANGE IN REALISATION PERIOD	
	INCREASE BY 1 YEAR	DECREASE BY 1 YEAR
	TZS'000	TZS'000
INCREASE/(DECREASE) IN ECL ALLOWANCE	**504,232**	**(467,632)**

	CHANGE IN PROBABILITY OF DEFAULTS(PDS)	
	INCREASE BY 5%	DECREASE BY 5%
	TZS'000	TZS'000
INCREASE/(DECREASE) IN ECL ALLOWANCE	**350,698**	**(350,698)**

	CHANGE IN RECOVERY RATE FOR UNSECURED FACILITIES	
	INCREASE FROM 10% TO 15%	DECREASE FROM 10% TO 5%
	TZS'000	TZS'000
INCREASE/(DECREASE) IN ECL ALLOWANCE	**(403,429)**	**403,429**

3.1.4 Write-off policy

The Bank writes off financial assets where when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. The decision to write off credit facility has to get approval by the Board of Directors.

3.1.5 Loss allowance

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

• Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;

• Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;

• Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;

• Impacts on the measurement of ECL due to changes made to models and assumptions;

• Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;

• Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and

• Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

	STAGE I	STAGE II	STAGE III	
ECL ALLOWANCE RECONCILIATION	12 - MONTH ECL TZS'000	LIFETIME ECL TZS'000	LIFETIME ECL TZS'000	TOTAL TZS'000
BALANCE AS AT 1 JANUARY	**5,956,989**	**977,019**	**13,016,456**	**19,950,464**
TRANSFERS:				
- TRANSFER FROM STAGE 1 TO STAGE 2	(189,226)	505,140	-	315,914
- TRANSFER FROM STAGE 1 TO STAGE 3	(817,974)	-	9,452,041	8,634,067
- TRANSFER FROM STAGE 2 TO STAGE 1	71,447	(437,716)	-	(366,269)
- TRANSFER FROM STAGE 2 TO STAGE 3	-	(154,815)	642,669	487,854
TRANSFER FROM STAGE 3 TO STAGE 1	529,734	-	(3,917,543)	(3,387,809)
TRANSFER FROM STAGE 3 TO STAGE 2	-	17,369	(61,997)	(44,628)
CHANGES IN MODEL ASSUMPTIONS	(626,387)	(26,377)	6,326,315	5,673,551
NEW FINANCIAL ASSETS ORIGINATED	1,836,647	125,727	2,689,313	4,651,687
WRITE-OFFS	(668,713)	(298,461)	(7,800,745)	(8,767,919)
BALANCE AS AT 31 DECEMBER	**6,092,517**	**707,886**	**20,346,509**	**27,146,912**

3.1.6 Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum on balance sheet exposure to credit risk is as shown below:

	2018		2017	
	TZS'000	%	TZS'000	%
CASH AND BALANCES WITH BANK OF TANZANIA	25,358,242	6.3%	43,014,682	8.8%
BALANCES DUE FROM OTHER BANKS	58,173,243	14.6%	105,367,043	21.6%
GOVERNMENT SECURITIES	46,235,929	11.6%	32,509,442	6.7%
LOANS AND ADVANCES TO CUSTOMERS	265,339,181	66.4%	300,712,936	61.8%
OTHER ASSETS	4,347,580	1.1%	5,217,487	1.1%
TOTAL	399,454,175	100%	486,821,590	100%

The table below show the profile of the loans and advances to customers analysed according to the internal ratings grading system.

	2018			
	STAGE I	STAGE II	STAGE III	
	12 - MONTH ECL TZS'000	LIFETIME ECL TZS'000	LIFETIME ECL TZS'000	TOTAL TZS'000
CURRENT	232,903,684	-	-	232,903,684
ESPECIALLY MENTIONED	-	12,777,570	-	12,777,570
SUBSTANDARD	-	-	4,685,811	4,685,811
DOUBTFUL	-	-	28,748,302	28,748,302
LOSS	-	-	13,370,727	13,370,727
GROSS CARRYING AMOUNT	232,903,684	12,777,570	46,804,840	292,486,094
ECL ALLOWANCE	(6,092,517)	(707,887)	(20,346,509)	(27,146,913)
NET LOANS & ADVANCES	226,811,167	12,069,683	26,458,331	265,339,181

	2017			
	STAGE I	STAGE II	STAGE III	
	12 - MONTH ECL TZS'000	LIFETIME ECL TZS'000	LIFETIME ECL TZS'000	TOTAL TZS'000
CURRENT	243,299,313	-	-	243,299,313
ESPECIALLY MENTIONED	-	36,074,795	-	36,074,795
SUBSTANDARD	-	-	8,797,180	8,797,180
DOUBTFUL	-	-	15,233,980	15,233,980
LOSS	-	-	10,425,436	10,425,436
GROSS CARRYING AMOUNT	243,299,313	36,074,795	34,456,596	313,830,704
ECL ALLOWANCE	(681,579)	-	(12,436,189)	(13,117,768)
NET LOANS & ADVANCES	242,617,734	36,074,795	22,020,407	300,712,936

	2018 (%)		2017 (%)	
	GROSS LOANS & ADVANCES	IMPAIRMENT PROVISIONS	GROSS LOANS & ADVANCES	IMPAIRMENT PROVISIONS
STAGE I	80.0%	24%	74%	5.2%
STAGE II	4.0%	3%	14.6%	-
STAGE III	15.90%	73%	11%	94.8%
TOTAL	100%	100%	100%	100%

3.1.7 Profile of financial assets subject to credit risk

	2018 (TZS'000)		2017 (TZS'000)	
	LOANS AND & ADVANCES TO CUSTOMERS	ALL OTHER FINANCIAL ASSETS SUBJECT TO CREDIT RISK	LOANS AND & ADVANCES TO CUSTOMERS	ALL OTHER FINANCIAL ASSETS SUBJECT TO CREDIT RISK
STAGE I	232,903,684	110,307,757	233,643,664	186,108,654
STAGE II	12,777,570	-	45,730,444	-
STAGE III	46,804,840	23,807,237	34,456,596	-
GROSS	292,486,094	134,114,994	313,830,704	186,108,654
LESS IMPAIRMENT ALLOWANCES:	(27,146,913)	-	(13,117,768)	-
TOTAL	265,339,181	134,114,994	300,712,936	186,108,654

Analysis of all other financial assets subject to credit risk:

	STAGE I	STAGE II	STAGE III	SPECIFIC IMPAIRMENT	NET
2018 (TZS'000)					
CASH AND BALANCES WITH BANK OF TANZANIA	25,358,242	-	-	-	25,358,242
BALANCES DUE FROM OTHER BANKS	34,366,006	-	23,807,237	-	58,173,243
GOVERNMENT SECURITIES HELD AT FVOCI	46,235,929	-	-	-	46,235,929
OTHER ASSETS (EXCLUDING PREPAYMENTS & STATIONERIES)	4,347,580	-	-	-	4,347,580
TOTAL	110,307,757	-	23,807,237	-	134,114,994
2017 (TZS'000)					
CASH AND BALANCES WITH BANK OF TANZANIA	43,014,682	-	-	-	43,014,682
BALANCES DUE FROM OTHER BANKS	105,367,043	-	-	-	105,367,043
GOVERNMENT SECURITIES HELD AT AMORTIZED COST	32,509,442	-	-	-	32,509,442
OTHER ASSETS (EXCLUDING PREPAYMENTS & STATIONERIES)	5,217,487	-	-	-	5,217,487
TOTAL	186,108,654	-	-	-	186,108,654

At the end of the reporting period, the total impairment provision for loans and advances was TZS 27,147 million (2017: TZS 13,118 million). Further information of the impairment allowance for loans and advances to customers is provided in note 18.

At 31 December 2018, the Bank's total loans and advances to customers declined by 11.3% as a result decision to curtail lending to public sector employees in the aftermath of government verification of civil servants' certificates and the general deterioration of credit quality across the banking industry. When entering into new markets or new industries, in order to minimize the potential increase of credit risk exposure, the Bank focuses more on the business with corporate clients or banks with good credit rating or retail customers providing sufficient collateral.

(a) Stage I

The portfolio of loans and advances that were classified as stage I in 2018 and 2017 can be analyzed as follows: (Amounts are in TZS'000).

	INDIVIDUAL (RETAIL)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SME	TOTAL
31 DECEMBER 2018					
STAGE I	1,060,012	83,504,567	122,250,086	26,828,999	233,643,664
31 DECEMBER 2017					
STAGE I	1,271,678	74,420,870	134,729,416	23,221,700	233,643,664

(b) Stage II

Loans and advances that were classified as stage II in 2018 and 2017 is analyzed as follows:(Amounts are in TZS'000).

	INDIVIDUAL (RETAIL)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SME	TOTAL
31 DECEMBER 2018					
STAGE II	9,081	2,632,295	8,623,960	1,512,234	12,777,570
31 DECEMBER 2017					
STAGE II	11,163	2,837,135	41,689,270	1,192,876	45,730,444

(c) Other financial assets stage I

	2018 TZS'000	2017 TZS'000
GOVERNMENT SECURITIES	46,235,929	32,509,442
CASH AND BALANCES WITH BANK OF TANZANIA	25,358,242	43,014,682
PLACEMENTS WITH OTHER BANKS	34,366,006	-
OTHER ASSETS (EXCLUDING PREPAYMENTS & STATIONERIES)	4,347,580	5,217,487
TOTAL	110,307,757	80,741,611

Other financial assets stage III

	2018 TZS'000	2017 TZS'000
PLACEMENTS WITH OTHER BANKS	23,807,237	-
TOTAL	23,807,237	-

(d) Stage III

The breakdown of the gross amount of loans and advances in stage III in 2018 and 2017 are as follows: (Amounts are in TZS'000).

	INDIVIDUAL (RETAIL)		CORPORATE ENTITIES		
	OVERDRAFT	TERM LOANS	CORPORATE CUSTOMERS	SME	TOTAL
31 DECEMBER 2018					
STAGE III	1,056,190	9,496,552	30,498,054	5,754,044	46,804,840
31 DECEMBER 2017					
STAGE III	1,277,301	8,865,108	19,737,028	4,577,159	34,456,596

As stated in note 2(g) allowance for impairment loss has been recognised for the amount by which the assets carrying amount exceed recoverable amount. Consequently, not all individually assessed loans and advances have been fully provided for.

(ii) Balance due from other banks

The total gross amount of balances due from other banks categorised in stage III as at 31 December 2018 was TZS 23,807,237,000 (2017: Nil).

3.1.8 Repossessed collateral

During the year, the Bank obtained assets by taking possession of collateral held as security, as follows:

	CARRYING AMOUNTS	
	2018	2017
NATURE OF ASSETS	TZS'000	TZS'000
RESIDENTIAL PROPERTY	1,005,000	1,149,000
MOTOR VEHICLES	103,500	-
TOTAL	1,108,500	1,149,000

Repossessed assets are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

3.1.9 Restructured facilities

At end of the reporting period, the Bank had restructured facilities amounting to TZS 20,530 million (2017: TZS 20,996 million).

	2018	2017
	TZS'000	TZS'000
STAGE I	5,434,061	5,769,399
STAGE II	48,179	4,193,821
STAGE III	15,047,532	11,033,089
TOTAL	20,529,772	20,996,309

(a) Geographical sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as of 31 December 2018. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties (amounts are in TZS'000):

	TANZANIA	EUROPE	AMERICA	OTHERS	TOTAL
CASH AND BALANCES WITH BANK OF TANZANIA	25,358,242	-	-	-	25,358,242
BALANCE DUE FROM OTHER BANKS	34,073,831	4,509,405	19,589,461	546	58,173,243
GOVERNMENT SECURITIES	46,235,929	-	-	-	46,235,929
LOANS AND ADVANCES TO CUSTOMERS					
TO INDIVIDUALS:					
- OVERDRAFT	1,204,079	-	-	-	1,204,079
- TERM LOANS	86,248,962	-	-	-	86,248,962
TO CORPORATE ENTITIES:					
- CORPORATE CUSTOMERS	147,789,753	-	-	-	147,789,753
- SMES	30,096,387	-	-	-	30,096,387
OTHER ASSETS (EXCLUDING PREPAYMENTS & INVENTORIES)	4,347,580	-	-	-	4,347,580
AS 31 DECEMBER 2018	**375,354,763**	**4,509,405**	**19,589,461**	**546**	**399,454,175**
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS ARE AS FOLLOWS:					
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	7,293,833	-	-	-	7,293,833
OUTSTANDING GUARANTEES AND INDEMNITIES	51,203,918	13,794,000	-	-	64,997,918
LETTERS OF CREDIT	4,525,716	-	-	-	4,525,716
AS 31 DECEMBER 2018	**63,023,467**	**13,794,000**	**-**	**-**	**76,817,468**

	TANZANIA	EUROPE	AMERICA	OTHERS	TOTAL
CASH AND BALANCES WITH BANK OF TANZANIA	43,014,682	-	-	-	43,014,682
BALANCE DUE FROM OTHER BANKS	79,973,728	805,849	24,580,008	7,458	105,367,043
GOVERNMENT SECURITIES	32,509,442	-	-	-	32,509,442
LOANS AND ADVANCES TO CUSTOMERS					
TO INDIVIDUALS:					
- OVERDRAFT	2,319,016	-	-	-	2,319,016
- TERM LOANS	78,910,456	-	-	-	78,910,456
TO CORPORATE ENTITIES:					
- CORPORATE CUSTOMERS	192,827,609	-	-	-	192,827,609
- SMES	26,655,855	-	-	-	26,655,855
OTHER ASSETS (EXCLUDING PREPAYMENTS & INVENTORIES)	5,217,487	-	-	-	5,217,487
AS 31 DECEMBER 2017	**461,428,275**	**805,849**	**24,580,008**	**7,458**	**486,821,590**
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS ARE AS FOLLOWS:					
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	10,873,312	-	-	-	10,873,312
OUTSTANDING GUARANTEES AND INDEMNITIES	59,233,214	-	-	-	59,233,214
LETTERS OF CREDIT	15,033,329	-	-	-	15,033,329
AS 31 DECEMBER 2017	**85,139,855**	**-**	**-**	**-**	**85,139,855**

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by the industry sectors of its counterparties (amounts are in TZS'000):

31 DECEMBER 2018	FINANCIAL INSTITUTIONS	AGRICULTURE	MANUFACTURING	BUILDING & CONSTRUCTION	GOVERNMENT	TRANSPORTATION	WHOLESALE AND RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
CASH AND BALANCES WITH BOT	25,358,242	-	-	-	-	-	-	-	-	25,358,242
BALANCE DUE FROM OTHER BANKS	58,173,243	-	-	-		-	-	-	-	58,173,243
GOVERNMENT SECURITIES	-	-	-	-	46,235,929	-	-	-	-	46,235,929
LOANS AND ADVANCES TO CUSTOMERS										
TO INDIVIDUAL:										
- OVERDRAFT	-	62,503	596	-	-	-	218,490	792,575	129,915	1,204,079
- TERM LOANS	-	715,812	1,094,108	108,533	-	726,337	1,603,990	77,508,411	4,491,771	86,248,962
TO CORPORATE ENTITIES:										
- CORPORATE CUSTOMERS	14,035,298	6,000,527	8,165,004	4,198,790	6,866,144	25,666,657	10,003,362	5,255,275	67,598,696	147,789,753
- SMES	969,567	1,107,116	6,944,301	1,054,958	-	1,115,588	2,136,575	9,150,935	7,617,346	30,096,386
OTHER ASSETS	-	-	-	-	-	-	-	-	4,347,580	4,347,580
AT 31 DECEMBER 2018	**98,536,350**	**7,885,958**	**16,204,009**	**5,362,281**	**53,102,073**	**27,508,582**	**13,962,417**	**92,707,196**	**84,185,308**	**399,454,174**
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS ARE AS FOLLOWS:										
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	31,640	330,616	1,106,109	288,363	-	1,370,540	396,409	1,328,086	2,442,070	7,293,833
OUTSTANDING GUARANTEES AND INDEMNITIES	13,822,442	-	24,710,192	16,743,156	-	54,410	390,261	2,192,548	7,084,909	64,997,918
LETTERS OF CREDIT	-	-	3,759,551	-	-	-	-	-	766,165	4,525,716
AT 31 DECEMBER 2018	**13,854,082**	**330,616**	**29,575,852**	**17,031,519**	**-**	**1,424,950**	**786,670**	**3,520,634**	**10,293,144**	**76,817,4687**

31 DECEMBER 2017	FINANCIAL INSTITUTIONS	AGRICULTURE	MANUFACTURING	BUILDING & CONSTRUCTION	GOVERNMENT	TRANSPORTATION	WHOLESALE AND RETAIL TRADE	INDIVIDUALS	OTHER	TOTAL
CASH AND BALANCES WITH BOT	43,014,682		-	-	-	-	-	-	-	85,157,828
BALANCE DUE FROM OTHER BANKS	105,367,043	-	-	-	-	-	-	-	-	63,223,897
GOVERNMENT SECURITIES	-		-	-	32,509,442	-	-	-	-	32,509,442
LOANS AND ADVANCES TO CUSTOMERS										
TO INDIVIDUAL:										
- OVERDRAFT	-	-	437,836	8,207	243	2,912	232,752	1,341,045	296,021	2,319,016
- TERM LOANS	1,071,691	387,266	1,025,534	168,705	14,843	665,454	1,018,369	67,842,822	6,715,773	78,910,457
TO CORPORATE ENTITIES:										
- CORPORATE CUSTOMERS	21,377,120	11,527,431	7,035,744	4,562,781	10,336,340	32,728,908	9,565,305	7,659,332	88,034,649	192,827,610
- SMES	1,250,835	1,868,075	2,220,070	1,480,430	246,488	736,964	1,127,581	9,227,908	8,497,502	26,655,853
OTHER ASSETS	-	-	-	-	-	-	-	-	5,217,487	5,217,487
AT 31 DECEMBER 2017	**171,081,371**	**13,782,772**	**10,719,184**	**6,220,123**	**43,107,356**	**34,134,238**	**11,944,007**	**86,071,107**	**108,761,432**	**486,821,590**
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS ARE AS FOLLOWS:										
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	1,984,019	379,435	3,469,083	152,816	-	1,299,069	85,271	1,850,464	1,653,155	10,873,312
OUTSTANDING GUARANTEES AND INDEMNITIES	-	154,304	231,956	43,846,731	-	-	2,301,619	1,402,387	11,296,217	59,233,214
LETTERS OF CREDIT	-	-	1,899,745	-	-	-	4,155,030	-	8,978,554	15,033,329
AT 31 DECEMBER 2017	**1,984,019**	**533,739**	**5,600,784**	**43,999,547**	**-**	**1,299,069**	**6,541,920**	**3,252,851**	**21,927,926**	**85,139,855**

3.2 Market risk

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

The market risks arising from trading and non-trading activities are concentrated in the Bank's treasury department and monitored regularly. Regular reports are submitted to the Board of Directors and heads of department. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

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

3.2.1 Foreign exchange risk

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

At 31 December 2018, if the functional currency had strengthened/weakened by 5% against the United States Dollar (USD) with all other variables held constant, post-tax profit for the year would have been TZS 704 million (2017: TZS 663 million) lower/higher mainly as a result of foreign exchange gains/losses on translation of for USD denominated financial assets and liabilities, respectively.

At 31 December 2018, if the functional currency had strengthened/weakened by 5% against the Sterling Pound (GBP) with all other variables held constant, post-tax profit for the year would have been TZS 0.9 million (2017: 16 million) lower/higher mainly as a result of foreign exchange gains/losses on translation of for Sterling Pound denominated financial assets and liabilities respectively.

At 31 December 2018, if the functional currency had strengthened/weakened by 5% against the Euro with all other variables held constant, post-tax profit for the year would have been TZS 873 million (2017: 2.4 million) lower/higher mainly as a result of foreign exchange gains/losses on translation of for Euro denominated financial assets and liabilities respectively.

The exposure to foreign currencies other than the USD, Euro and GBP is minimal.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2018 and 2017. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

AT 31 DECEMBER 2018 (AMOUNTS IN TZS'000)	TZS	USD	EURO	GBP	ZAR	KES	UGX	TOTAL
ASSETS								
CASH AND BALANCE WITH BANK OF TANZANIA	35,303,885	9,977,326	594,461	204,009	-	5,260	260	46,085,201
BALANCE DUE FROM OTHER BANKS	21,787,807	32,281,551	3,299,251	803,586	802	80	166	58,173,243
GOVERNMENT SECURITIES	46,235,929	-	-	-	-	-	-	46,235,929
EQUITY INVESTMENT	1,200,200	-	-	-	-	-	-	1,200,200
LOANS AND ADVANCES TO CUSTOMERS	157,796,766	107,386,832	155,583	-	-	-	-	265,339,181
OTHER ASSETS (EXCLUDING PREPAYMENT & INVENTORIES)	4,347,580	-	-	-	-	-	-	4,347,580
TOTAL FINANCIAL ASSETS	266,672,167	149,645,709	4,049,295	1,007,595	802	5,340	426	421,381,334
LIABILITIES								
BALANCE DUE TO OTHER BANKS	19,339	31,235,465	52,670	-	-	-	-	31,307,474
DEPOSITS FROM CUSTOMERS	215,389,677	90,987,256	25,880,898	979,940	-	-	-	333,237,771
DERIVATIVE FINANCIAL INSTRUMENTS	-	448,841	-	-	-	-	-	448,841
LONG TERM BORROWINGS	10,921,211	9,579,998	596,374	-	-	-	-	21,097,583
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	2,479,642		825,122	2,472,921	-	-	-	- 5,777,685
TOTAL FINANCIAL LIABILITIES	228,809,869	133,076,682	29,002,863	979,940	-	-	-	391,869,354
NET ON BALANCE SHEET FINANCIAL POSITION	37,862,298	16,569,027	(24,953,568)	27,655	802	5,340	426	29,511,980
CREDIT COMMITMENTS	3,760,201	3,533,632	-	-	-	-	-	7,293,833

AT 31 DECEMBER 2017 (AMOUNTS IN TZS'000)	TZS	USD	EURO	GBP	ZAR	KES	UGX	TOTAL
ASSETS								
CASH AND BALANCE WITH BANK OF TANZANIA	58,177,745	21,942,202	1,056,641	429,837	-	2,742	309	81,609,476
BALANCE DUE FROM OTHER BANKS	19,982,975	51,003,572	34,171,855	201,183	3,646	1,056	2,756	105,367,043
GOVERNMENT SECURITIES	32,509,442	-	-	-	-	-	-	32,509,442
EQUITY INVESTMENT	1,020,000	-	-	-	-	-	-	1,020,000
DERIVATIVE FINANCIAL INSTRUMENTS	-	6,123	-	-	-	-	-	6,123
LOANS AND ADVANCES TO CUSTOMERS	167,896,806	132,666,796	149,334	-	-	-	-	300,712,936
OTHER ASSETS (EXCLUDING PREPAYMENT & INVENTORIES)	5,217,487	-	-	-	-	-	-	5,217,487
TOTAL FINANCIAL ASSETS	284,804,455	205,618,693	35,377,830	631,020	3,646	3,798	3,065	526,442,507
LIABILITIES								
BALANCE DUE TO OTHER BANKS	-	79,733,889	53,595	-	-	-	-	79,787,484
DEPOSITS FROM CUSTOMERS	237,956,919	99,048,870	32,186,532	175,599	-	-	-	369,367,921
SUBORDINATED DEBTS								
LONG TERM BORROWINGS	10,921,211	12,772,278	942,851	-	-	-	-	24,636,340
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	4,637,618	559,242	2,125,924	-	-	-	-	7,322,784
TOTAL FINANCIAL LIABILITIES	253,515,748	192,114,280	35,308,902	175,599	-	-	-	481,114,529
NET ON BALANCE SHEET FINANCIAL POSITION	31,288,707	13,504,413	68,928	455,421	3,646	3,798	3,065	45,327,978
CREDIT COMMITMENTS	5,411,523	5,460,284	1,505	-	-	-	-	10,873,312

3.2.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily. The table below summarises the Bank's exposure to interest rate risk. It includes the Bank's financial instruments at carrying amounts, categorised by maturity dates. The Bank does not bear any interest rate risk on off balance sheet items. (amounts are TZS'000).

AT 31 DECEMBER 2018	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON-INTEREST BEARING	TOTAL
ASSETS							
CASH AND BALANCES WITH BANK OF TANZANIA	-	-	-	-	-	46,085,201	46,085,201
BALANCES DUE FROM OTHER BANKS	27,927,964	-	-	-	-	30,245,279	58,173,243
GOVERNMENT SECURITIES	-	-	35,790,568	10,445,361	-	-	46,235,929
EQUITY INVESTMENT	-	-	-	-	-	1,200,200	1,200,200
LOANS AND ADVANCES TO CUSTOMERS	88,974,887	4,245,777	16,696,914	88,617,304	66,804,299	-	265,339,181
OTHER ASSETS (EXCLUDING PREPAYMENTS & INVENTORIES)	-	-	-	-	-	4,347,580	4,347,580
TOTAL FINANCIAL ASSETS	116,902,851	4,245,777	52,487,482	99,062,665	66,804,299	81,878,260	421,381,334
LIABILITIES							
BALANCE DUE TO OTHER BANKS	270,974	-	11,495,000	19,541,500	-	-	31,307,474
DEPOSITS FROM CUSTOMERS	31,377,096	12,484,568	59,613,533	48,517,154	113,640	181,131,780	333,237,772
DERIVATIVE FINANCIAL INSTRUMENTS	-	-	-	-	-	448,841	448,841
LONG TERM BORROWINGS	-	-	-	16,499,583	4,598,000	-	21,097,583
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	-	-	-	-	-	5,777,685	5,777,685
TOTAL FINANCIAL LIABILITIES	31,648,070	12,484,568	71,108,533	84,558,237	4,711,640	187,358,306	391,869,354
TOTAL INTEREST SENSITIVITY GAP	85,254,781	(8,238,791)	(18,621,051)	14,504,428	62,092,658	-	-

AT 31 DECEMBER 2017	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON-INTEREST BEARING	TOTAL
ASSETS							
CASH AND BALANCES WITH BANK OF TANZANIA	-	-	-	-	-	81,609,476	81,609,476
BALANCES DUE FROM OTHER BANKS	53,630,132	17,929,280	448,232	-	-	33,359,399	105,367,043
GOVERNMENT SECURITIES HELD AT AMORTIZED COST	-	-	21,946,828	10,562,614	-	-	32,509,442
EQUITY INVESTMENT	-	-	-	-	-	1,020,000	1,020,000
DERIVATIVE FINANCIAL INSTRUMENTS	-	-	-	-	-	6,123	6,123
LOANS AND ADVANCES TO CUSTOMERS	56,184,738	24,181,407	42,854,069	144,535,071	32,957,651	-	300,712,936
OTHER ASSETS (EXCLUDING PREPAYMENTS & INVENTORIES)	-	-	-	-	-	5,217,487	5,217,487
TOTAL FINANCIAL ASSETS	109,814,870	42,110,687	65,249,129	155,097,685	32,957,651	121,212,485	526,442,507
LIABILITIES							
BALANCE DUE TO OTHER BANKS	40,446,354	22,411,600	16,808,700	-	-	120,830	79,787,484
DEPOSITS FROM CUSTOMERS	51,435,724	10,957,765	85,511,820	16,513,082	-	204,949,530	369,367,921
LONG TERM BORROWINGS	-	-	4,482,320	20,154,020	-	-	24,636,340
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	-	-	-	-	-	7,322,784	7,322,784
TOTAL FINANCIAL LIABILITIES	91,882,078	33,369,365	106,802,840	36,667,102	-	212,393,144	481,114,529
TOTAL INTEREST SENSITIVITY GAP	17,932,792	8,741,322	(41,553,711)	118,430,583	32,957,651	-	-

The table below summarises a range of effective interest rates by major currencies for monetary financial instruments for the year ended 31 December 2017 and 2016:

	2018		2017	
	TZS	USD	TZS	USD
ASSETS				
LOANS AND ADVANCES TO CUSTOMERS	11.5% -28%	6.0% -13%	11.5% -28%	6.0% -13%
LOANS AND ADVANCES TO BANKS	3.5% -4.8%	2.5% -6%	3.5% -21%	2.5% -4.5%
LIABILITIES				
DEPOSITS FROM CUSTOMERS	4% -12%	0.8% -3%	4% -16.5%	0.8% -3.3%
BALANCES DUE FROM OTHER BANKS	6% -11.5%	2% -4.2%	6% -15%	2% -4.2%
LONG TERM BORROWINGS	10%	2.50%	10%	2.50%

At 31 December 2018, if the interest rates on functional currency denominated assets and liabilities had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been TZS 284 million (2017: TZS 283 million) lower/higher, mainly as a result of fluctuations in interest income and interest expense.

At 31 December 2018, if the interest rates on USD denominated assets and liabilities had been 100 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been TZS 78 million (2017: TZS 382 million) lower/higher, mainly as a result of fluctuations in interest income and interest expense. The exposure to interest rates fluctuations on assets and liabilities denominated in currencies other than USD is minimal.

3.2.3 Price risk

The Bank hold financial instruments at fair value that is subject to price risk

At 31 December 2018, if the price of the equity at FVOCI had been 100 basis points higher/lower with all other variables held constant, other comprehensive income net of tax for the year would have been TZS 84 million higher/lower (2017: Nil).

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate treasury team, includes:

• Maintaining documented liquidity risk/crisis management plans which among other things defines situations which could precipitate liquidity crisis. Examples of such situations are: unusual activities at the branches, default by one or more large borrowers, devaluation of currency in which the Bank has large exposure, large litigation claim on the Bank etc;

• Maintaining adequate liquidity at all times and for all currencies, and hence to be in a position, in the normal course of business to meet all our obligations, to repay depositors, to fulfill commitments to lend and to meet any other commitment made. This takes the form of maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

• Managing the concentration and profile of debt maturities;

• Presence of Liquidity Crisis Management Team (LCMT) whose purpose is to mitigate adverse effects of liquidity crisis. Among other things, it is tasked with: investigating causes of crisis, assess the timing and duration thereof; decide on preliminary remedial actions to mitigate the effects of the crisis; assessing market sentiments.

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

3.3.2 Funding approach

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

3.3.3 Non-derivative cash flows

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows, as the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
AT 31 DECEMBER 2018						
LIABILITIES						
BALANCES DUE TO OTHER BANKS	270,974	-	11,802,332	-	-	12,073,306
DEPOSITS FROM CUSTOMERS	258,472,788	26,275,781	53,128,871	79,834	-	337,957,274
LONG TERM BORROWINGS	-	1,387,560	4,109,150	21,259,190	3,329,799	30,085,699
OTHER LIABILITIES	5,777,685	-	-	-	-	5,777,685
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	264,521,447	27,663,341	69,040,353	21,339,024	3,329,799	385,893,964
TOTAL ASSETS (EXPECTED MATURITY DATES)	173,320,869	12,639,968	24,321,500	146,915,478	66,518,773	423,716,589
LIQUIDITY GAP	91,200,578	15,023,373	44,718,853	(125,576,454)	(63,188,974)	(37,822,625)
AT 31 DECEMBER 2017						
LIABILITIES						
BALANCES DUE TO OTHER BANKS	40,772,576	22,568,201	17,103,179	-	-	80,443,956
DEPOSITS FROM CUSTOMERS	212,794,235	48,213,907	94,256,329	17,939,979	-	373,204,450
LONG TERM BORROWINGS	-	1,387,560	7,500,845	21,259,190	-	30,147,595
OTHER LIABILITIES	7,322,784	-	-	-	-	7,322,784
TOTAL LIABILITIES (CONTRACTUAL MATURITY DATES)	260,889,595	72,169,668	118,860,353	39,199,169	-	491,118,785
TOTAL ASSETS (EXPECTED MATURITY DATES)	184,013,624	49,294,892	63,523,991	228,033,285	65,299,777	590,165,570
LIQUIDITY GAP	76,875,971	22,874,776	55,336,362	(188,834,116)	(65,299,777)	(99,046,785)

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, balances with Bank of Tanzania, items in the course of collection and treasury bill, balance due from other banks and loans and advances to customers.

Derivative cashflows

The table below analyses the Bank's derivative financial instruments that will be settled on gross and net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	OVER 5 YEARS	TOTAL
AT 31 DECEMBER 2018					
FOREIGN CURRENCY DERIVATIVES:					
PURCHASE	-	(25,467,133)	-	-	(25,467,133)
SALE	-	25,018,293	-	-	25,018,293
NET	-	(448,841)	-	-	(448,841)
AT 31 DECEMBER 2017					
FOREIGN CURRENCY DERIVATIVES:					
PURCHASE	-	(447,500)	-	-	(447,500)
SALE	-	453,623	-	-	453,623
NET	-	6,123	-	-	6,123

3.3.4 Fair values of financial assets and liabilities

The fair values of government securities are based on the last auction for treasury bills and bonds that was held at year end. The fair values of the Bank's other financial assets such as loans and advances to customers and financial liabilities such as deposits and interbank borrowings approximate the respective carrying amounts due to the generally short periods to maturity dates.

Deposits from banks and customers

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

Fair value hierarchy

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like futures.

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters are: LIBOR yield curve, Bloomberg and Reuters.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below as at 31 December 2018 and 2017:

	LEVEL 1 TZS'000	LEVEL 2 TZS'000	LEVEL 3 TZS'000	TOTAL FAIR VALUE TZS'000
31 DECEMBER 2018				
ASSETS				
GOVERNMENT SECURITIES	-	46,235,929	-	46,235,929
EQUITY INVESTMENT	-	1,200,200	-	1,200,200
	-	47,436,129	-	47,436,129
LIABILITIES				
DERIVATIVE FINANCIAL INSTRUMENTS	-	448,841	-	-
31 DECEMBER 2017				
LIABILITIES				
DERIVATIVE FINANCIAL INSTRUMENTS	-	6,123	-	-

During the current year, there were no intra level transfers.

The table below analyses the fair value hierarchy the Bank's financial assets and liabilities (by class) not measured at fair value at 31 December 2018.

	LEVEL 1 TZS'000	LEVEL 2 TZS'000	LEVEL 3 TZS'000	TOTAL FAIR VALUE TZS'000	CARRYING VALUE TZS'000
ASSETS					
CASH AND BALANCE WITH BANK OF TANZANIA	-	46,085,201	-	46,085,201	46,085,201
BALANCE DUE FROM OTHER BANKS	-	58,173,243	-	58,173,243	58,173,243
LOANS AND ADVANCES TO CUSTOMERS	-	265,339,181	-	265,339,181	265,339,181
OTHER ASSETS (EXCLUDING PREPAYMENT & INVENTORIES)	-	4,347,580	-	4,347,580	4,347,580
TOTAL	-	373,945,205	-	373,945,205	373,945,205
LIABILITIES					
BALANCE DUE TO OTHER BANKS	-	31,307,474	-	31,307,474	31,307,474
DEPOSITS FROM CUSTOMERS	-	333,237,771	-	333,237,771	333,237,771
LONG TERM BORROWINGS	-	21,097,583	-	21,097,583	21,097,583
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	-	5,777,685	-	5,777,685	5,777,685
TOTAL	-	391,420,513	-	391,420,513	391,420,513

The table below analyses the fair value hierarchy the Bank's financial assets and liabilities (by class) not measured at fair value at 31 December 2017.

	LEVEL 1 TZS'000	LEVEL 2 TZS'000	LEVEL 3 TZS'000	TOTAL FAIR VALUE TZS'000	CARRYING VALUE TZS'000
ASSETS					
CASH AND BALANCE WITH BANK OF TANZANIA	-	81,609,476	-	81,609,476	81,609,476
BALANCE DUE FROM OTHER BANKS	-	105,367,043	-	105,367,043	105,367,043
GOVERNMENT SECURITIES	-	32,009,442	-	32,009,442	29,102,347
LOANS AND ADVANCES TO CUSTOMERS	-	300,712,936	-	300,712,936	300,712,936
OTHER ASSETS (EXCLUDING PREPAYMENT & INVENTORIES)	-	5,217,487	-	5,217,487	5,217,487
TOTAL	-	524,916,384	-	524,916,384	522,009,289
LIABILITIES					
BALANCE DUE TO OTHER BANKS	-	79,787,484	-	79,787,484	79,787,484
DEPOSITS FROM CUSTOMERS	-	369,367,921	-	369,367,921	369,367,921
LONG TERM BORROWINGS	-	24,636,340	-	24,636,340	24,636,340
OTHER LIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	-	7,322,784	-	7,322,784	7,322,784
TOTAL	-	481,114,529	-	481,114,529	481,114,529

3.4 Capital management

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

- To comply with the capital requirements set by the regulator;

- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines provided by the Bank of Tanzania (BoT), for supervisory purposes. The required information is filed with the BoT on a monthly and daily basis.

The Bank of Tanzania (BoT) requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of TZS 15 billion, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset at or above the minimum of 14.5%. The Bank's regulatory capital as managed by its Treasury Department and Finance Department is divided into two tiers

- Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. Prepaid expenses, deferred charges and intangible assets are deducted in arriving at Tier 1 capital; and

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

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of - and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital of the Bank for the year ended 31 December 2018 and year ended 31 December 2017.

	2018 TZS'000	2017 TZS'000
TIER 1 CAPITAL		
SHARE CAPITAL	37,021,000	37,021,000
RETAINED EARNINGS	9,473,571	12,686,032
SHARE PREMIUM	12,780,383	12,780,383
LESS: DEFERRED TAX ASSET	(8,063,432)	(4,273,943)
LESS: INTANGIBLE ASSETS	(1,414,320)	(542,669)
LESS: PREPAID EXPENSES	(2,502,701)	(2,789,536)
TOTAL QUALIFYING TIER 1 CAPITAL	47,294,501	54,881,267
TIER 2 CAPITAL		
GENERAL PROVISION**	2,456,813	2,807,728
TOTAL REGULATORY CAPITAL	49,751,314	57,688,995
RISK-WEIGHTED ASSETS		
ON-BALANCE SHEET	251,787,266	295,004,067
OFF-BALANCE SHEET	28,856,918	22,036,476
MARKET RISK	1,172,787	263,160
OPERATIONAL RISK	61,304,292	47,952,094
TOTAL RISK-WEIGHTED ASSETS	343,121,263	365,255,797

The table below summarises the composition of regulatory capital of the Bank for the year ended 31 December 2018 and year ended 31 December 2017.

	REQUIRED RATIO 2018 %	BANK'S RATIO 2018 %	BANK'S RATIO 2017 %
TIER 1 CAPITAL	12.5	13.8	15.0
TIER 1 + TIER 2 CAPITAL	14.5	14.5	15.8

**Management of risk assets regulation requires that 1% of risk assets classified as current to be provided in general reserve. The amount of provision is taken out from retained earning balance.

4. Critical accounting judgments and sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Impairment losses on loans and advances

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 behavior (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3.1.3.3.

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.

b) Taxes

The Bank is subjected to numerous taxes and levies by various government and quasi- government regulatory bodies. As a rule of thumb, the Bank recognises liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

c) Property and equipment

Management reviews the useful lives and residual values of the items of property and equipment on a regular basis. During the year, the Directors determined no significant changes in the useful lives and residual values.

d) Intangible assets

Management makes critical estimates in determining the amortization rates and carrying amounts for intangible assets.

5. Interest and similar income

	2018 TZS'000	2017 TZS'000
LOANS AND ADVANCES TO CUSTOMERS	41,285,823	43,861,984
GOVERNMENT SECURITIES	3,291,477	5,004,230
LOANS AND ADVANCES TO BANKS	2,969,337	5,899,859
TOTAL	47,546,637	54,766,073

6. Interest and similar expenses

	2018 TZS'000	2017 TZS'000
DEPOSITS FROM OTHER BANKS	3,365,932	6,563,108
DEPOSITS FROM CUSTOMERS	8,633,114	11,658,602
SUBORDINATED LOANS	-	127,271
LONG-TERM BORROWINGS (NOTE 27)	435,244	696,361
DISCOUNT ON DERIVATIVES	753,228	128,317
TOTAL	13,187,518	19,173,659

7. Impairment charge on loans and advances

	2018 TZS'000	2017 TZS'000
IMPAIRMENT CHARGE FOR THE YEAR	15,964,368	8,529,793
BAD DEBT RECOVERIES	(378,833)	(271,344)
TOTAL	15,585,535	8,258,449

8. Fees and commission income

	2018 TZS'000	2017 TZS'000
COMMISSION AND FEES FROM BANKING OPERATIONS	5,217,264	4,679,289
COMMISSION ON TELEGRAPHIC TRANSFERS AND INTERNATIONAL TRADE FINANCE ACTIVITIES	1,076,724	1,252,043
FACILITY FEES FROM LOANS AND ADVANCES	3,088,758	2,710,831
COMMISSION ON LETTERS OF CREDIT AND GUARANTEES	1,466,632	2,156,037
OTHER FEES AND COMMISSIONS	2,095,310	3,681,557
TOTAL	12,944,688	14,479,757

9. Fees and commission expenses

	2018 TZS'000	2017 TZS'000
GUARANTEE EXPENSES	671,990	231,008
BANK CHARGES	641,960	566,592
OTHER FEES AND COMMISSION EXPENSES	1,664,205	1,520,043
TOTAL	2,978,155	2,317,643

10. Foreign exchange income

	2018 TZS'000	2017 TZS'000
TRADING INCOME	3,176,170	3,355,655
REVALUATION (LOSS) /GAIN	(13,113)	5,756
TOTAL	3,163,057	3,361,411

11. Operating expenses

	2018 TZS'000	2017 TZS'000
EMPLOYEE BENEFITS (NOTE 12)	17,361,119	15,836,878
OCCUPANCY EXPENSES	3,703,244	4,038,857
REPAIRS AND MAINTENANCE	2,520,136	2,296,759
ADVERTISING AND BUSINESS PROMOTION	645,922	1,094,282
LEGAL AND PROFESSIONAL FEES	2,142,110	2,201,850
TRAVELLING EXPENSES	1,851,673	1,242,334
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 21)	3,184,954	2,424,435
AMORTIZATION OF INTANGIBLE ASSETS (NOTE 23)	352,351	500,409
DIRECTORS EMOLUMENTS – FEES	180,136	169,789
DIRECTORS EMOLUMENTS – OTHERS	471,254	317,477
AUDITORS' REMUNERATION	246,001	191,029
SECURITY EXPENSES	1,993,850	2,065,003
INSURANCE EXPENSES	1,005,550	981,065
PRINTING AND OFFICE SUPPLIES	1,552,677	1,603,792
CONNECTIVITY EXPENSES	767,534	850,097
TELEPHONE AND ELECTRICITY	627,779	638,619
LICENSES AND FEES	348,593	244,326
COURIER EXPENSES	312,680	199,464
OTHERS	1,185,645	1,069,920
TOTAL	40,453,207	37,966,385

12. Employee benefits

	2018 TZS'000	2017 TZS'000
WAGES AND SALARIES	12,067,466	10,924,971
DEFINED BENEFIT CONTRIBUTIONS (NSSF AND PPF CONTRIBUTIONS)	1,154,831	1,096,841
SKILLS AND DEVELOPMENT LEVY	553,294	558,858
MEDICAL INSURANCE	761,165	498,734
TRAVEL ALLOWANCES	817,319	817,811
BONUSES AND AWARDS	37,314	290,623
STAFF TRAINING	482,528	326,305
OTHER EMPLOYMENT COSTS AND BENEFITS	1,487,202	1,322,735
TOTAL	17,361,119	15,836,878

13. Income tax

(a) Income tax expense

	2018 TZS'000	2017 TZS'000
CURRENT TAX		
- CURRENT YEAR	-	3,042,985
- PRIOR YEARS OVER PROVISION	(1,452)	(292,061)
	(1,452)	2,750,924
DEFERRED TAX		
- CURRENT YEAR (NOTE 30)	(2,288,129)	(1,388,698)
- PRIOR YEARS UNDER PROVISION (NOTE 30)	1,454	292,063
	(2,286,675)	(1,096,635)
TOTAL	(2,288,127)	1,654,289

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

	2018 TZS'000	2017 TZS'000
(LOSS)/PROFIT BEFORE TAX	(8,395,325)	4,851,216
TAX CALCULATED AT A TAX RATE OF 30%	(2,518,598)	1,455,365
TAX EFFECT OF EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	230,469	198,922
UNDER PROVISION OF CURRENT AND DEFERRED TAX IN PRIOR YEARS	2	2
TOTAL	(2,288,127)	1,654,289

(c) Current tax asset

	2018 TZS'000	2017 TZS'000
AT 1 JANUARY	**761,585**	**278,605**
PAYMENT DURING THE YEAR	1,835,516	3,233,904
CURRENT TAX CHARGE	1,451	(2,750,924)
AT 31 DECEMBER	**2,598,552**	**761,585**

14. Financial instruments by category

AT 31 DECEMBER 2018	AT AMORTIZED COST TZS'000	AT FAIR VALUE THROUGH OCI TZS'000	AT FAIR VALUE THOUGH PROFIT OR LOSS TZS'000	TOTAL TZS'000
FINANCIAL ASSETS				
CASH AND BALANCES WITH BOT	46,085,201	-	-	46,085,201
LOANS AND ADVANCES TO BANKS	58,173,243	-	-	58,173,243
GOVERNMENT SECURITIES	-	46,235,929	-	46,235,929
LOANS AND ADVANCES TO CUSTOMERS	265,339,181	-	-	265,339,181
EQUITY INVESTMENT	-	1,200,200	-	1,200,200
OTHER ASSETS	4,347,580	-	-	4,347,580
TOTAL	373,945,205	47,436,129	-	421,381,334
FINANCIAL LIABILITIES				
BALANCES DUE TO OTHER BANKS	31,307,474	-	-	31,307,474
DEPOSITS FROM CUSTOMERS	333,237,771	-	-	333,237,771
DERIVATIVE FINANCIAL INSTRUMENTS	-	-	448,841	448,841
LONG TERM BORROWINGS	21,097,583	-	-	21,097,583
OTHERLIABILITIES (EXCLUDING STATUTORY OBLIGATIONS)	5,777,685	-	-	5,777,685
TOTAL	391,420,513	-	448,841	391,869,354

AT 31 DECEMBER 2017	AT AMORTIZED COST TZS'000	AT FAIR VALUE THROUGH OCI TZS'000	AT FAIR VALUE THOUGH PROFIT OR LOSS TZS'000	TOTAL TZS'000
FINANCIAL ASSETS				
CASH AND BALANCES WITH BOT	81,609,476	-	-	81,609,476
LOANS AND ADVANCES TO BANKS	105,367,043	-	-	105,367,043
GOVERNMENT SECURITIES	32,509,442	-	-	32,509,442
DERIVATIVE FINANCIAL INSTRUMENTS	-	-	6,123	6,123
LOANS AND ADVANCES TO CUSTOMERS	300,712,936	-	-	300,712,936
EQUITY INVESTMENT	-	1,020,000	-	1,020,000
OTHER ASSETS	5,217,487	-	-	5,217,487
TOTAL	525,416,384	1,020,000	6,123	526,442,507
FINANCIAL LIABILITIES				
BALANCES DUE TO OTHER BANKS	-	-	-	79,787,484
DEPOSITS FROM CUSTOMERS	-	-	-	369,367,921
LONG TERM BORROWINGS	-	-	-	24,636,340
OTHER (EXCLUDING STATUTORY OBLIGATIONS)	-	-	-	LIABILITIES 7,322,784
TOTAL	-	-	-	481,114,529

15. Cash and balances with BANK OF TANZANIA

	2018 TZS'000	2017 TZS'000
CASH ON HAND	20,726,959	38,594,794
BALANCES WITH THE BANK OF TANZANIA:		
- STATUTORY MINIMUM RESERVE (SMR)	23,398,719	26,362,307
- CLEARING ACCOUNT	1,959,523	16,652,375
TOTAL	46,085,201	81,609,476

The SMR deposit is not available to finance the Bank's day-to-day operations and is hence excluded from cash and cash equivalents for the purpose of the statement of cash flows.

16. Balances due from other banks

	2018 TZS'000	2017 TZS'000
BALANCES WITH BANKS	24,099,410	25,393,315
ITEMS IN THE COURSE OF COLLECTION	6,145,869	7,966,085
PLACEMENTS WITH LOCAL BANKS	27,927,963	72,007,643
CURRENT	**58,173,243**	**105,367,043**

17. Government securities

	2018 TZS'000	2017 TZS'000
HELD AT FAIR VALUE THROUGH OCI		
TREASURY BILLS AND BONDS MATURING WITHIN 3 MONTHS	35,790,568	-
TREASURY BILLS AND BONDS MATURING AFTER 3 MONTHS	10,445,361	-
TOTAL	46,235,929	-
HELD AT AMORTISED COST		
TREASURY BILLS AND BONDS MATURING WITHIN 3 MONTHS	-	21,946,828
TREASURY BILLS AND BONDS MATURING AFTER 3 MONTHS	-	10,562,614
TOTAL	-	32,509,442

Treasury bills and bonds are debt securities issued by the Government of the United Republic of Tanzania.

18. Loans and advances to customers

	2018 TZS'000	2017 TZS'000
LOANS AND ADVANCES TO CORPORATE CUSTOMERS	194,352,180	225,147,450
LOANS AND ADVANCES TO INDIVIDUAL CUSTOMERS	98,133,914	88,683,255
GROSS LOANS AND ADVANCES	292,486,094	313,830,704
LESS: IMPAIRMENT PROVISION	(27,146,913)	(13,117,768)
NET LOANS AND ADVANCES	265,339,181	300,712,936

Movement in provision for impairment of loans and advances by class is as follows:

	RETAIL CUSTOMERS	CORPORATE CUSTOMERS & SMES	TOTAL
AT 1 JANUARY 2018	**7,453,782**	**5,663,986**	**13,117,768**
CHANGES ON INITIAL APPLICATION OF IFRS 9 (NOTE 1)	3,120,994	3,711,702	6,832,697
RESTATED BALANCE AT 1 JANUARY 2018	10,574,776	9,375,688	19,950,464
INCREASE IN IMPAIRMENT	3,088,124	12,876,244	15,964,368
WRITE OFFS	(2,982,028)	(5,785,891)	(8,767,919)
AT 31 DECEMBER 2018	**10,680,872**	**16,466,041**	**27,146,913**
AT 1 JANUARY 2017	**2,868,906**	**5,265,892**	**8,134,798**
INCREASE IN IMPAIRMENT	5,532,747	2,997,046	8,529,793
WRITE OFFS	(947,871)	(2,598,952)	(3,546,823)
AT 31 DECEMBER 2017	**7,453,782**	**5,663,986**	**13,117,768**

19. Other assets

	2018 TZS'000	2017 TZS'000
PREPAID EXPENSES	2,502,701	2,789,536
OTHER DEBTORS	4,347,580	5,217,487
INVENTORIES	95,553	33,858
TOTAL	6,945,834	8,040,881

20. Equity investments

	2018 TZS'000	2017 TZS'000
UMOJA SWITCH COMPANY LIMITED - UNLISTED	102,443	20,000
TANZANIA MORTGAGE REFINANCE COMPANY LIMITED - UNLISTED	1,097,757	1,000,000
TOTAL	1,200,200	1,020,000

BANK OF AFRICA - TANZANIA Limited owns 9% and 10% of the share capital of UmojaSwitch Company Limited and Tanzania Mortgage Refinance Company Limited respectively. These are available for sale equity investments that are held by the Bank for strategic purpose and not for trading. They do not have a quoted market price in an active market. Adjusted Net Asset Method is used to determine the fair value of equity investments at reporting date.

21. Property and equipment

	LEASEHOLD PREMISES TZS'000	MOTOR VEHICLES TZS'000	COMPUTER HARDWARE TZS'000	MACHINERY AND OFFICE EQUIPMENT TZS'000	FURNITURE & FITTINGS TZS'000	LAND AND BUILDINGS TZS'000	WORK IN PROGRESS TZS'000	TOTAL TZS'000
COST								
AT 1 JANUARY 2018	12,903,736	559,617	2,524,529	8,701,116	987,780	5,781,500	2,451,042	33,909,320
ADDITIONS	673,140	-	198,122	1,916,991	125,919	-	683,272	3,597,444
TRANSFER	128,345	-	-	417,333	439,488	-	(985,166)	-
AT 31 DECEMBER 2018	13,705,221	559,617	2,722,651	11,035,440	1,553,187	5,781,500	2,149,148	37,506,764
DEPRECIATION								
AT 1 JANUARY 2018	6,318,527	392,819	1,608,614	5,986,542	763,940	407,018	-	15,477,460
CHARGE FOR THE YEAR	1,300,096	82,412	362,047	1,140,100	189,295	111,004	-	3,184,954
AT 31 DECEMBER 2018	7,618,623	475,231	1,970,661	7,126,642	953,235	518,022	-	18,662,414
NET BOOK VALUE								
AT 31 DECEMBER 2018	6,086,598	84,386	751,990	3,908,798	599,952	5,263,478	2,149,148	18,844,350
COST								
AT 1 JANUARY 2017	9,287,089	559,617	2,445,467	7,267,219	969,592	5,781,500	1,176,890	27,487,374
ADDITIONS	4,448,663	-	214,245	1,802,765	64,995	-	1,653,664	8,184,332
DISPOSALS	(1,203,407)	-	(135,183)	(368,868)	(46,807)	-	(8,121)	(1,762,386)
TRANSFER	371,391	-	-	-	-	-	(371,391)	-
AT 31 DECEMBER 2017	12,903,736	559,617	2,524,529	8,701,116	987,780	5,781,500	2,451,042	33,909,320
DEPRECIATION								
AT 1 JANUARY 2017	6,401,234	300,909	1,401,919	5,651,521	720,245	296,013	-	14,771,841
CHARGE FOR THE YEAR	1,098,142	91,910	341,397	691,792	90,189	111,005	-	2,424,435
DISPOSALS	(1,180,849)	-	(134,702)	(356,771)	(46,494)	-	-	(1,718,816)
AT 31 DECEMBER 2017	6,318,527	392,819	1,608,614	5,986,542	763,940	407,018	-	15,477,460
NET BOOK VALUE								
AT 31 DECEMBER 2017	6,585,209	166,799	915,915	2,714,574	223,840	5,374,482	2,451,042	18,431,860

22. Investment property

	2018 TZS'000	2017 TZS'000
AT 31 DECEMBER	4,407,178	4,407,178

The Bank holds properties worth TZS 4,407 million which were acquired as a settlement of debt obligations of customers who defaulted on their obligations. Management intends to sale the properties as soon as practicable when a suitable buyer is identified. As a consequence, the properties are held as investment properties measured at fair value. The fair value of the investment property is determined regularly by independent suitably qualified valuers using current market prices for comparable real estate, adjusted for any differences in nature, location and condition of the property and any changes in market conditions since the transactions took place.

23. Intangible assets

	2018 TZS'000	2017 TZS'000
AT 1 JANUARY	542,669	1,047,919
ADDITIONS	1,224,001	-
WRITE-OFFS	-	(4,841)
AMORTISATION CHARGE	(352,350)	(500,409)
AT 31 DECEMBER	1,414,320	542,669
COST	5,868,879	4,644,877
ACCUMULATED AMORTIZATION	(4,454,559)	(4,102,208)
NET BOOK VALUE	1,414,320	542,669

No intangible asset has been pledged as collateral.

24. Balances due to other banks

	2018 TZS'000	2017 TZS'000
BORROWINGS FROM LOCAL BANKS	-	13,230,501
BORROWINGS FROM FOREIGN BANKS	31,307,474	66,556,983
	31,307,474	79,787,484
CURRENT	31,307,474	79,787,484

25. Deposits from customers

	2018 TZS'000	2017 TZS'000
CURRENT ACCOUNTS	165,117,770	179,542,157
TIME DEPOSITS	107,051,967	115,372,543
SAVINGS DEPOSITS	45,054,024	49,018,448
OTHERS	16,014,010	25,434,773
	333,237,771	369,367,921
CURRENT	333,124,131	369,143,315
NON-CURRENT	113,640	224,606
TOTAL	333,237,771	369,367,921

26. Long term borrowings

	2018 TZS'000	2017 TZS'000
TANZANIA MORTGAGE REFINANCE COMPANY LIMITED (I)	10,750,000	10,750,000
EUROPEAN INVESTMENT BANK (II)	5,668,613	9,257,898
AGENCE FRANCAIS DE DEVELOPMENT (III)	4,598,000	4,482,320
INTEREST ACCRUED	80,970	146,122
	21,097,583	24,636,340
CURRENT	7,690,141	3,877,217
NON-CURRENT	13,407,442	20,759,123
TOTAL	21,097,583	24,636,340

The movement in long-term borrowings during the year is as below:

	2018 TZS'000	2017 TZS'000
AT 1 JANUARY	24,636,340	23,390,688
ADDITIONS	-	4,482,320
INTEREST EXPENSE	435,241	696,361
FOREIGN EXCHANGE TRANSLATION LOSSES	88,774	150,177
REPAYMENTS	(4,062,772)	(4,083,206)
AT 31 DECEMBER	21,097,583	24,636,340

(i) Tanzania Mortgage Refinance Company Limited

Mortgage pre-financing comprising of three loans of TZS 2.75 billion, TZS 3 billion and TZS 5.0 billion with original maturity of 1,095 days, 911 days and 1,005 days respectively and annual interest rates of 11.5% and 11.73% and 11.67% respectively.

(ii) European Investment Bank

European Investment Bank issued a loan of EUR 7 million with an average tenure of 5 years from 16 march 2016. The loan bears a weighted average annual interest rate of 3.66%.

(iii) Agence Française de Developpement (AFD)

The Bank entered into a contract with AFD to obtain a loan facility of USD 12 million. The Bank made the first draw down of USD 2 million with a tenure of 10 years from 11 November 2017. The loan bears a weighted average annual interest rate of 3.487%.

27. Other liabilities

	2018 TZS'000	2017 TZS'000
BANK DRAFTS PAYABLE	10,510	164,782
STATUTORY LIABILITIES	1,035,767	848,788
DEFERRED FEES	3,394,210	3,097,967
ACCRUALS AND OTHER PROVISIONS	5,767,175	7,158,002
	10,207,662	11,269,539

28. Derivative financial instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The types of derivatives used by the Bank are set out below.

All derivatives are recognised and subsequently measured at fair value, with all fair value gains and losses recognised in profit or loss.

The following tables analyse the notional principal amounts and the positive (assets) fair values of the Bank's derivative financial instruments.

At the end of the reporting period, the Bank only has forward exchange contracts.

Notional principal amounts are the amount of principal underlying the contract at the reporting date.

	2018			2017		
	INFLOW TZS'000	OUTFLOW TZS'000	ASSET TZS'000	INFLOW TZS'000	OUTFLOW TZS'000	ASSET TZS'000
FORWARD EXCHANGE CONTRACTS	25,018,293	25,467,134	(448,841)	453,623	447,500	6,123

29. Deferred tax

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

	2018 TZS'000	2017 TZS'000
AT 1 JANUARY	(4,273,943)	(3,177,308)
CREDITED TO EQUITY	(1,502,814)	-
CREDITED TO PROFIT OR LOSS	(2,286,675)	(1,096,635)
AT 31 DECEMBER	(8,063,432)	(4,273,943)

Deferred tax assets and liabilities and net deferred tax charge to profit or loss are attributed to the following items:

	1 JANUARY TZS'000	CREDIT TO PROFIT OR LOSS TZS'000	CREDIT/CHARGE TO EQUITY TZS'000	31 DECEMBER TZS'000
31 DECEMBER 2018				
DEFERRED TAX LIABILITY				
ACCELERATED TAX ALLOWANCES	64,239	199,306	-	263,545
REVALUATIONS	-	-	546,995	546,995
TAX LOSSES	-	(293,138)	-	(293,138)
OTHER TIMING DIFFERENCES	(4,338,182)	(2,192,843)	(2,049,809)	(8,580,835)
	(4,273,943)	(2,286,675)	(1,502,814)	(8,063,432)
31 DECEMBER 2017				
DEFERRED TAX LIABILITY				
ACCELERATED TAX ALLOWANCES	(430,052)	494,291	-	64,239
OTHER TIMING DIFFERENCES	(2,747,256)	(1,590,926)	-	(4,338,182)
	(3,177,308)	(1,096,635)	-	(4,273,943)

30. Share capital

Authorised

	AUTHORISED NO. OF SHARES TZS'000	NOMINAL VALUE PER SHARE TZS'000	TOTAL TZS'000
AS AT 31 DECEMBER 2018	**7,453,782**	**5,663,986**	**13,117,768**
ORDINARY SHARE CAPITAL	70,000	1,000	70,000,000
AS AT 31 DECEMBER 2017			
ORDINARY SHARE CAPITAL	70,000	1,000	70,000,000

Issued, called up and fully paid

	2018 TZS'000	2017 TZS'000
ISSUED, CALLED UP AND FULLY PAID		
37,021 ORDINARY SHARES	37,021,000	37,021,000

All classes of shares rank pari-pasu in voting rights and dividend payments.

	2018 %	2017 %
AT THE END OF THE REPORTING PERIOD, THE SHAREHOLDING OF THE BANK WAS AS FOLLOWS:		
BOA GROUP S.A	30.49	30.49
BIO-BELGIAN INVESTMENT COMPANY FOR DEVELOPING COUNTRIES	16.27	16.27
BANK OF AFRICA KENYA	15.70	15.70
BOA WEST AFRICA	14.54	14.54
AFH-OCEAN INDIEN	14.35	14.35
TANZANIA DEVELOPMENT FINANCE LIMITED (TDFL)	5.22	5.22
FMO-NETHERLANDS DEVELOPMENT FINANCE CORPORATION	-	-
AGORA	3.25	3.25
BANQUE DE CREDIT DE BUJUMBURA	0.18	0.18
TOTAL	100	100

31. Cash and cash equivalents

	2018 TZS'000	2017 TZS'000
CASH AND BALANCES WITH BANK OF TANZANIA (NOTE 15)	46,085,201	81,609,476
LESS: STATUTORY MINIMUM RESERVE (SMR)	(23,398,719)	(26,362,307)
	22,686,48	55,247,169
BALANCES DUE FROM OTHER BANKS	58,173,243	105,367,043
	80,859,725	160,614,212

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with Bank of Tanzania, treasury bills and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Bank of Tanzania.

32. Contingent liabilities and commitments

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

	2018 TZS'000	2017 TZS'000
CONTINGENT LIABILITIES		
OUTSTANDING LETTERS OF CREDIT (FOREIGN CURRENCY)	4,525,716	15,033,329
OUTSTANDING GUARANTEES AND INDEMNITIES:		
- FOREIGN CURRENCY	20,447,800	46,736,329
- LOCAL CURRENCY	44,550,119	12,496,885
	69,523,635	74,266,543

Nature of contingent liabilities

Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers. Guarantees are generally written by the Bank to support performance by a customer to third parties. The Bank will only be required to meet these obligations in the event of the customers' default.

	2018 TZS'000	2017 TZS'000
OTHER COMMITMENTS		
UNDRAWN FORMAL STAND-BY FACILITIES, CREDIT LINES AND OTHER COMMITMENTS TO LEND	7,293,833	10,873,312

Nature of commitments

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

Capital commitments

At 31 December 2018, the Bank had capital commitments of TZS 8,640 million (2017: TZS 3,608 million) in respect of leasehold improvements and equipment purchases. The Bank's management is confident that future net revenues and funding will be sufficient to cover this commitment.

Operating lease commitments

The Bank does not have any commitments in respect of non-cancellable lease commitments.

Other contingent liabilities

In the ordinary course of business, the Bank is a defendant in various litigations and claims. Although there can be no assurances, based on the information currently available and legal advice, the Directors do not expect the outcome of the actions to have material effect on the Bank's financial position. As at 31 December 2018, the aggregate exposure of the Bank to the significant legal matters amounted to TZS 3.9 billion.

In addition, the Bank has on-going matters with Tanzania Revenue Authority (TRA) as at 31 December 2018. The matters are at Tax Revenue Appeal board. The exposure involved is to the tune of TZS 6 billion.

33. Related party transactions and balances

The shareholders of the Bank are disclosed in note 30. The intermediate owner of the Bank is BANK OF AFRICA Group and the ultimate holding company of the Bank is Banque Marocaine du Commerce Exterieur (BMCE Bank).

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. Related companies are those which are owned by directors and shareholders of the Bank. The volumes of related party transactions, outstanding balances at the year end and the related expenses and income for the year are as follows:

Deposits and loans and advances to directors and key management personnel

(a) Loans and advances

	2018 TZS'000	2017 TZS'000
AT 1 JANUARY	**1,697,397**	**2,193,105**
LOANS ISSUED DURING THE YEAR	1,212,660	333,179
LOAN REPAYMENTS DURING THE YEAR	(662,524)	(828,888)
AT 31 DECEMBER	**2,247,533**	**1,697,396**
INTEREST INCOME EARNED	138,073	136,168

(b) Deposits

	2018 TZS'000	2017 TZS'000
DEPOSITS HELD AT 31 DECEMBER	237,240	166,828
INTEREST EXPENSE	(7,071)	(6,649)

(c) Balances/transactions with Group banks

	2018 TZS'000	2017 TZS'000
BALANCES DUE FROM GROUP BANKS	2,705,353	-
DEPOSITS FROM GROUP BANKS	11,660,472	66,436,153
INTEREST EXPENSE INCURRED	(2,029,821)	(3,643,549)
OPERATING EXPENSES PAID TO GROUP BANKS	(1,798,607)	(1,418,843)
GUARANTEE FEES EXPENSE PAID TO GROUP BANKS	(471,941)	(596,346)

(d) Key management compensation

	2018 TZS'000	2017 TZS'000
SALARIES AND OTHER SHORT TERM EMPLOYEE BENEFITS	1,956,850	1,991,496

Key management personnel are described as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any director of the Bank.

(e) Directors' emoluments

	2018 TZS'000	2017 TZS'000
EMOLUMENTS OF DIRECTORS IN RESPECTS OF SERVICES RENDERED (EXECUTIVE)	568,712	601,173
EMOLUMENTS OF DIRECTORS IN RESPECTS OF SERVICES RENDERED (NON-EXECUTIVE)	180,136	169,789
	748,848	770,962

34. Events after period end

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

35. Currency

Except where indicated otherwise, these financial statements are presented in Tanzania Shillings, rounded to the nearest thousand (TZS'000), which is also the functional currency.

36. Comparatives

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